

Rt. Hon. Paul Channon MP
Secretary of State for Trade & Industry
1-19 Victoria Street
London SW1

Regina House
5 Queen Street
London EC4N 1SP

11th March 1986.

Dear Secretary of State,

LAND ROVER

A number of people have strongly suggested to us that we should write to you (and, by copy, to your colleagues in the Cabinet Committee) to put the case more fully for the management buyout. This letter is our response to those suggestions.

FINANCING

There is a concern that the buy-out will be inadequately funded to provide for the future needs of the business.

We have reviewed, along with the related business assumptions, the profit and cash flow projections for the business in considerable detail. The projections adopted for the purposes of raising finance for this transaction are after making such adjustments as we believe are necessary to construct a conservative and highly credible set of projections. Based upon those projections and the financing now contemplated, the company will fund all of its planned capital and development expenditures and at the same time reduce its level of debt substantially in the first three years.

The present management team have only been together in the business for a few years and their actions have greatly improved profitability and cash flow in a relatively short time. The projections are based upon the continuation of this record.

Assuming that the projections are achieved, it should be possible to list the company in the next two years or so and it will then be our intention to raise something around £50,000,000 of new money for the business. This would leave the business essentially debt-free and very well able to deal with its foreseeable cash needs at that stage.

Perhaps the simplest way that we can demonstrate the adequacy of funding is that four major investors committed £40,000,000 of equity in very short order. Approximately £8,000,000 of this equity will be used to reduce the present gearing of the company.

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LINKAGES WITH BL

An area which bears upon the financial attractiveness of our offer is that we will be continuing to buy goods and services from, and to distribute products through, BL. We estimate that the contribution to BL on this business is about £20,000,000 p.a.

FREIGHT ROVER

We have been asked why Freight Rover should form part of our offer.

It would be very difficult and expensive to separate Freight Rover from Land Rover. Engines, gearboxes and other components are supplied to Freight Rover from Land Rover and body pressings are supplied from Freight Rover to Land Rover now that Land Rover no longer has any press facilities. There is also commonality in both design and distribution of Freight Rover and Land Rover products.

Freight Rover is currently generating attractive returns and employs approximately 1800 people. We believe that if General Motors acquire this operation, its very existence would be threatened.

DISTRIBUTION

The view that the marketing strength of General Motors, particularly within the United States, will provide a better platform for Range Rover sales in that market is erroneous.

1. General Motors have previously indicated that they agree with the management's strategy for a dealer network in the U.S. and indeed Cadillac, a division of General Motors, turned down the opportunity to distribute Range Rover in 1985.
2. The management's belief, supported by all U.S. and European professional and motor industry advice, is that a new dealer network of about 60 dealers should be set up to service the US market effectively and enable dealers to earn adequate returns.
3. General Motors current plan is to sell Range Rover through their light truck and Buick outlets. The Range Rover is an exclusive niche product needing a specialised dealer network in the Jaguar/Porsche mould.
4. A European distribution agreement between Freight Rover and another major European producer is at an advanced stage of negotiation. This represents a major opportunity for the business.

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TECHNOLOGY

It has been stated that an independent Land Rover will suffer from inadequate technological resources whereas General Motors' engineering resources are unmatched.

The plan produced to the financing institutions provides for £114 million of revenue expenditure on product development over the 5 years to 1990.

The two vehicle companies possess all the essential core engineering skills appropriate to their market requirements. These are extensively supplemented by the engineering development of key suppliers of bought-in components and by specialist work undertaken by external research and development organisations, including BL Technology Ltd. There is no need apparent for further technological input.

WIDER SHARE OWNERSHIP

The management buyout involves the offering of a 10% share in the business to the 9,900 people who work there, and a commitment by the institutions and management to extend ownership to the public at large on a flotation.

OPTIONS INVOLVING COOPERATION WITH GENERAL MOTORS

We believe that joint ventures and deals where GM take a minority stake in part or all of the business are not commercially attractive. In any case, we doubt that negotiations on these options could be concluded in less than several months.

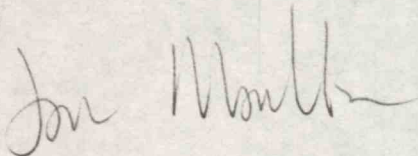
There is, however, some useful scope for collaboration on products and markets with Bedford in the van market and we have offered to discuss such collaboration.

GENERAL

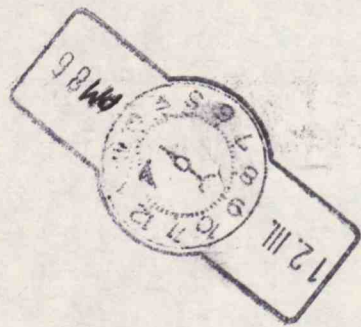
We believe that a decision on the future of Land Rover should be made as soon as possible. Customers and employees are looking for a rapid conclusion to the negotiations.

We would be delighted to provide you with an expansion of the above or to discuss further issues if you should so desire.

Yours truly,



Jon Moulton,
Managing Partner.



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The Rt. Hon. Margaret Thatcher, MP
10 Downing Street
London SW1

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London EC4N 1SP

12th March 1986.

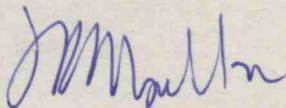
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Dear Prime Minister,

Land Rover

I attach a copy of a letter to the Secretary of State for Trade and Industry which presents a summary of the case for the management buy-out.

Yours faithfully,



J P Moulton
Managing Partner