TATA MOTORS LTD/FI
Form 6-K
February 09, 2015
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the Month of February 2015

Commission File Number: 001-32294

TATA MOTORS LIMITED

(Translation of registrant s name into English)

BOMBAY HOUSE

24, HOMI MODY STREET,

MUMBAI 400 001, MAHARASHTRA, INDIA

Telephone # 91 22 6665 8282 Fax # 91 22 6665 7799

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ¨ No x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ¨ No x

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g 3-2(b): Not Applicable

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

Tata Motors Limited

By: /s/ Hoshang K Sethna

Name: Hoshang K Sethna

Title: Company Secretary

Dated: February 9, 2015

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This report uses:

Group, Company, Jaguar Land Rover and JLR to refer to Jaguar Land Rover Automotive plc and its subsidiaries.

EBITDA measured as earnings before tax and adding back depreciation, amortisation, finance income, finance expense, foreign exchange gains/(losses) on financing and unrealised derivatives, unrealised commodity gains/(losses) and share of gains/(losses) from joint ventures.

PBT profit before tax.

PAT profit after tax.

Net cash measured as cash and cash equivalents and short term deposits less total borrowings (including secured and unsecured borrowings and factoring facilities, but excluding finance leases).

Free cash flow measured as the net change in cash and cash equivalents, less net cash in financing activities, less movement in short term deposits.

Product and other investment measured as cash outflows relating to tangible assets, intangible assets, expensed R&D and investment in joint ventures.

FY15 Year ending 31 March 2015

FY14 Year ended 31 March 2014

Q3 3 months ended 31 December

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Management s discussion and analysis of financial condition and results of operations

Q3 FY15 was another solid quarter for Jaguar Land Rover:

- Retail volumes of 111,525 units, down 0.6% from Q3 FY14 with Land Rover volumes flat and Jaguar down 3.5%
- Wholesale volumes of 122,187 units, up 5.0% from Q3 FY14 with Land Rover volumes up 7.4% and Jaguar down 6.5%
- Revenue £5,879 million, up £551 million EBITDA £1,096 million, up £79 million with EBITDA margin of 18.6%, down 0.5 ppt
- PBT £685 million, down £157 million
- Negative free cash flow of £46 million, after total investment of £890 million
- Cash and financial deposits £4,027 million and undrawn long-term committed bank lines of £1,517 million

The increase in wholesale volumes and revenue reflects strong sales of Range Rover, Land Rover Discovery and the Jaguar F-Type.

Retail sales grew in the UK, China and Asia Pacific Region, were flat in Europe and down in the US and some emerging markets (such as Brazil and Russia).

In the nine months to 31 December 2014, revenue was £16,040 million and PBT was £2,218 million representing growth of 14% and 15% respectively compared to the equivalent period a year ago.

The EBITDA margin remained strong, at 18.6% for the quarter and 19.4% for the nine months to 31 December 2014, (down 0.5 ppt and up 1.8 ppt respectively compared to the equivalent periods in FY14).

Performance in the quarter was supported by generally favourable macroeconomic conditions with solid growth in the UK, China and the US. Economic conditions have been more sluggish in Europe and more challenging in some other markets, particularly Russia.

The US Dollar and Chinese Renminbi both strengthened against the Pound Sterling in Q3 while the Euro has weakened, all of which benefit JLR although this is offset to extent JLR has hedged these currencies. Some currencies have moved unfavourably particularly the Russian Rouble, although again this is offset to the extent JLR has hedged its exposure. Commodity prices generally softened in Q3 following the decline in oil prices.

The Company continues to invest significantly to grow the business, with total investment spend, including R&D and capital expenditure of £890 million in Q3 FY15, up £102 million compared to Q3 FY14. Total investment spend for the nine months ended 31 December 2014 was £2,336 million compared to £2,003 million for the same nine month period last year.

Free cash flow was negative £46 million in Q3 FY15 after total investment of £890 million. Free cash flow for the nine months to 31 December was £456 million, compared to £323 million for the same period last year.

Recent developments

In October 2014, the Company opened a new 130,000 unit capacity joint venture manufacturing plant in China with its joint venture partner Chery Automobile Company Ltd. The Range Rover Evoque is the first model to be built in the new plant with at least 2 additional Jaguar Land Rover models to follow.

The Company also opened its new Engine Manufacturing Centre in the UK during October 2014 which will manufacture Jaguar Land Rover s new family of 2.0 Litre Ingenium engines.

Construction of the Company s manufacturing facility in Brazil commenced in December 2014 with production planned for 2016. Annual capacity is estimated to reach 24,000 units and the new Discovery Sport will be one of the first models to be produced at this new manufacturing facility.

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General trends in performance (including results of operations)

Overall strong volume growth

Total retail volumes were 111,525 units for the quarter, a decrease of 0.6% compared to Q3 FY14. By brand, Land Rover retailed 93,189 units in Q3 FY15, flat compared to prior period, whilst Jaguar retailed 18,336 units, down 3.5% compared to the equivalent quarter in the prior year.

For Land Rover, strong sales of Range Rover and Land Rover Discovery were offset by the run out of Freelander production. For Jaguar, lower XF and XJ sales volumes in the period were offset partially by continuing strong sales of F-Type.

Wholesale volumes totalled 122,187 units in Q3 FY15, up 5.0% compared to the same quarter a year ago, comprised of 103,134 units for Land Rover and 19,053 units for Jaguar.

Revenue and profits

The Company generated revenue of £5,879 million in Q3 FY15, an increase of 10.3% compared to the £5,328 million in Q3 FY14. For the nine months to 31 December 2014 revenue rose 14.3% to £16,040 million from £14,037 million in the same period a year ago.

EBITDA increased to £1,096 million in Q3 FY15 compared to £1,017 million in Q3 FY14, primarily due to higher revenues driven by higher wholesale volumes. For the nine months to 31 December 2014, EBITDA increased to £3,116 million from £2,473 million over the same period last year.

PBT for the three months to 31 December 2014 was £685 million, down £157 million from £842 million in Q3 FY14. The decrease in PBT is more than explained by unfavourable revaluation of foreign currency debt and unrealised hedges in Q3 FY15 of £138 million loss compared to positive revaluation of £30 million in Q3 FY14. PBT for the nine months to 31 December 2014 was £2,218 million, up £293 million compared to the same nine month period last year.

PAT for Q3 FY15 was £593 million compared to £619 million in Q3 FY14. The effective tax rate of 13.4% in Q3 FY15 is substantially lower than the 26.5% observed in Q3 FY14 reflecting the release of certain withholding tax (WHT) provisions following confirmation that dividends from China would be subject to a reduction in the withholding tax rate to 5% as set out in the new UK-China tax treaty. In the nine months to 31 December 2014 PAT increased by £306 million to £1,736 million compared to £1,430 million for the same period last year.

EBITDA reconciliation

Three months ended 31 December (£ millions)	**2014**	**2013**
EBITDA margin	**18.6%**	**19.1%**
EBITDA	**1,096**	**1,017**
Adjustments:		
Depreciation and amortisation	(265)	(221)
Foreign exchange gains/(losses) - financing	(64)	23
Foreign exchange gains/(losses) - unrealised derivatives	(51)	12

Unrealised commodity gains/(losses)	(23)	(5)
Finance income	13	9
Finance expense (net)	(8)	10
Share of loss from joint ventures	(14)	(3)
Other	1	
Profit before tax	**685**	**842**
Income tax expense	(92)	(223)
Profit after tax	**593**	**619**

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Performance in key geographical markets on retail basis

Three months ended 31 December (Units)	2014	2013	Change (%)
China	29,745	28,732	3.5%
Europe (excluding UK)	21,535	21,552	(0.1)%
UK	17,006	15,297	11.2%
North America	18,906	20,936	(9.7)%
Asia Pacific (excluding China)	6,316	5,628	12.2%
All other markets	18,017	20,027	(10.0)%
Total JLR	**111,525**	**112,172**	**(0.6)%**

Global economic performance was mixed over the quarter. Falling unemployment and lower inflation, impacted by the fall in energy prices, has supported higher consumer spending and GDP growth in the US and UK. Although the rate of GDP growth for China has been slowing, it remains above 7%. Conditions in the Eurozone have been more sluggish, prompting the European Central Bank to announce quantitative easing to stimulate the economy. In Russia and some other emerging markets political and economic uncertainties have more significantly impacted growth.

Growth in the United States continues as unemployment fell further and low inflation supports sustained consumer spending which is driving the expectation of strong GDP growth for 2015. New passenger car sales in the US grew by 2.9% in the 3 months to 31 December 2014 compared to the same period last year, however JLR sales in the US fell by 9.7% in Q3 FY15 compared to Q3 FY14 due primarily to the run out of the Freelander and production scheduling.

The outlook for economic growth remains positive in the United Kingdom with falling unemployment and healthy retail spending. New passenger car sales in the UK were up 10.3% over Q3 FY15 compared to Q3 FY14 and JLR continue to outperform the market with retail volumes up 11.2%.

China s economy remains strong and on track to maintain GDP growth above 7.0%, despite some signs of softening. New vehicle sales remain buoyant with growth of 9.2% in Q3 FY15 compared to Q3 FY14 whilst JLR retail sales grew by 3.5% over the same period.

The Eurozone continues to experience sluggish growth and reported deflation during December 2014. The ECB have recently announced a 1 trillion quantitative easing programme in an attempt to stimulate growth and avert persistent deflation. The softening in consumer demand has impacted new passenger car sales which fell by 8% in Q3 FY15 compared to the same quarter a year ago, however JLR maintained solid sales in Q3 FY15 comparable to the same period last year.

Challenging economic and political conditions continue in some emerging markets, particularly in Russia where the rouble depreciated by over 40% over the 3 months to 31 December 2014. New vehicle sales in Russia fell by 3% in Q3 FY15 compared to Q3 FY14 and JLR sales fell 8% over the same period. In Brazil, falling consumer spending, fuelled by higher interest rates, and falling industrial output contributed to a 3% fall in new vehicle sales in Q3 FY15 compared to the same quarter last year whilst JLR retail sales fell 23% over the same period.

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Business risks and mitigating factors

As discussed on pages 83-89, and elsewhere, of the Annual Report 2013-14 of the Company, Jaguar Land Rover is exposed to various business risks including but not limited to the uncertainty of global economic conditions, fluctuations of currency exchange rates and raw material prices.

Employees

At the end of Q3 FY15, Jaguar Land Rover employed 33,897 people worldwide including agency personnel (Q3 FY14: 28,938). Employees in overseas markets now exceed 1,300.

Cash flow

Free cash flow was negative £46 million in Q3 FY15 after £890 million of total investment spend, which includes capital spending and R&D.

Cash generated by operating activities was £763 million in Q3 FY15 compared to £949 million during Q3 FY14, primarily reflecting unfavourable working capital changes and higher tax, offset partially by higher EBITDA.

Investment in tangible assets (property, plant and equipment), expenditure on intangible assets (product development programs) and investment in joint ventures totalled £825 million in the three months to 31 December 2014, compared to £733 million in Q3 FY14. The Company s capital expenditure on tangible and intangible assets primarily relates to the introduction of new products as well as capacity expansion of its production facilities and continuing quality and reliability improvement projects.

Reported net cash outflow in investing activities of £445 million in Q3 FY15 (Q3 FY14: £1,107 million outflow) reflects the £825 million of investment described above, offset by a £364 million decrease in bank deposits with a maturity of over 3 months (Q3 FY14: increase of £392 million) which are classified as investments.

Cash inflows of £303 million due to financing activities in the three months to 31 December 2014 reflect debt financing proceeds from the $500 million bond raised in October 2014, less finance expense and fees.

Liquidity and capital resources

As at 31 December 2014, the Company had £2,884 million of cash and cash equivalents and a further £1,143 million of bank deposits with maturities greater than 3 months. The total amount of cash and cash equivalents includes an amount of £528 million in subsidiaries of Jaguar Land Rover outside the United Kingdom.

The cash in some of these jurisdictions is subject to restrictions on remitting cash to the UK through inter-company cash pooling loans or interim dividends although annual dividends are generally permitted.

In addition, the Company increased its undrawn committed credit facility by £160 million during Q3 FY15 to £1,485 million with £1,114 million maturing in July 2018 and the balance maturing in July 2016. The Company also had £32 million of undrawn shorter-term committed credit facilities.

Subsequent events

On 3 January 2015, a large car transporter ship named Hoegh Osaka, carrying approximately 1,143 export Jaguar and Land Rover vehicles bound for the Middle East, was grounded in the Solent (body of water close to the Port of Southampton, UK). A salvage operation is currently underway. This incident has no impact on the results for Q3 FY15.

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Borrowings

The following table shows details of the Company s financing arrangements as at 31 December 2014.

(£ millions)	Facility amount	Outstanding	Undrawn	First call date
Committed				
£500m 8.25% Senior Notes due 2020*	500	500		Mar-2016
£400m 5% Senior Notes due 2022**	400	400		n/a
$410m 8.125% Senior Notes due 2021*	263	263		May-2016
$500m 5.625% Senior Notes due 2023*	321	321		Feb-2018
$700m 4.125% Senior Notes due 2018**	450	450		n/a
$500m 4.250% Senior Notes due 2019**	321	321		n/a
Revolving 3 and 5 year credit facilities	1,485		1,485	n/a
Receivable factoring facilities	225	193	32	n/a
Subtotal	**3,965**	**2,448**	**1,517**	
Prepaid costs		(25)		
Total	**3,965**	**2,423**	**1,517**	

* The Notes are guaranteed on a senior unsecured basis by the guarantors Jaguar Land Rover Limited, Jaguar Land Rover Holdings Limited, Land Rover Exports Limited, JLR Nominee Company Limited and Jaguar Land Rover North America LLC.

** The Notes are guaranteed on a senior unsecured basis by the guarantors Jaguar Land Rover Limited and Jaguar Land Rover Holdings Limited.

Acquisitions and disposals

There were no material acquisitions or disposals in the period.

Off-balance sheet financial arrangements

The Company has no off-balance sheet financial arrangements other than commitments disclosed in the condensed consolidated financial statements.

Board of Directors

The following table provides information with respect to members of the Board of Directors of Jaguar Land Rover:

Name	Position	Year appointed as Director,

		Chief Executive Officer
Cyrus P Mistry	Chairman and Director	2012
Andrew M. Robb	Director	2009
Dr. Ralf D. Speth	Chief Executive Officer and Director	2010
Nasser Mukhtar Munjee	Director	2012
Chandrasekaren Ramakrishnan	Director	2012

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Condensed Consolidated Income Statement

For the three and nine months ended 31 December 2014 (unaudited)

(£ millions)	Note	Three months ended 31 December 2014 (unaudited)	Three months ended 31 December 2013 (unaudited)	Nine months ended 31 December 2014 (unaudited)	Nine months ended 31 December 2013 (unaudited)
Revenue		**5,879**	**5,328**	**16,040**	**14,037**
Material and other cost of sales		(3,565)	(3,296)	(9,768)	(8,613)
Employee cost		(535)	(440)	(1,427)	(1,191)
Other expenses		(1,059)	(933)	(2,925)	(2,677)
Net impact of commodity derivatives		(24)	(7)	(16)	(16)
Development costs capitalised	2	303	271	850	772
Other income		94	32	150	141
Depreciation and amortisation		(265)	(221)	(743)	(639)
Foreign exchange (loss)/gain		(134)	92	58	135
Finance income	3	13	9	36	27
Finance expense (net)	3	(8)	10	(13)	(36)
Share of loss from joint ventures		(14)	(3)	(24)	(15)
Profit before tax		**685**	**842**	**2,218**	**1,925**
Income tax expense		(92)	(223)	(482)	(495)
Profit for the period		**593**	**619**	**1,736**	**1,430**

Condensed Consolidated Statement of Comprehensive Income

For the three and nine months ended 31 December 2014 (unaudited)

(£ millions)	Three months ended 31 December 2014 (unaudited)	Three months ended 31 December 2013 (unaudited)	Nine months ended 31 December 2014 (unaudited)	Nine months ended 31 December 2013 (unaudited)
Profit for the period	**593**	**619**	**1,736**	**1,430**
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	197	112	3	(166)
Income tax related to items that will not be reclassified	(40)	1	(1)	3
	157	**113**	**2**	**(163)**
Items that may be reclassified subsequently to profit or loss:				

(Loss)/gain on effective cash flow hedges	(290)	120	(702)	937
Cash flow hedges reclassified to foreign exchange gain in profit or loss	32	56	(126)	9
Currency translation differences	7		7	
Income tax related to items that may be reclassified	52	(59)	166	(198)
	(199)	**117**	**(655)**	**748**
Other comprehensive (expense)/income net of tax	**(42)**	**230**	**(653)**	**585**
Total comprehensive income attributable to shareholders	**551**	**849**	**1,083**	**2,015**

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Condensed Consolidated Balance Sheet

As at (£ millions)	Note	31 December 2014 (unaudited)	31 March 2014 (audited)
Non-current assets			
Equity accounted investees		249	145
Other financial assets		137	473
Property, plant and equipment		4,137	3,184
Intangible assets		4,769	4,240
Other assets		77	33
Deferred income taxes		354	284
Total non-current assets		**9,723**	**8,359**
Current assets			
Cash and cash equivalents		2,884	2,260
Short term deposits		1,143	1,199
Trade receivables		879	831
Other financial assets	5	264	392
Inventories	6	2,238	2,174
Other current assets	7	390	355
Current tax assets		8	19
Total current assets		**7,806**	**7,230**
Total assets		**17,529**	**15,589**
Current liabilities			
Accounts payable		4,699	4,787
Short term borrowings	13	193	167
Other financial liabilities	10	516	277
Provisions	11	453	395
Other current liabilities	12	320	395
Current tax liabilities		172	113
Total current liabilities		**6,353**	**6,134**
Non-current liabilities			
Long term debt	13	2,230	1,843
Other financial liabilities	10	263	69
Provisions	11	638	582
Retirement benefit obligation	16	743	674
Other non-current liabilities		98	77
Deferred tax liabilities		407	346
Total non-current liabilities		**4,379**	**3,591**

Total liabilities		**10,732**	**9,725**
Equity attributable to shareholders			
Ordinary shares		1,501	1,501
Capital redemption reserve		167	167
Reserves	14	5,129	4,196
Equity attributable to shareholders		**6,797**	**5,864**
Total liabilities and equity		**17,529**	**15,589**

These condensed consolidated interim financial statements including notes 1 to 20 were approved by the board of directors.

Company registered number: 6477691

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Condensed Consolidated Statement of Changes in Equity

(£ millions)	Ordinary share capital	Capital redemption reserve	Other reserves	Total equity
Balance at 1 April 2014 (audited)	**1,501**	**167**	**4,196**	**5,864**
Profit for the period			1,736	1,736
Other comprehensive expense for the period			(653)	(653)
Total comprehensive income			**1,083**	**1,083**
Dividend paid			(150)	(150)
Balance at 31 December 2014 (unaudited)	**1,501**	**167**	**5,129**	**6,797**

(£ millions)	Ordinary share capital	Capital redemption reserve	Other reserves	Total equity
Balance at 1 April 2013 (audited)	**1,501**	**167**	**1,871**	**3,539**
Profit for the period			1,430	1,430
Other comprehensive income for the period			585	585
Total comprehensive income			**2,015**	**2,015**
Dividend paid			(150)	(150)
Balance at 31 December 2013 (unaudited)	**1,501**	**167**	**3,736**	**5,404**

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Condensed Consolidated Cash Flow Statement

For the three and nine months ended 31 December 2014 (unaudited)

(£ millions)	Three months ended 31 December 2014 (unaudited)	Three months ended 31 December 2013 (unaudited)	Nine months ended 31 December 2014 (unaudited)	Nine months ended 31 December 2013 (unaudited)
Cash flows from operating activities				
Profit for the period	**593**	**619**	**1,736**	**1,430**
Adjustments for:				
Depreciation and amortisation	265	221	743	639
Loss on sale of assets		1	1	1
Foreign exchange loss/(gain) on loans	59	(26)	85	(78)
Income tax expense	92	223	482	495
Gain on embedded derivative		(23)		(20)
Finance expense (net)	8	13	13	56
Finance income	(13)	(9)	(36)	(27)
Foreign exchange loss/(gain) on derivatives	50	(12)	50	(50)
Foreign exchange gain on short term deposits	(15)		(35)	
Share of loss from joint ventures	14	3	24	15
Other non-cash adjustments	3		3	
Cash flows from operating activities before changes in assets and liabilities	**1,056**	**1,010**	**3,066**	**2,461**
Trade receivables	(131)	(20)	(47)	90
Other financial assets	3	(14)	(9)	269
Other current assets	(147)	(121)	(28)	191
Inventories	37	37	(65)	(253)
Other non-current assets	(8)	4	(17)	
Accounts payable	14	(65)	(240)	(197)
Other current liabilities	(106)	75	(75)	(78)
Other financial liabilities	19	24	15	(261)
Other non-current liabilities and retirement benefit obligations	13	(2)	93	39
Provisions	83	32	121	76
Cash generated from operations	**833**	**960**	**2,814**	**2,337**
Income tax paid	(70)	(11)	(242)	(277)
Net cash generated from operating activities	**763**	**949**	**2,572**	**2,060**
Cash flows used in investing activities				
Investment in joint ventures	(52)	(93)	(124)	(93)

Movements in other restricted deposits	3	5	4	66
Investment in short term deposits	364	(392)	91	(287)
Purchases of property, plant and equipment	(492)	(343)	(1,147)	(913)
Proceeds from sale of property, plant and equipment		4	1	4
Cash paid for intangible assets	(281)	(297)	(885)	(830)
Finance income received	13	9	35	29
Net cash used in investing activities	**(445)**	**(1,107)**	**(2,025)**	**(2,024)**
Cash flows from financing activities				
Finance expenses and fees paid	(30)	(51)	(97)	(135)
Proceeds from issuance of short term debt	21	8	21	109
Repayment of short term debt		(75)	(6)	(176)
Payments of lease obligations	(1)	(1)	(4)	(4)
Proceeds from issuance of long term debt	313	429	313	429
Dividends paid			(150)	(150)
Net cash generated from financing activities	**303**	**310**	**77**	**73**
Net change in cash and cash equivalents	**621**	**152**	**624**	**109**
Cash and cash equivalents at beginning of period	2,263	2,029	2,260	2,072
Cash and cash equivalents at end of period	**2,884**	**2,181**	**2,884**	**2,181**

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Notes (forming part of the condensed consolidated financial statements)

1 Accounting policies Basis of preparation

The information for the three months ended 31 December 2014 is unaudited and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The condensed consolidated interim financial statements of Jaguar Land Rover Automotive plc have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting under IFRS as adopted by the European Union (EU).

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments held at fair value. These financial instrument valuations are classified as level 2 fair value measurements, as defined by IFRS 13, being those derived from inputs other than quoted prices which are observable. There have been no changes in the valuation techniques used or transfers between fair value levels from those set out in the annual consolidated financial statements for the year ended 31 March 2014.

The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 March 2014, which were prepared in accordance with IFRS as adopted by the EU. There were no differences between those financial statements and the financial statements for the group prepared under IFRS as adopted by the International Accounting Standards Board.

The condensed consolidated interim financial statements have been prepared on the going concern basis as set out within the directors statement of responsibilities section of the group s annual report for the year ended 31 March 2014.

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 March 2014, as described in those financial statements.

2 Research and development

	Three months ended		Nine months ended	
(£ millions)	**31 December 2014 (unaudited)**	**31 December 2013 (unaudited)**	**31 December 2014 (unaudited)**	**31 December 2013 (unaudited)**
Total R&D costs	368	326	1,030	939
R&D expensed	(65)	(55)	(180)	(167)
Development costs capitalised	**303**	**271**	**850**	**772**
Interest capitalised	30	28	89	75
R&D tax credit	(24)	(11)	(50)	(34)
Total internally developed intangible additions	**309**	**288**	**889**	**813**

3 Finance income and expense
Recognised in net income

	Three months ended		Nine months ended	
(£ millions)	**31 December 2014 (unaudited)**	**31 December 2013 (unaudited)**	**31 December 2014 (unaudited)**	**31 December 2013 (unaudited)**
Finance income	13	9	36	27
Total finance income	**13**	**9**	**36**	**27**
Total interest expense on financial liabilities measured at amortised cost	(40)	(46)	(111)	(145)
Unwind of discount on provisions	1	1	7	5
Interest capitalised	31	32	91	84
Finance expense	**(8)**	**(13)**	**(13)**	**(56)**
Embedded derivative value movement		23		20
Total finance expense (net)	**(8)**	**10**	**(13)**	**(36)**

The capitalisation rate used to calculate borrowing costs eligible for capitalisation was 6.0% (nine months to 31 December 2013: 7.5%).

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Notes (continued)

4 Allowances for trade and other receivables

Changes in the allowances for trade and other receivables are as follows:

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
At beginning of period	8	10
Change in allowance during the period	2	(1)
Written off		(1)
At end of period	**10**	**8**

5 Other financial assets - current

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
Advances and other receivables recoverable in cash	29	22
Derivative financial instruments	220	361
Other	15	9
Total current other financial assets	**264**	**392**

6 Inventories

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
Raw materials and consumables	69	75
Work in progress	318	211
Finished goods	1,851	1,888
Total inventories	**2,238**	**2,174**

7 Other current assets

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
Recoverable VAT	226	237
Prepaid expenses	110	70
Other	54	48
Total current other assets	**390**	**355**

8 Taxation

Recognised in the income statement

The income tax for the 3 month and 9 month periods ended 31 December 2014 and 31 December 2013 is charged at the estimated effective tax rate expected to apply for the applicable financial year ends.

9 Capital expenditure

Capital expenditure in the period was £1,273 million (9 month period to 31 December 2013: £894 million) on fixed assets and £1,003 million (9 month period to 31 December 2013: £913 million) was capitalised as intangible assets (excluding the R&D tax credit). There were no impairments, material disposals or changes in use of assets.

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Notes (continued)

10 Other financial liabilities

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
Current		
Finance lease obligations	5	5
Interest accrued	36	24
Derivative financial instruments	287	65
Liability for vehicles sold under a repurchase arrangement	188	183
	516	**277**
Non-current		
Finance lease obligations	10	13
Derivative financial instruments	252	55
Other payables	1	1
	263	**69**

11 Provisions

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
Current		
Product warranty	395	343
Legal and product liability	52	49
Provisions for residual risk	5	2
Other employee benefits obligations	1	1
Total current provisions	**453**	**395**
Non-current		
Other employee benefits obligations	9	10
Product warranty	585	538
Provision for residual risk	20	13
Provision for environmental liability	24	21
Total non-current provisions	**638**	**582**

(£ millions)	Nine months ended 31 December 2014 (unaudited)	Year ended 31 March 2014 (audited)
Product warranty		
Opening balance	881	743
Provision made during the period	405	541
Provision used during the period	(284)	(397)
Impact of discounting	(7)	(6)
Foreign currency translation	(15)	
Closing balance	**980**	**881**
Legal and product liability		
Opening balance	49	16
Provision made during the period	20	41
Provision used during the period	(17)	(5)
Foreign currency translation	1	(3)
Closing balance	**53**	**49**

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Notes (continued)

11 Provisions *(continued)*

(£ millions)	Nine months ended 31 December 2014 (unaudited)	Year ended 31 March 2014 (audited)
Residual risk		
Opening balance	15	15
Provision made during the period	9	2
Provision used during the period		
Foreign currency translation		(2)
Closing balance	**24**	**15**
Environmental liability		
Opening balance	21	22
Provision made during the period	3	
Provision used during the period		(1)
Closing balance	**24**	**21**

Product warranty provision

The group offers warranty cover in respect of manufacturing defects, which become apparent within a year and up to five years after purchase, dependent on the market in which the purchase occurred.

Legal and product liability provision

A legal and product liability provision is maintained in respect of known litigation which impacts the group. In the main the provision relates to motor accident claims, consumer complaints, dealer terminations, employment cases and personal injury claims.

Residual risk provision

In certain markets, the group is responsible for the residual risk arising on vehicles sold by dealers on leasing arrangements. The provision is based on the latest available market expectations of future residual value trends. The timing of the outflows will be at the end of the lease arrangements being typically up to three years.

Environmental risk provision

This provision relates to various environmental remediation costs such as asbestos removal and land clean up. The timing of when these costs will be incurred is not known with certainty.

12 Other current liabilities

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
Liabilities for advances received	179	253
Deferred revenue	30	19
VAT	68	85
Others	43	38
Total current other liabilities	**320**	**395**

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Notes (continued)

13 Interest bearing loans and borrowings

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (audited)
EURO MTF listed debt	2,230	1,843
Loans from banks	193	167
Finance lease liabilities	14	18
Total borrowings	**2,437**	**2,028**
Less:		
Current bank loan	(193)	(167)
Total short term borrowings	**(193)**	**(167)**
Current portion of finance lease obligations	(5)	(5)
Long term debt	**2,239**	**1,856**
Held as long term debt	2,230	1,843
Held as long term finance lease obligations	9	13

14 Other reserves

The movement of reserves is as follows:

(£ millions)	Translation reserve	Hedging reserve	Retained earnings	Total reserves
Balance at 1 April 2014 (audited)	**(383)**	**539**	**4,040**	**4,196**
Profit for the period			1,736	1,736
Remeasurement of defined benefit obligation			3	3
Loss on effective cash flow hedges		(702)		(702)
Currency translation differences	7			7
Income tax related to items recognised in other comprehensive income		139	(1)	138
Cash flow hedges reclassified to foreign exchange in profit or loss		(126)		(126)
Income tax related to items reclassified to profit or loss		27		27
Dividend paid			(150)	(150)

Balance at 31 December 2014 (unaudited)	**(376)**	**(123)**	**5,628**	**5,129**

(£ millions)	**Translation reserve**	**Hedging reserve**	**Retained earnings**	**Total reserves**
Balance at 1 April 2013 (audited)	**(383)**	**(196)**	**2,450**	**1,871**
Profit for the period			1,430	1,430
Remeasurement of defined benefit obligation			(166)	(166)
Gain on effective cash flow hedges		937		937
Income tax related to items recognised in other comprehensive income		(196)	3	(193)
Cash flow hedges reclassified to foreign exchange in profit or loss		9		9
Income tax related to items reclassified to profit or loss		(2)		(2)
Dividend paid			(150)	(150)
Balance at 31 December 2013 (unaudited)	**(383)**	**552**	**3,567**	**3,736**

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Notes (continued)

15 Dividends

During the three months ended 31 December 2014, no ordinary share dividend was proposed and paid (three months to 31 December 2013: £nil).

During the nine months ended 31 December 2014, an ordinary share dividend of £150 million was proposed and paid (nine months to 31 December 2013: £150 million).

16 Employee benefits

Jaguar Land Rover Limited and Jaguar Land Rover Holdings Limited (previously Land Rover), have pension arrangements providing employees with defined benefits related to pay and service as set out in the rules of each fund. The following table sets out the disclosure pertaining to employee benefits of Jaguar Land Rover Limited, Jaguar Land Rover Holdings Limited, UK and overseas subsidiaries which operate defined benefit pension plans.

(£ millions)	Nine months ended 31 December 2014 (unaudited)	Year ended 31 March 2014 (audited)
Change in defined benefit obligation		
Defined benefit obligation, beginning of the period	6,053	6,021
Service cost	126	176
Interest cost	206	262
Actuarial losses/(gains) arising from:		
- Changes in demographic assumptions	93	(39)
- Changes in financial assumptions	823	(243)
- Experience adjustments		8
Prior service costs	1	6
Foreign currency translation	1	(2)
Member contributions	1	1
Benefits paid	(99)	(137)
Defined benefit obligation, at end of period	**7,205**	**6,053**
Change in plan assets		
Fair value of plan assets at beginning of the period	5,382	5,365
Interest income	185	237
Remeasurement gain/(loss) on the return of plan assets, excluding amounts included in	919	(407)

interest income		
Administrative expenses	(6)	(8)
Foreign currency translation	1	(2)
Employer s contributions	82	333
Members contributions	1	1
Benefits paid	(99)	(137)
Fair value of plan assets at end of period	**6,465**	**5,382**
Amount recognised in the balance sheet consist of		
Present value of defined benefit obligations	(7,205)	(6,053)
Fair value of plan assets	6,465	5,382
Restriction on asset and onerous obligation	(3)	(3)
Net liability	**(743)**	**(674)**
Non-current assets		
Non-current liabilities	(743)	(674)

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Notes (continued)

16 Employee benefits *(Continued)*

The range of assumptions used in accounting for the pension plans in both periods is set out below:

(£ millions)	Nine months ended 31 December 2014 (unaudited)	Year ended 31 March 2014 (audited)
Discount rate	3.7	4.6
Expected rate of increase in compensation level of covered employees	3.6	3.9
Inflation increase	3.1	3.4

For the valuation at 31 December 2014 and 31 March 2014, the mortality assumptions used are the SAPS base table, in particular S1NxA tables and the Light table for members of the Jaguar Executive Pension Plan. A scaling factor of 115% has been used for the Jaguar Pension Plan, 110% for the Land Rover Pension Scheme, and 105% for males and 90% for females for Jaguar Executive Pension Plan. There is an allowance for future improvements in line with the CMI (2013) projections and an allowance for long term improvements of 1.25% per annum.

17 Commitments and contingencies

In the normal course of business, the group faces claims and assertions by various parties. The group assesses such claims and assertions and monitors the legal environment on an on-going basis, with the assistance of external legal counsel wherever necessary. The group records a liability for any claims where a potential loss is probable and capable of being estimated and discloses such matters in its financial statements, if material. For potential losses that are considered possible, but not probable, the group provides a disclosure in the financial statements but does not record a liability in its accounts unless the loss becomes probable.

The following is a description of claims and assertions where a potential loss is possible, but not probable. Management believe that none of the contingencies described below, either individually or in aggregate, would have a material adverse effect on the group s financial condition, results of operations, or cash flows.

Litigation

The group is involved in legal proceedings, both as plaintiff and as defendant and there are claims of £18 million (31 March 2014: £27 million) against the group which management have not recognised as they are not considered probable. The majority of these claims pertain to motor accident claims and consumer complaints. Some of the cases also relate to replacement of parts of vehicles and/or compensation for deficiency in the services by the group or its dealers.

Other claims

From time to time, in the normal course of business, the group may face tax claims in various jurisdictions. The group has assessed there are no contingent liabilities arising from such claims as at 31 December 2014 and 31 March 2014 as the likelihood that these will give rise to any material settlement is considered remote.

Commitments

The group has entered into various contracts with vendors and contractors for the acquisition of plant and machinery, equipment and various civil contracts of capital nature aggregating £830 million (31 March 2014: £940 million) and £Nil (31 March 2014: £Nil) relating to the acquisition of intangible assets.

The group has entered into various contracts with vendors and contractors which include obligations aggregating £687 million (31 March 2014: £717 million) to purchase minimum or fixed quantities of material.

Inventory of £Nil (31 March 2014: £Nil) and trade receivables with a carrying amount of £193 million (31 March 2014: £167 million) and property, plant and equipment with a carrying amount of £Nil (31 March 2014: £Nil) and restricted cash with a carrying amount of £Nil (31 March 2014: £Nil) are pledged as collateral/security against the borrowings and commitments.

There are guarantees provided in the ordinary course of business of £Nil (31 March 2014: £1 million).

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Notes (continued)

18 Capital Management

The group s objectives when managing capital are to ensure the going concern operation of its entities and to maintain an efficient capital structure to reduce the cost of capital, support the corporate strategy and to meet shareholder expectations.

The group s policy is to borrow primarily through capital market issues to meet anticipated funding requirements and maintain sufficient liquidity. The group also maintains certain undrawn committed credit facilities to provide additional liquidity. These borrowings, together with cash generated from operations, are loaned internally or contributed as equity to certain subsidiaries as required. Surplus cash in subsidiaries is pooled (where practicable) and invested to satisfy security, liquidity and yield requirements.

The capital structure is governed according to group policies approved by the Board and is monitored by various metrics such as debt to EBITDA and EBITDA to interest ratios, as per the debt covenants and rating agency guidance. Funding requirements are reviewed periodically with any debt issuances and capital distributions approved by the Board.

The following table summarises the capital of the group:

As at (£ millions)	31 December 2014 (unaudited)	31 March 2014 (unaudited)
Short term debt	198	172
Long term debt	2,239	1,856
Total debt*	**2,437**	**2,028**
Equity	6,797	5,864
Total capital (debt and equity)	**9,234**	**7,892**

* Total debt includes finance lease obligations of £14 million (31 March 2014: £18 million).

19 Related party transactions

The group s related parties principally consist of Tata Sons Ltd., subsidiaries, associates and joint ventures of Tata Sons Ltd which includes Tata Motors Ltd. (the ultimate parent company), subsidiaries, associates and joint ventures of Tata Motors Ltd. The group routinely enters into transactions with these related parties in the ordinary course of business including transactions for sale and purchase of products with its associates and joint ventures. Transactions and balances with the group s own subsidiaries are eliminated on consolidation.

The following table summarises related party transactions and balances not eliminated in the consolidated condensed interim financial statements.

Nine months ended 31 December (£ millions)	2014 (unaudited) With fellow subsidiaries, associates and joint ventures	2014 (unaudited) With immediate or ultimate parent	2013 (unaudited) With fellow subsidiaries, associates and joint ventures	2013 (unaudited) With immediate or ultimate parent
Sale of products	93	51		41
Purchase of goods		1		
Services received	113	11	111	4
Services rendered	17		22	
Trade and other receivables	77	15	7	9
Accounts payable	5	19	15	
Dividend paid		150		150

Compensation of key management personnel

Nine months ended 31 December (£ millions)	2014 (unaudited)	2013 (unaudited)
Key management personnel remuneration	**19**	**12**

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Notes (continued)

20 Subsequent Events

On 3 January 2015, a large car transporter ship named Hoegh Osaka, carrying approximately 1,143 export Jaguar and Land Rover vehicles bound for the Middle East, was grounded in the Solent (body of water close to the Port of Southampton, UK). A salvage operation is currently underway. This incident has no impact on the results for Q3 FY15.

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