Attendance List:	Adrian Mardell – Chief Financial Officer Ben Birgbauer – Treasurer
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Hosted By:	Adrian Mardell

Coordinator

Ladies and gentlemen, good day, and welcome to the Jaguar Land Rover Fiscal 2020 Quarter Three and Year to Date Earnings Conference Call. We have with us today Mr. Adrian Mardell, Chief Financial Officer of Jaguar Land Rover; and Mr. Ben Birgbauer, Treasurer, Jaguar Land Rover.

As a reminder, all participant lines will be on 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. Adrian Mardell. Thank you, and over to you, sir.

Okay, please go ahead. You're live in the call.

A. Mardell

Hello, there. Good afternoon, everyone. Good morning to those who are calling in from the US and North America. My name is Adrian Mardell, I am the CFO for Jaguar Land Rover, to take you quickly through the first dozen pages or so of our presentation, as per normal.

The first slide you see here highlights for the quarter three. Again, we did very nicely in China in Q3, as we indicated we would do earlier in the quarter. The new Defender there, you see bottom left, that vehicle went to job one on the 8th of January. We'll talk a little bit more about that later.

We also have a new refresh for the F-TYPE later this quarter going on sale in the UK, the awards you see, and new technology going in, first of all, into the new Defender there, the ability to receive software over the air whilst moving and whilst live streaming. And of course pertinent for this discussion, the new funding we received later in the end of the quarter, and we'll take you through the funding details of course also.

In terms of the quarterly key financial results, PBT was £318 million in the quarter, EBIT margin, 3.3%. Retail volumes were lower, just over 3,000 units, so just over 2% lower. I'll take you through the details of that later, of course. Profit £318 million, as I've said. A significant £591 million higher than the same quarter last year, and that does mean we actually are now profitable for year-to-date. We recovered from the very difficult and very poor quarter one results.

EBITDA margin, 10.8%, and EBIT 3.3%, both significantly higher of course than the same quarter last and year and year-to-date. As I mentioned on the last call, investment is starting to increase as we put more of our engineering energies into the new MLA platform, although, it still was just under £900 million in the quarter, year-to-date £2.5 billion, again, significantly lower than the previous year. We focus on those areas with the Charge Program, as you know.

We did have a free cash outflow in the quarter of £144 million, £900 million just over for the year-to-date, and the cash balance was significantly higher off the back of the new funding we received in Q3.

Lot of stories on retail. I think the first one to call out is China continues to be significantly higher on a year-over-year basis, 24.3%, so we're very pleased with our performance the second quarter running in China. Again, it's important for me to say that's exactly what we expected and indicated previously. Overseas was obviously down year-over-year, but not as bad as the previous quarter, down 11%.

And two new stories here, although they're very binary stories. UK down 11%, mostly on lower margin products, which we've taken away from the markets because, as you know, under the Charge Programs, our strategy is to only put vehicles into the field that we're confident we will make money on. So, some of the Jaguar saloons were lower, and also some of the E-PACEs.

And in Europe, very binary in Europe. Most of that reduction in Europe was specific to I-PACE, specific to the Netherlands, which were down 2,500 units versus the same quarter last year as a result of taxation changes in January 2019, and a pull ahead into the previous quarter last year.

Nameplate analysis. As you would hope, the new nameplates are doing nicely. Range Rover Evoque, up 30% versus the same quarter last year. Discovery Sport up 9%, but I'll show you more details about the increasing improvement profile on Discovery Sport as it gets launched to more markets.

I do want to draw out Range Rover a little lower there, you see towards the bottom, that overwhelmingly is specific to one region, Middle East. As a result of the conflict continuations in that region, it has impacted sales volumes, down 800 units versus that same quarter last year.

Slide 7 shows year-over-year PBT and EBIT margin up from 2.5% negative last year, the improvement of almost 6 points, you see there in the standard profile. We show volume and mix just a little higher. We did have favourable mix, more Land Rover and less Jaguar, as I mentioned, supplementing some of those lower margin vehicles. We continue to do better on parts and accessories, again, that's a continuation to last time's discussion. We were actually worse in the quarter in our China JV, but you'll see in a few moments we did better in Q3 than in Q2 in our JV.

VME continues to be higher on a year-over-year basis. I've talked about this before also. The range I've mentioned before is 7% to 9%. In at 7.5%, a binary item in there continues to be 16MY Range Rover and Range Rover Sport in the US marketplace. That was about 0.4 of the increase. It's a 20-month model year, if you remember; so, that will work through over the course of the next several months for sure.

And then the really big news story of course, the Project Charge program driving down the manufacturing costs and material costs, all of our structural fixed costs. What you see here, actually, if you look at the improvements versus last year for contribution and structural costs, the £315 million pretty much adds up to the full year quarterly total, so a lot of the cost reduction actions now actually moving through into the profit answer, as you would expect. We're working hard to be profitable at lower volumes. That really is the underpinning of the strategy which we have.

And then exchange is significantly different year-over-year, but for several reasons. Our operating position actually is slightly worse, as sterling appreciated by almost 7% against the dollar in the quarter, and was slightly stronger than this time last year.

The hedges do what the hedges are expected to do, of course, they offset that. We did a restatement to the balance sheet on the back of the appreciation of sterling, where our debt and our liabilities were valued lower, and that gives us good news there. Most of that is binary one-off, and it won't flow through. Commodity hedges do what they're expected to do as well, they offset commodity cost increases, which we did have in the quarter.

In terms of quarter three versus quarter two, this isn't a slide we normally show but we thought this would be super helpful for you, so, we've included it, EBIT margin of 4.8% last quarter to the 3.3% this quarter. Of course, the absolute number has increased, as just explained.

What are the changes? Well, we did have a better sales mix actually in this quarter, I've already touched on that, supplementing some lower margin vehicles and selling higher margin vehicles. I mentioned China JV did better in quarter three than quarter two, you see it there. We were a bit higher on VME, and there's a number of actions in manufacturing and material costs. Most of them aren't flow through, actually a number of binary items within there. We did build fewer cars in the quarter, as we said we would, and that increases the cost of the manufacturing build per unit.

We are actually investing more resource to ensure we get our Defender product right, before we launch. Those costs will continue in Q4, but then go away. Manufacturing costs, I've mentioned commodities doing their work, you can see there, there were commodity cost increases in the bill of material in this month also, as well as a small miss on our cost reduction targets, but only a small miss, and we're confident we'll get that back in quarter four under the program I'll talk to in a few moments.

Structural costs, you see there, lower on D&A, and actually our labour and overhead into inventory was lower because we sold more cars than we actually built. Operating exchange versus last quarter, you can see the operating number is lower, as Sterling's appreciated. Of course, you understand our model well enough, the gross vehicle revenue is starting to fall. Hedges, again, did their job, the restatement of the balance sheet and the commodity hedges, I've covered already.

Interesting, the bottom line, you could basically go through all of the detail and see the movement from the EBIT of 4.8% to 3.3% as a change in the exchange and the commodities line there, 1.5 points. I think quarter three is a more natural level of performance you would expect from us than quarter two. You can kind of see some of the reasons for that as stated, which is why we included the slide.

Free cash flow, an outflow flow of £144 in the quarter, £217 million better than the same quarter last year. You can see the work there. We're working hard to balance out cash profit and investment, we were £82 million away in the quarter. But our cash profit number is increasing quarter by quarter, as we would expect, and the investment is still below our target levels; so, we're getting closer to balancing those out.

Huge movements in working capital in the quarter, netted out to a relatively small number. Big improvements in inventory. Receivables were actually higher. We wholesaled more units, but we built far fewer units at the end of the quarter, and as a result of which the payables' liabilities were much, much lower, and we did have a foreign exchange hit on our cash balances also. So, a reasonable performance for Q3, much better than last year. Guidance for the second half year being cash positive is still in place.

From an investment perspective, we were lower at £892 million, by £128 million versus the same quarter last year. All of the rigours and the processes we've talked through with you on Project Charge still exist. You can see each category of investment is lower also, including we're capitalizing quite substantially less capitalization of research and development costs, as we committed to do.

Liquidity. Liquidity was stronger at the end of December than the end of September, £3.9 billion worth of cash on hand and cash balances, excluding the revolving credit facility of £1.9 billion. We were able to get new funding, to the tune of £1.6 billion. It's listed there, mostly it's a result of the Euro bond issues we did at the end of the year, November and then December. The UKEF facility, as previously talked about, as well as the fleet buyback facility, and of course, the maturity of the bonds, as we were all expecting in November, of course happened.

The profile of maturities over the next two to three years is very flat, and the total debt at the end of December was just over £6 billion. Our EBITDA multiples, 2.5x in FY20. It's within our target guidance of 2.8x. Quickly, looking at the actual bond spreads post our Q2 results, as of course you know those spreads started to narrow, which is good.

They now remain significantly lower than they were earlier in the year, which is a real positive of course.

On a strategic outlook and key things happening perspective, the key risks haven't changed, apart from one add, which may or may not be significant. We will find out. You would have seen quite a lot of press on this after yesterday's call to the investors. What I said yesterday, there's obviously significant uncertainty about what may be happening in China, the very sad events in China at the moment. Of course, all of our thoughts are really to the people there, the people we know, their families and their communities. So, all of our best regards go to all of those people for sure.

The impact on our results is uncertain, and week by week we will be monitoring that. The week we have just finished, of course, was the Chinese New Year week, and, therefore, there's no new information from the week just finished. We will not return to work next week. The factory and the offices are closed next week in line with the guidance received from the Chinese authorities. We will monitor going forward, but there is a good chance that that might impact our Q4 results and our 3% target outlook. We'll know more as the weeks go by.

Discovery Sport, I mentioned December was much stronger than October and November, averaged to 9%, but our latest month, as more vehicles become available to more markets, is a better and a stronger year-over-year performance as, of course, we would wish.

The new sensational Defender, I picked mine up yesterday, it really is as amazing as we've been saying, I can assure you of that. The orders we've received are about five times the number that we would have expected for a vehicle before start of sale date has been announced. You can see there are now more than one million people have completed their configuration online. I've mentioned before, lots of people generally start configurations, and very few finish. This is an unprecedented level of one million people completing that configuration. So, that's another nice signal to us, which tells us this car is going to be super successful.

CO_2 emissions, we have a compliant portfolio, as we've talked before. This slide has not changed from any of the bond holder discussions we would have had at the end of last year. The target is still the same. We are still expecting to be compliant in '21 calendar year. Of course, the compliance in Europe becomes increasingly stringent from '20 calendar year, actually. This is a '17 through '21 profile. We have all of the actions in place to be compliant. The only significant uncertainty is the acceptance of our PHEV compliance and our BEV products to the customer set. Of course, we'll continue to monitor that.

Project Charge had its best quarter so far, £800 million improvement. We really are at the peak of the Charge Program, which has been super successful. Just to remind you, this is measured by cash into the bank accounts, not by some notionalanalytical amount. This is real money and real cash, £2.9 billion improvement to our cash positions from the program over the last 15 months.

Investment pretty much did what it's done most quarters, the movement in inventory was so significant, we measured that in December, we're expecting it broadly to be at this same level in March. Our costs and profits continue to generate about £200 million a quarter, so, £800 million in quarter three.

Given we've now over-achieved vs our £2.5 billion Charge target, we've moved on to Charge+. I did signal this last time also, we put a new target on Charge+. It goes out for another 12 months to FY21, i.e. March '21. The new target is £4 billion. We actually think we have a strong start to that new target. We're indicating up to £400 million improvements in quarter four which, of course, leaves the balance in FY21 also. Accelerate is still in place, focused totally on future product introductions, rather than current nameplates.

In terms of the details behind the Charge+ process and structure, we've consolidated this into eight key work streams; three of them are carryover. The inventory discipline, which we've done a great job on in Q3 again. The investment spend, obviously what we're trying to do is ensure they're completely and fully embedded into the organization's DNA. They've certainly been completely handed over more than a quarter ago. You can see the results in the last quarter, so, the signs are good there. The same with our overhead cost base reductions, we continue to take actions to restructure appropriately, depending on the variability of our sales and revenue values.

The bigger focus in Charge+ is all about improvement to variable profit. We're focusing on key nameplates. We're focusing on key markets. Of course, warranty cost is squarely within our sights of improvement as well. Parts and accessories are already improving, we're just taking a look there to see if we could do even better. We have a big piece of the program, very focused on material cost reductions, which I'll land on, actually.

On the next slide, it's called Project Ignite. You probably heard of it before. We've given you an indication that this was going to be a key focus for us on the next stage of Charge through FY21. Actually, this program will likely continue for two full years. We started it on 1st October, so, it will actually span slightly beyond the Charge Plus period, as we've announced it. Like-for-like material costs will be about 10% lower at the end of that two-year period. I've said like-for-like; that means we'll freeze the bill of materials as we have done on 1st October and keep measuring it versus like-for-like parts over the next two years.

All 34 of our commodity groups are in scope. Phase 1, you see there, was kicked off in October, and those are the areas which we have most focused on. We expect real-life cost reductions to start flowing from about the middle of this calendar year or the end of fiscal one. Why? Because a lot of this will be appropriately reviewing, re-specifying and re-engineering some of our vehicles, and to do that in a controlled way you actually release it as a part of model year updates. Therefore, we will have blips of change, rather than a continuous cost reduction, as we have with our commercial cost-down initiatives.

In terms of looking ahead, I'm pleased to say that this overwhelmingly is the same as we've said for the last two quarters. Now you can start to see the credibility below it, hopefully. FY20 EBIT will be around 3% EBIT. That does not yet factor in anything for China. We're assuming our China plans are as said, and of course as of today they are, and week by week as that unfolds then that may actually deteriorate this year's quarter four and full-year performance. But, of course, all of these sad things tend to, over time, go away; and, therefore, underlying performance we still think is that level. FY21, the target range is still the 3% to 4% as we build towards our MLA products at the back end of FY21.

Investment spend. We are showing that the spend this year will be lower, £3.6 billion. Now we've indicated we have nine months behind us, although, it will grow, we think, over the next two to three quarters. And so we're keeping that "up to" £4 billion guidance in place for FY21, and the others pieces exactly the same.

Final summary for me, we remain confident of achieving our plans, though there is a care point on China at the minute, of course. We will continue to focus on launching exciting products with the breakthrough technology I referenced at the start of this presentation.

I am expecting EBIT to be around that 3% to 4% level, PBT to improve, and cash flow over time also to improve of course, although, next year's cash position will need to reflect the increased investments. Then the Charge+ program, as it has over the last 15 months, will continue to underpin cash generation and improve our ability to be more profitable at lower volumes.

Final point here, for JLR the Investor Day will be on 18th June. I'm going to pass it back for the questions.

Coordinator: Thank you very much. We will now begin the question and answer session. Please standby for your first question. Our first question comes from Alexis Yannas from BlackRock.

A. Yannas: Thank you. Three quick questions. The first is, what measures are you taking in China to offset the risks from coronavirus? I know that all your factories still seem to be open and that they're not located in the epicentre of the crisis, but what preventive measures are you taking?

The second question is, any future bond issuance plans in light of your issuance last quarter? And the third question is, as I understand it, you had an inventory unwind this quarter. You said earlier that you see inventory remaining about the same in March as in December, so should I/we reinterpret that, does that unwind, the benefit there won't be eliminated or unwound, it'll be maintained? Thank you.

A. Mardell Thank you for your questions. We're taking the measures in China which have been authorized and directed by two or three areas; one by the Chinese government, two by the UK government as well. So, obviously, overwhelmingly I think people in China are locals, Chinese nationals, and they are following the guidance which have been issued from the Chinese authorities, which broadly means they were away this week, next week they will not be returning to work, and all the other hygiene, health, and safety measures, which have been issued, of course, our employees are being reinforced and recommended to also.

We do have ISEs in China. Most of those people are actually out of China because it was the Chinese holidays last week, 53 of the 74 international service employees were not actually in China. They will not be travelling back to China. We are making plans to repatriate the 21 people actually still within China, at their choice, of course, within complying with local national regulations as they come back to their destination countries.

So, it will be pretty much a lockdown for us next week, and we'll take a call at the end of next week in line with the government recommendations for the local areas of jurisdiction. I'm sure we'll be very, very consistent with those recommendations, and not look to breach, or actually act against them.

A. Yannas How many of your factories are shut down during the various week?

A. Mardell We only have one factory. That's with CJLR. That one factory will not be building and operating next week.

A. Yannas Okay. So, that one won't be open next week. At the end of next week, you'll decide whether it'll then be open up the subsequent week, or when it will open up?

A. Mardell Which, overwhelmingly, will be determined by the Chinese authorities. Yes, we will, yes.

A. Yannas Okay, thanks.

B. Birgbauer On the bond question, Alexis, I guess I can just say that we will look at the market after you and other investors absorb the results. I think that we do plan to do funding this year. The exact timing of it will depend on what we think of the market conditions at the time.

A. Yannas Okay. And on the inventory?

A. Mardell And on the inventory point you raised, like-for-like nameplates we think we're in a really good place, actually. If you remember, we couldn't build vehicles in the first week of November; so, we took the decision to lean out the inventory, and we'll keep those inventory nameplates lean.

Of course, within our Nitra plant, we're in launch on Defender, and, therefore, we are building a number of Defenders. Whether we actually release those cars to the markets before the end of quarter one, has not yet been decided. If we do release them, then the inventory levels on Defender will be slightly higher, of course, a few nameplates. If we don't, it could be a little bit more. We won't release those cars until they're ready.

So, the final answer for March will be overwhelmingly dependent on how many Defenders we build and release over the course of March.

A. Yannas: Okay. But you expect to keep most of the inventory benefits you got after the November plant shutdown?

A. Mardell: That's what the Charge program does, yes.

A. Wannas: Thank you very much.

A. Mardell: Alright. Thank you.

Coordinator: Our next question comes from Richard Smith from Muzinich.

R. Smith: Hi there. Thanks for taking my question. In two parts, really. One, and I appreciate it's quite a fluid situation, but can you give us a sense of the kind of weekly or the financial impact, you know on a kind of weekly basis of the CJLR plant staying shut in China.

And then secondly, as a follow-on from that, obviously CJLR is equity accounted, but you included it within the EBIT calculation. Is that to say that in terms of the free cash flow, you would not expect the CJLR plant closure to have an impact on your expectations for free cash flow for Q4 and into the 2021 financial year?

A. Mardell: Let me take the two questions. Yes, it is equity accounted. So, we would expect very, very minimal impact on any free cash flow. We do, obviously, send parts to China, and, therefore, if we stopped sending those parts to China, we wouldn't expect to be paid for them. But, overwhelmingly, there wouldn't be an impact on the free cash flow from the CJLR operation.

In terms of the operation, if I remind you, four of the five nameplates have either just been replaced or are on run out. The significant nameplate, which is almost half of the total volume in CJLR, is the Discovery Sport. We are pretty much sold out of that vehicle. That was the plan. The plan was to sell out at end of last year to make sure we don't have old models available when the new one goes on sale at the end of February.

So, the real impact we think in terms of quarter four for CJLR will be around whether we actually launch the Discovery Sport on 20th February. Our plans were to do so, it's ready, but clearly, depending on the position in China, we may hold off until after the virus is cleared and safe.

We do have an option of doing a virtual launch rather than a people gathering launch for the 20th, which we'd normally do. We haven't yet taken that decision. We would take that decision at the end of next week. If we don't launch the new Discovery Sport, there will be a small, but in the context of our results and the equity accounting, a modest impact from CJLR in quarter four.

The bigger impact potentially, of course, will be from our import business, where if dealerships aren't open we won't be shipping vehicles to dealers. That could potentially be the bigger impact. And, again, week by week we'll monitor it.

On import business and the CJLR business, quarter four is their lowest activity quarter. Of course in China, they were already on shutdown last week, so there's been no losses to date. But, obviously, we need to monitor it, and it could have an impact if there's an extended period of non-activity.

R. Smith: Okay, thanks.

Coordinator: Our next question comes from Stephanie Vincent from JP Morgan.

S. Vincent: Hi. Thank you so much for taking my questions. I have two. Just to piggyback on Alexis's question on the bond issue, I realize that you're still anticipating 2021 to be slightly cash negative, but is your view right now to still cash build with these bond issues, or is it more just to offset bonds rolling off, i.e., you feel pretty comfortable with just your core liquidity position for the next, let's call it, couple of years?

And then also, there was a PA consulting report out about the EU 2021 CO_2 guidelines. What is your view on that because most manufacturers say we can get to these mandates by the regulated dates, but just wanted, if you had read and had thoughts on the report, just your views on that?

And then finally, we have the UK's independence day today, and I was wondering your thoughts on Volvo's comments about importing in EU cars on Brexit, and how in the UK that may reduce customer choice. Your thoughts on that as well.

B. Birgbauer: I'll at least cover the first two, Stephanie. I think from a liquidity standpoint, one, we're super comfortable with our liquidity right now, that near £4 billion cash and a £1.9 billion undrawn revolving credit facility. But we do have a $500 million maturity in March, and we have said that we expect to have negative free cash flow in the next financial year, FY21. Frankly, I wouldn't mind building some more liquidity headroom.

So, for all three of those reasons, for sure we'll look at opportunities to do further issuance from here. The exact timing, as I said earlier to Alexis, is it will depend on market conditions and other factors, but we definitely do want to do more funding for all three of those reasons.

I think on the PA consulting report, I'm not going to comment on that report. I think that we've provided the data on the slide of where we stand in terms of the portfolio compliance as of 2017, and we've indicated the targets in 2021, and that we expect to be compliant within those — and the reason we've chosen FY21 is because in 2020 you do have basically certain transition allowances, and so 2021 is really more representative of what the requirement is going forward.

A. Mardell — On the UK independence day, you did make me smile when you said that actually, because I haven't quite heard it like that before. So, yes, UK independence day, I think our guidance will be the same as previously, actually. We have 11 months to transition. We're now fully expecting that 11 months' transition to be the final date, the date that the UK leaves Europe. And, therefore, from 1st January 2021, there will be a different relationship. Of course, the teams will work, the governments will work together to put trading relations in place, commentators have different views about how feasible or not that is. There's not very much I can do about that, or plan to do about that.

We've gone through two versions of potential crash outs already in the end of March and the end of October, and what we did was to protect ourselves by closing the plant for a week. We'll decide at the back end of this calendar year whether that's an appropriate measure or not. If we do crash out, if we go to WTO, I think we're on record saying, it's about a £500 million duty hit, £40 million a month.

We're also on record believing that they'll be an impact on Sterling.
If you've seen from Q2 over Q3, the depreciation of sterling actually strengthens our business model, so, they'll be a natural hedge, we believe, in terms of Sterling's appreciation. And those duty costs I don't personally believe, although I'm sure not many people are interested in what I personally believe on this issue, but I don't personally believe that we'd really be at those WTO levels for a significant period of time. I think it would be a negotiating position which is negotiated away by one side or the other.

I'm much more relaxed about it than I would have been two years ago, actually. I mean, the significant risk, which is a small period of time, is whether we can build cars in the early part of January if we were to crash out, and we've already shown the actions we'd take on that.
So, less concerning than it would otherwise have been. I think that part of that is you just get used the same problem over a period of time, right? And don't forget what we're really trying to do here, we're really trying to improve our base core business model, which is the real antidote, be profitable at lower volumes, and the better job we do with that, the easier any shock will be on us.

S. Vincent — Okay. That's great. Thank you.

A. Mardell — Thank you.

Coordinator — Our next question comes from Peter Jurik from Tresidor Investment Management.

P. Jurik — Hi guys, thanks for taking my questions. I've got a few. I'll go through them one by one. My first one is just a bit of clarification on slide 7 in your exchange and unrealized commodities bar. Does the £170 million reval and other line, could you just walk me through the accounting of that? Is that effectively a positive financial income line? Is that the re-valuation of your balance sheet?

And then, if that is the case, how should I reconcile that with slide 9, where you go from profit before tax to free cash flow where, at least the way I understand it, this £170 million should be non-cash, but it doesn't seem like you're taking it out on slide 9. So, is there anything else that offsets that £170 million non-cash positively from a cash perspective?

A. Mardell

Let me start off on that discussion. The restatement of the balance sheet point in time as a result of end of quarter exchange rates, yes, so you're correct with the first one. The restatement happened in December. There was an appreciation of sterling against the dollar, about 7%. I think it was slightly less against the euro, maybe 4% to 5% within the quarter. We have significant euro liabilities, so those restatements of those liabilities at the weaker euro effectively gave us a positive, which went into the income statement. From a dollar perspective, it was mostly the restatement of the debt, which obviously was shown as a lower value, which, again, was a positive. You see all of that wrapped up within the reval of £170 million.

But, of course, when you actually go down the balance sheet, even though I've given you the two significant adjustments, there are line by line adjustments, right, another one is warranty. Warranty liabilities were a bit lower; so, I normally talk about the warranty actually being 4% of revenue this quarter. If you go to the income statement, it's 3.4% of revenue. So, I'm trying to get rid of those one-off items.

One of the other areas was cash balances. Our overseas cash balances, which are substantial as a result of sterling appreciation, they were worth slightly less at the end of the quarter. That's what you actually see within our walk on working capital and our cash adverse because, obviously, that one is a net cash position rather than a net balance sheet position.

So, we ended up with an adverse in cash and a positive in income statement. And I think those are the things which you're drawing out in your questioning.

P. Jurik

Okay. Thanks for that. The next one is, you mentioned, I think it was on the Tata call yesterday that, I think I heard that 20% of sales are currently PHEVs. Can you confirm that's correct? Then you mentioned that you would incentivize more PHEVs from April onward to comply with the CO_2 regulations. How should we think about that from a profitability perspective because, obviously, I understand PHEVs are less profitable, so, are you going to be selling them at similar prices to ICE vehicles, or at a discount, how are you thinking of doing that, and what impact may it have on profitability?

A. Mardell

You're quite right, I did mention 20% PHEVs yesterday. I was referring specifically to Range Rover and Range Rover Sport when I said that. So, as an overall total number in FY19, I think that total PHEV balance is close to 4% to 5% of sales rather than 20% of sales.

Now, each time we launch new products, we are actually launching with significant powertrain combination changes, including PHEV. So, the next significant launch for us is actually later this calendar year, backend of quarter one, and that's the Discovery Sport PHEV. Now, Discovery Sport is our biggest seller; and, obviously, the market response to that is going to be important to us, not only from a volume perspective, but also from a compliance perspective over the next 12 and 24 months. That goes on sale in June. We'll get early indications for that in the summer, how it's selling.

The point to note is the percentage I mentioned yesterday was specific to our large SUVs. In total, PHEVs are much lower as a proportion of total of sales last year. They are increasing this year. Broadly speaking, if I draw a line from '19 to '24, you can see the number increasing by 4% or 5% per year. We think we're, guessing and estimating of course, within that, but there's certainly going to be the powertrain combinations there for customers to choose from.

Now, your other point here, I think was, are they more expensive than traditional ICE models? Yes, they are more expensive than ICE; so, of course, what we're trying to do is make sure we find the customer set that buys them and either want to pay more for them or pay for the vehicle with less discount, i.e., less variable marketing. The full amount that we can actually offset that increase at the moment is uncertain. But, of course, as you know, the cost of non-compliance is even more expensive.

Therefore, what we're trying to look for, as we launch each nameplate, and of course we use the prowess of our analytics team to help us here, is where are we selling most? Where are the pricing opportunities? Where are the net revenue increases? Where should we provide those vehicles to particular market combinations? And, ultimately, can we be compliant by vehicle sales off the back of it?

There is some unknown with that last question over the next 12 months, but that's the challenge we have. We're hopeful we have the right combinations. There will be an EBIT hit next yearas a result, if we do become compliant through sales; our job is to offset that with Charge+. That's why we're focusing most the Charge+ Program on EBIT and on variable profit improvement over the next 12 months.

P. Jurik

That's brilliant. Thanks for that colour. The next question I just have is, I'm sure that you've probably seen, and the research published on this, rhodium prices have increased I think two to three-fold. From what I understand rhodium is an important component in diesel catalytic converters. Now, you guys are over-indexed to diesel, and I think you have more premium engines; so, I guess the content can be anywhere from 1,000 to 1,500 per vehicle, at least the way I understand it.

Can you give us any impact that the rhodium pricing may have? Are you hedged? Are there any issues with supply for that particular metal? Any colour would be useful.

B. Birgbauer I think the colour would be that — so, specifically rhodium and palladium prices, those are two of the three PGMs, which have gone up significantly because they're more used in petrol or gasoline engines, and that's why they've actually risen. We actually use more palladium than rhodium. We do hedge PGMs, but we've definitely not seen the full impact of rhodium because of the mix of palladium and rhodium that we actually use, and we do hedge palladium. We actually don't hedge rhodium because it's a small enough exposure for us that it's not worth it.

P. Jurik Okay. And will this have a significant impact, you reckon, or you think you're reasonably positioned to weather that?

B. Birgbauer I don't think it's a material item in our overall financial results.

P. Jurik Okay. That's brilliant. My last question. Sorry for taking up so much time. It's just a little clarification on what we're seeing on wholesales versus retails because there are three vehicles that seem to be sort of out of kilter. One, is the Range Rover, where wholesales were flat, but retails were down 10%, suggesting you're building up inventory there, similar with the Velar, where wholesale's plus 1, retail's minus 6.

Are you indeed building inventory there, and does that actually mean anything that maybe demand's a little bit weaker? And then with the Evoque, conversely, you have retail's up 30, but wholesale's up 25%. So, I guess, should that suggest that that demand for Evoque is kind of plateauing at this stage for those three vehicles?

A. Mardell I will refer to the three vehicles at the end, but let me explain to you what was going on in the last quarter. It's a reference back to the discussion we had in October, actually, when I mentioned because we're taking build out, actually, we'll be really testing ourselves how much we can exhaust the pipeline. We did a really nice job exhausting the pipeline, and now we've been able to do that, our aim is to keep it there. We basically wholesaled about 10,000 cars more than we built, and we didn't retail all of those in the quarter.

You've mentioned two of the vehicles which were under retailed. I think the Range Rover number we were expecting to fall off, didn't know the quantity, so, that's not particularly concerning for us. We will rebalance in quarter four is the point here. We have several reviews during the course of each quarter where we rebalance the pipelines back. So, you would expect us to build fewer cars in quarter four, or this quarter, on the Range Rover's wholesale fewer cars and retail more cars. That would be the case for both the Range Rover itself and the Velar.

The Evoque is different. You've seen the sales performance, it's 30% higher. We are constrained on Evoque production. And so, the fact that we were passing fewer units through to the marketplace and retailing more, well for the moment, the demand will be higher than our capability to supply. Again, that will balance out, whether it balances out in quarter four or quarter one next year I'm not particularly sure

	yet. It's great, we have greater retail demand. If that stays as a continuum, then we'll look to rebalance and remix with our Discovery Sport units, should we be able to do so. But there are certain limits of remix, and we're, at the moment, at the capacity of remix we can make.
P. Jurik	Okay. Brilliant. Thank you very much for those questions.
A. Mardell	Thank you.
Coordinator	Our next question comes from Christophe Boulanger from Barclays. Please go ahead.
C. Boulanger	Yes, hi. Good afternoon. I will have two questions. The first one relates to your cash generation. Well, basically, you write in the presentation that you had a £25 million impact on US residual accruals related to the 2015 model year vehicles. So, the question here is really, going forward, we have the feeling within the industry that there is more and more increase in use of operating leases. So, do you intend to use more operating leases and to put them on your own balance sheet going forward, or do you intend to use only your partners? That's the first question.
A. Mardell	No, we're only using partners. We're not intending to put it on our balance sheet. We have great partners, actually, across the different continents. We get a great pass back of information in data which captives have. We're not planning to actually create our own captive.
C. Boulanger	Alright. And then maybe to follow up on the PHEVs. Do you feel that to sell those vehicles, you have to do more leasing rather than loans? How are the consumers buying those vehicles? What type of financing does it take?
A. Mardell	Following the profile of the segment, actually, the SUV3 segment, which is where our Discovery Sport sits, and our next PHEV vehicle, most customers actually PCP them or effectively lease them. That won't change, we believe. Slightly less customers lease them in the higher range vehicles like the Range Rovers. We don't expect PHEVs necessarily to change the profile of the sales.
C. Boulanger	Alright. Then maybe just to finish on this last question. How solid is the relationship with your partners? I mean, because clearly we've seen at some point some weakness in warranty, right, so you had some issues with some models, which I guess has effected the residual value of some models? How are your partners reacting in front of that?
A. Mardell	Actually, our warranty performance over the last six months has been much improved and much better. You know, it's been an area where we've openly admitted that we were not performing to the level of expectations, both internally or externally. We had a particularly poor quarter one. But also, I signalled we're going to do the right thing, right? If we can see that there are faults on the vehicle, we're going to bring them back because that's just the right thing to do.

Thankfully, over the last two quarters the amount of warranty cost has flatlined to the low end of the range I gave, the 4%, and we're working hard to improve that even further. We got some very, very early data, which would suggest zero months in service and three months in service for the '20 model year, and a lot of our vehicles are improved again. But it is too early and too immature for us to respond to, therefore, we do not make any adjustments in these results until we get 9 to 12 months past the original sale date.

B. Birgbauer I think I'd just add, in terms of the financial services partners, I think these relationships are very strong, they're longstanding. JP Morgan Chase in the US and FCA Bank in Europe have been our financial services partners since the business was acquired by Tata, and Lloyds Black Horse in the UK has now been our financial services partner there for many years. We also have financial services partners in other markets. Generally speaking, I think we're very happy with those arrangements.

C. Boulanger Alright. Okay. Thank you. The second question is on — maybe you answered this question earlier, but I had to join the call a bit late, unfortunately. In terms of China, can you share with us the level of dealer inventories, where do you stand at the end of this quarter compared to the previous quarter?

A. Mardell They were pretty much the same, so, a little bit higher on the local business, about one and a half month's supply, a little bit lower on the import business, about 1.3 months' supply. So, very, very consistent with where we've been tracking China for the last three to six months.

C. Boulanger Alright. Okay. Then, maybe if I can squeeze a last one. On your VME, so apparently you had an increase, now at 7.2%. Can you explain what region was driving this?

A. Mardell I think the biggest single item of increase is actually back to the '16 model year Range Rover, Range Rover Sport residual value issue we have in the USA. As I've mentioned, it's a 20-month model year over a 16-month period. So, we knew that this would be very different. We are starting to see lower residual values. We believe it's contained to the '16 model year. We've made several reviews on that, and the early '17 model year data is not concerning us. That was 0.4% of the number in the quarter; so, it was almost half of the increase over last year.

Beyond that, we had a very old XJ aging VME support, but that's quite binary, and these models really do run out in the field over their last few months once we stopped wholesaling them. We will take a look to see whether we provide the dealers more support to relieve those vehicles, but it's quite small. They're the two items I think worth noting and call within the data in quarter three.

C. Boulanger Alright. It means that VME in China is fairly stable, or is it improving?

A. Mardell Yes, there isn't an improving pattern in any of the markets. They're broadly stable, with some outlier events. The two I've just mentioned actually were in North America in quarter three.

C. Boulanger	Okay. Thank you very much.
A. Mardell	Thank you.
Coordinator	Thank you, ladies and gentlemen. Due to time constraints, no further questions can be taken. I now hand the floor back to Mr. Adrian Mardell for closing comments.
A. Mardell	Look, I appreciate your time again. Hopefully, you're encouraged that we put a second, very positive quarter together. Obviously, our job is to continue to do that, and I look forward to speaking to you all soon. Please take care.
Coordinator	Thank you. On behalf of Jaguar Land Rover, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.