



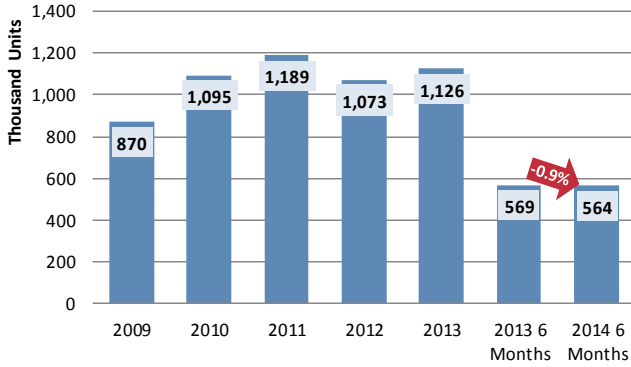
# Turkish Automotive Industry

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## Automotive Production excl. F.Trac.

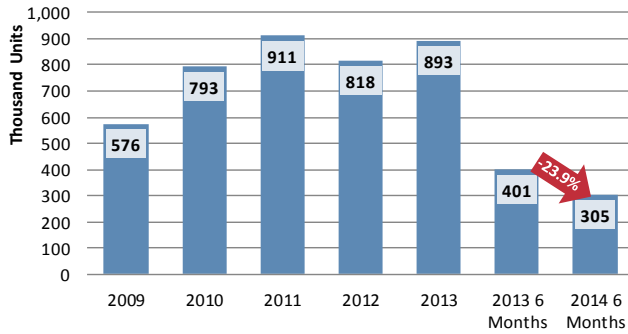


Source: OSD, TSKB Economic Research

## Production

Total automotive production -excluding agricultural tractors- realized as 564,078 units in the first half of 2014, pointing to a 0.9% contradiction compared to the same period of 2013. The capacity utilization rate was 67.3%, 8 % below than 2013 figure. 2014 production figure was mainly driven by the performance of commercial vehicles (CV) production which contracted by 22%. On the other hand, passenger car (PC) production showed a strong increase of 17.5%. 2 main exporters, Hyundai Assan and Toyota's PC production skyrocketed by 125% and 154%, respectively. Oyak Renault took the first place in automotive production among all automotive manufacturers, with total production of 153,990 units.

## Retail Sales

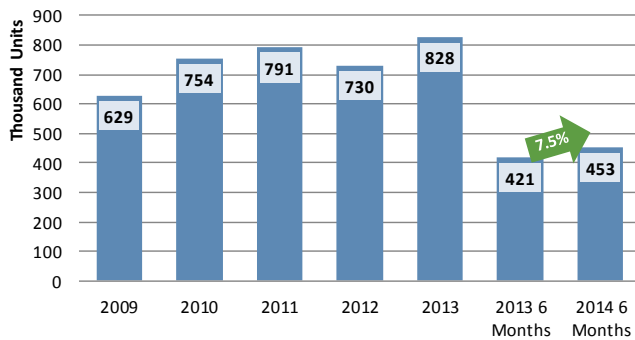


Source: OSD, TSKB Economic Research

## Retail Sales

In the first six months of 2014, 305,075 vehicles were sold, which was 23.9% lower than the same period of 2014. 17.7 points of this fall is resulted from the decline in imported cars while the remaining is due to the decline in locally produced cars. The share of imported vehicles decreased by 1.7 points to 67%. In PC segment, Ford and Opel lowered the figure the most. On the other side, Mercedes and Nissan's sales went up by 15% and 9%. On the LCV side, Volkswagen and Renault's imported figure was effective in the decline. Positive contribution to LCV figure came from Kia and Fiat in this period.

## Exports excl. F. Trac.



Source: OSD, TSKB Economic Research

## Exports

According to TIM, the transport vehicle and component industry continued to be the leader with US\$11.72 billion exports revenue with a share of 14.7% in Turkey's overall exports the first half of 2014.

Exports rose by 7.5% compared to the same period of 2013. Oyak Renault continued to be on the first rank of exporters with 131,436 units, suffering 8.1% contradiction. On the other side Hyundai and Toyota showed strong results again with 88,040 and 61,346 units, showing 139% and 116% climb respectively. In this period, pick-up sales plunged by 15% and lowered the overall figure down by 5.9 points, whereas PC exports geared up 27% and contributed by 15 points.

(Units)	2010	2011	2012	2013	6M2013	6M2014	%Chg	Jun-13	Jun-14	%Chg
Production	1,094,557	1,189,131	1,072,978	1,125,534	569,347	564,078	-0.9%	101,975	108,101	6.0%
Retail sales	793,172	910,867	817,620	893,124	400,966	305,075	-23.9%	77,771	63,826	-17.9%
Exports	754,469	790,966	729,923	828,471	420,857	452,591	7.5%	70,141	84,731	20.8%
CUR (%)	72.2%	75.2%	67.8%	74.4%	75.3%	67.3%		81%	77%	

Source: Automotive Manufacturers Association (OSD), TSKB Economic Research

## Production

According to statistics released by the Automotive Manufacturer's Association (OSD) total automotive production (excluding tractors) realized as 564,078 units in the first six months of 2014, which indicates a 0.9% slow down compared to the same period of previous year. Production of CVs narrowed by 22% while PC segment rose by 17.5%. CV segment contributed negatively with 10.3 points, while PC production elevated the figure up by 9.4 points. 2014 6M CUR stepped back to 67.3%, staying under the previous period's CUR of 75.3%.

Yearly changes highlighted a production increase of 6%, arising from 17.1% upturn in PC production. On the other hand, CV production fell down by 7.5% in June 2014 compared to the same month of previous year.

Compared to May, production geared up by 6.5% to 108,101 units due to the PC production. In line with the climb in production, June's CUR improved by 0.5 points to 77.4% from May's 76.9% (June 2013: 80.9%)

In the first half of 2014, Oyak Renault kept the first position with 153,990 units. The followers were Ford and Tofaş with 109,588 and 106,974 units respectively. In addition to that, Hyundai Assan's and Toyota's production continued progressing by 125% and 154% to 98,800 and 69,050 units, while Ford's, Oyak Renault's and Tofaş' production narrowed by 28%, 15% and 18% respectively.

### Exhibit: 1 Automotive Production in Turkey

(Units)	2010	2011	2012	2013	Jun-13	Jun-14	%Chg	6M2013	6M2014	%Chg	May-14	May-13	May-Apr%
Passenger Car	603,394	639,734	577,296	633,604	55,989	65,578	17.1%	303,783	357,047	17.5%	62,470	54,157	5.0%
Commercial Vehicle	491,163	549,397	495,682	491,930	45,986	42,523	-7.5%	265,564	207,031	-22.0%	39,025	42,761	9.0%
Minibus	16,978	22,475	29,335	37,750	3,718	3,006	-19.2%	19,126	15,264	-20.2%	3,190	2,864	-5.8%
Midibus	2,658	3,509	4,158	5,197	442	496	12.2%	2,599	3,160	21.6%	454	453	9.3%
Bus	5,268	6,907	6,427	8,345	879	534	-39.2%	4,696	3,364	-28.4%	561	793	-4.8%
Pick-Up	442,408	479,110	426,633	410,556	38,104	35,787	-6.1%	224,157	170,970	-23.7%	32,209	36,020	11.1%
M.Truck	20,429	32,635	26,271	25,587	2,490	2,434	-2.2%	12,936	12,615	-2.5%	2,333	2,284	4.3%
L.Truck	3,422	4,761	2,858	4,495	353	266	-24.6%	2,050	1,658	-19.1%	278	347	-4.3%
TOTAL	1,094,557	1,189,131	1,072,978	1,125,534	101,975	108,101	6.0%	569,347	564,078	-0.9%	101,495	96,918	6.5%

Source: Automotive Manufacturers Association (OSD), TSKB Economic Research

6 Months Production (2014)							
(Units)	P.Car	Mini Bus	Midi Bus	Bus	Pick Up	Truck	Total
January	52,006	1,537	599	485	18,388	2,027	75,042
February	53,250	1,754	536	588	24,832	2,180	83,140
March	61,149	2,762	532	654	29,903	2,309	97,309
April	62,594	3,015	543	542	29,851	2,446	98,991
May	62,470	3,190	454	561	32,209	2,611	101,495
June	65,578	3,006	496	534	35,787	2,700	108,101

Source: OSD, TSKB Economic Research

6 Months Brand-wise Production (2014)							
(Units)	P.Car	Mini Bus	Midi Bus	Bus	Pick Up	Truck	Total
Oyak Renault	153,990						153,990
Tofaş	28,614				78,360		106,974
Hyundai Assan	98,300						98,300
Ford Otosan		14,721			91,497	3,370	109,588
Toyota	69,050						69,050
M. Benz Türk				1,814		9,245	11,059
Honda Türkiye	7,093						7,093
A. Isuzu			1,039	40	935	1,442	3,456
Otokar		11	1,275	225	171	216	1,898
Temsa Global			833	718			1,551
MAN Türkiye				524			524
Karsan		532	13	43	7		595

Source: OSD, TSKB Economic Research

### Domestic Sales (Retail)

Domestic sales posted a decline of 23.9% in the first half of 2014 and realized as 305,075 units. In the same period, PC sales posted a 22.7% decline, where CV sales contracted by 27.2%. Accordingly, imported vehicle sales declined by 25.8% to 204,514 units.

In June, domestic sales weakened by 17.9% to 63,826 units compared to last year. CV sales decreased by 15.1% while the PC sales were down by 18.9%.

While locally manufactured vehicle sales weakened by 9.7%, imported vehicle sales slumped by 21.6%. The share of import-based vehicles in the domestic market decreased to 65.9% in June from 67.5% in May. In terms of 6 months import numbers, Volkswagen held the first position with a declining trend in PC and CV imports; with 35,813 and 9,400 units respectively.

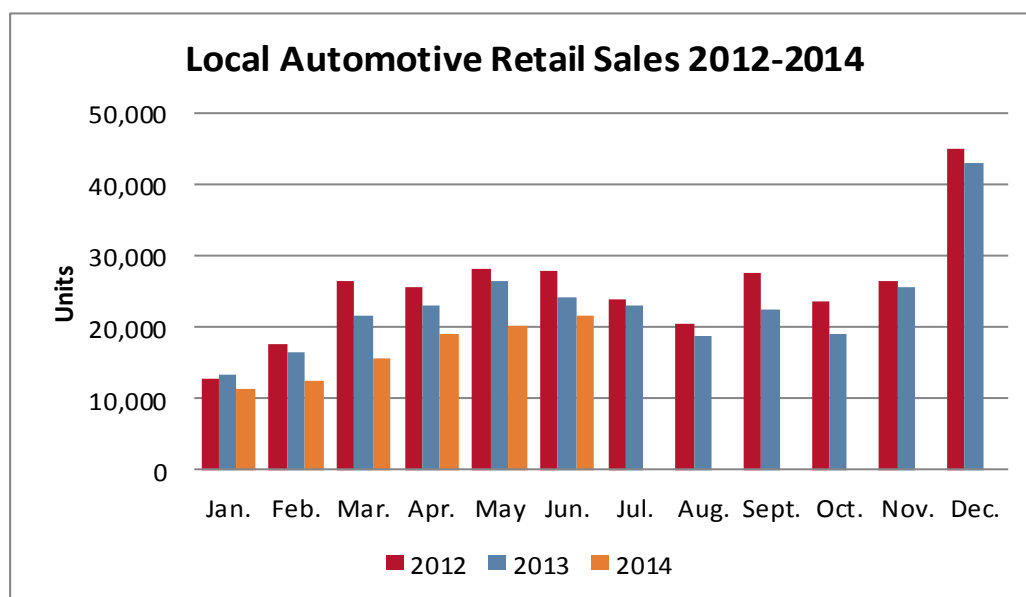
#### Exhibit: 2 Automotive Sales in Turkey (Retail)

(Units)	2010	2011	2012	2013	%Chg	Jun-13	Jun-14	%Chg	6M2013	6M2014	%Chg	May-14	May-Jun %
Local	327,764	372,335	305,926	277,515	-9.3%	24,114	21,770	-9.7%	125,349	100,561	-19.8%	20,108	8.3%
Import	465,408	538,532	511,694	615,609	20.3%	53,657	42,056	-21.6%	275,617	204,514	-25.8%	41,757	0.7%
Domestic Sales	793,172	910,867	817,620	893,124	9.2%	77,771	63,826	-17.9%	400,966	305,075	-23.9%	61,865	3.2%
Imports as % of Total	58.7%	59.1%	62.6%	68.9%		69.0%	65.9%		68.7%	67.0%		67.5%	

Source: Automotive Manufacturers Association (OSD), TSKB Economic Research

(Units)	2010	2011	2012	2013	%Chg	Jun-13	Jun-14	%Chg	6M2013	6M2014	%Chg	May-14	May-Jun %
Passenger Car	509,784	593,519	556,280	664,655	19.5%	58,290	47,278	-18.9%	292,106	225,773	-22.7%	46,379	1.9%
Commercial Vehicle	283,388	317,348	261,340	228,469	-12.6%	19,481	16,548	-15.1%	108,860	79,302	-27.2%	15,486	6.9%
LCV	251,129	270,920	221,481	188,723	-14.8%	15,806	12,885	-18.5%	89,637	61,088	-31.8%	11,742	9.7%
HCV	32,259	46,428	39,859	39,746	-0.3%	3,675	3,663	-0.3%	19,223	18,214	-5.2%	3,744	-2.2%
Midibus	2,372	3,104	3,084	3,959	28.4%	241	158	-34.4%	1,548	1,604	3.6%	176	-10.2%
Bus	1,525	2,532	2,410	4,027	67.1%	483	89	-81.6%	2,724	813	-70.2%	163	-45.4%
Truck	28,362	40,792	34,365	31,760	-7.6%	2,951	3,416	15.8%	14,951	15,797	5.7%	3,405	0.3%
TOTAL	793,172	910,867	817,620	893,124	9.2%	77,771	63,826	-17.9%	400,966	305,075	-23.9%	61,865	3.2%

Source: Automotive Manufacturers Association (OSD), TSKB Economic Research



Source: Automotive Manufacturers Association (OSD), TSKB Economic Research

## Exports

In the first 6 months of 2014, automotive sector exports went up by 7.5% to 452,591 units. Pick up exports continued declining while PC exports surged 27.1% to 296,156 units. In the same period CV exports shrunk by 16.7% to 156,435 units.

In June, automotive sector exports went up by 20.8%. Continuing demand for PCs was the primary reason for growth of exports. Passenger cars showed 42.7% increase, while CV exports dropped by 4.3%. Compared to May 2014, total exports increased by 3.4%.

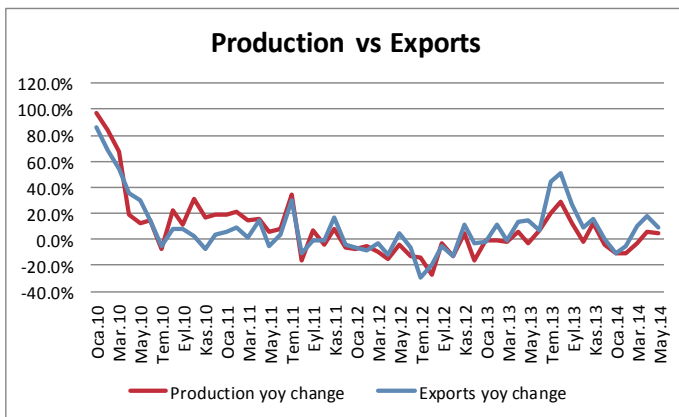
Oyak-Renault maintained its leading position in the first half of 2014, by dispatching 131,436 units.

According to Turkish Exporters Association (TIM), the transport vehicle and component industry continued to be the leader with US\$11.72 billion exports with a share of 14.7% in Turkey's overall exports the first six months of 2014.

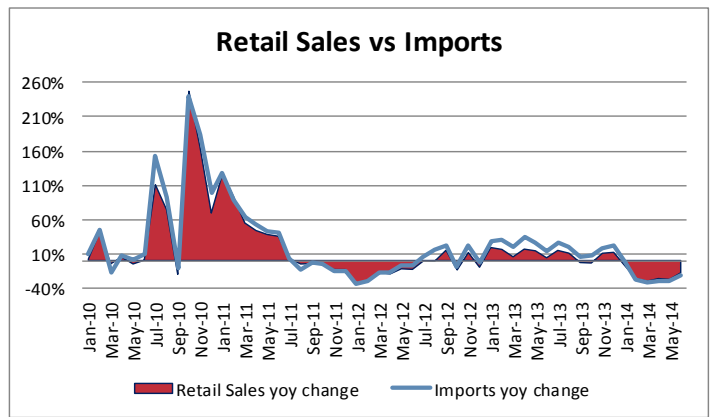
**Exhibit: 3 Motor Vehicle Export Figures**

(Units)	2010	2011	2012	2013	6M2013	6M2014	Cum.Change	Jun-13	Jun-14	YoY%	May-14	MoM%
Passenger Car	439,999	442,674	412,991	484,504	233,032	296,156	27.1%	37,451	53,460	42.7%	50,550	5.8%
Commercial Vehicle	314,470	348,292	316,932	343,967	187,825	156,435	-16.7%	32,690	31,271	-4.3%	31,388	6.9%
LCV	307,702	339,529	309,030	335,429	184,790	153,322	-17.0%	32,037	30,626	-4.4%	30,806	-0.6%
Pick-Up	306,902	319,366	292,601	300,765	166,936	142,274	-14.8%	28,685	28,629	-0.2%	28,410	0.8%
Minibus	800	20,163	16,429	34,664	17,854	11,048	-38.1%	3,352	1,997	-40.4%	2,396	-16.7%
HCV	6,768	8,763	7,902	8,538	3,035	3,113	2.6%	653	645	-1.2%	582	10.8%
Midibus	807	647	1,173	985	487	454	-6.8%	105	126	20.0%	79	59.5%
Bus	3,550	4,204	4,047	4,498	1,876	2,079	10.8%	400	413	3.3%	370	11.6%
Truck	2,411	3,912	2,682	3,055	672	580	-13.7%	148	106	-28.4%	133	-20.3%
<b>TOTAL</b>	<b>754,469</b>	<b>790,966</b>	<b>729,923</b>	<b>828,471</b>	<b>420,857</b>	<b>452,591</b>	<b>7.5%</b>	<b>70,141</b>	<b>84,731</b>	<b>20.8%</b>	<b>81,938</b>	<b>3.4%</b>

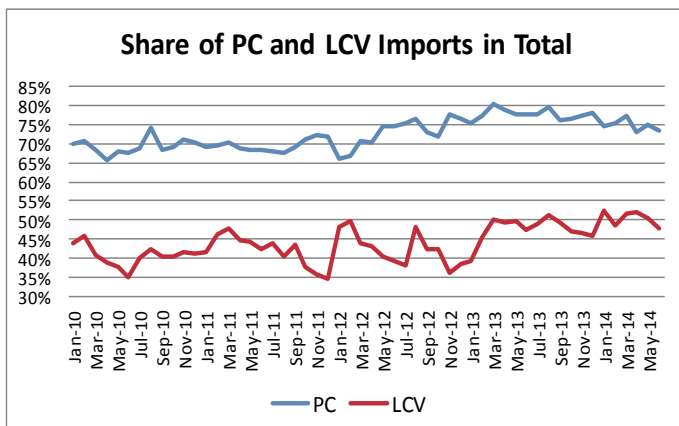
Source: OSD, TSKB Economic Research



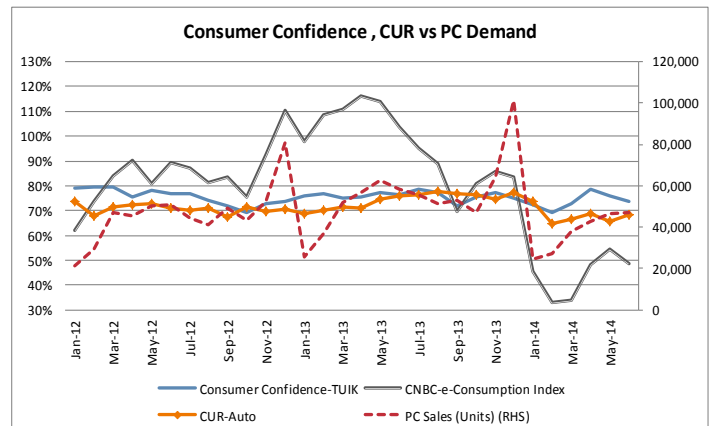
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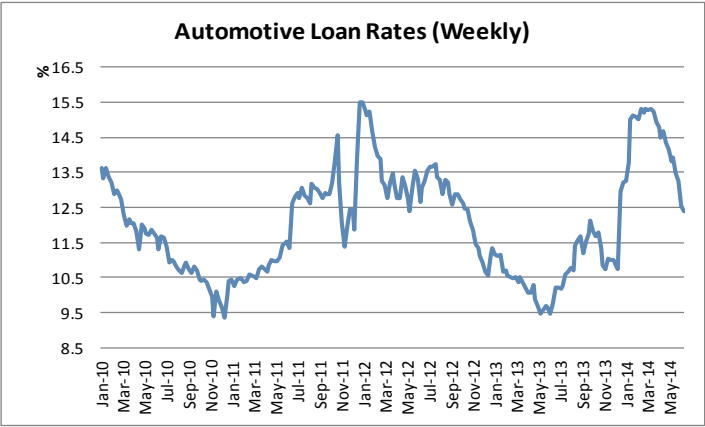


Source: OSD, TSKB Economic Research

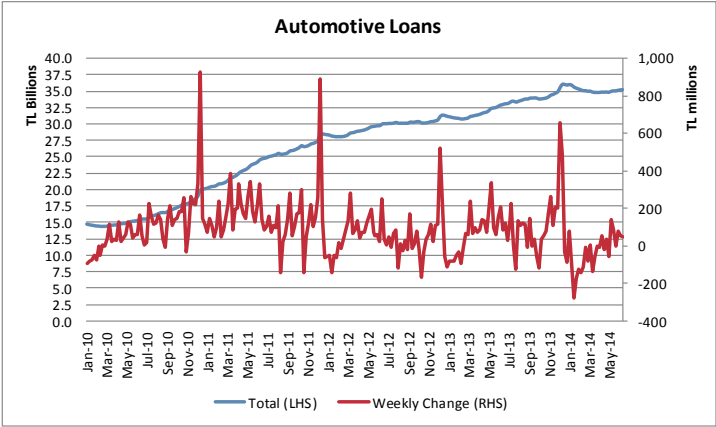


Source: OSD, TUIK, CNBC-e, TSKB Economic Research

Exhibit: 4 Automotive Loans and Rates



Source: CBRT, TSKB Economic Research



Source: CBRT, TSKB Economic Research

## Exhibit: 5 Passenger Car Market In Turkey

## Passenger Car Sales

(Units)	2010	2011	2012	2013	%Chg	Jun-13	Jun-14	%Chg	6M2013	6M2014	%Chg	May-14	May-Jun %
Local	155,634	179,488	146,604	147,128	0.4%	13,008	12,459	-4.2%	63,686	56,924	-10.6%	11,657	6.9%
Import	354,150	414,031	409,676	517,527	26.3%	45,282	34,819	-23.1%	228,420	168,849	-26.1%	34,722	0.3%
Domestic Sales	509,784	593,519	556,280	664,655	19.5%	58,290	47,278	-18.9%	292,106	225,773	-22.7%	46,379	1.9%
Imports as % of Total	69.5%	69.8%	73.6%	77.9%		77.7%	73.6%		78.2%	74.8%		74.9%	

## Passenger Car Imports

(Units)	2010	2011	2012	2013	%Chg	Jun-13	Jun-14	%Chg	6M2013	6M2014	%Chg	May-14	May-Jun %
Volkswagen	39,822	55,550	66,792	88,304	32%	7,027	6,026	-14%	39,202	35,813	-9%	7,193	-16%
Renault	5,291	7,534	5,965	32,904	452%	2,674	1,629	-39%	13,733	11,028	-20%	2,121	-23%
Opel	39,768	52,624	49,143	55,719	13%	5,020	3,431	-32%	24,346	14,972	-39%	3,346	3%
Nissan	11,299	18,573	18,873	18,417	-2%	1,461	985	-33%	7,465	8,102	9%	1,181	-17%
Ford	55,212	58,807	47,030	58,405	24%	5,027	3,658	-27%	24,355	13,178	-46%	2,866	28%
Dacia	13,230	17,937	27,666	28,901	4%	2,637	2,274	-14%	12,853	9,984	-22%	1,883	21%
Hyundai	16,418	17,157	25,141	29,824	19%	3,028	1,986	-34%	13,927	8,891	-36%	1,861	7%
Mercedes	12,300	12,630	12,730	20,023	57%	1,965	2,512	28%	8,252	9,479	15%	2,083	21%
B.M.W	12,034	15,018	15,247	20,705	36%	2,043	2,076	2%	8,508	8,692	2%	1,938	7%
Peugeot	18,851	15,480	14,519	23,068	59%	1,772	1,999	13%	9,911	7,282	-27%	1,324	51%
Audi	9,656	12,064	13,720	14,987	9%	1,000	1,255	26%	6,505	6,624	2%	1,598	-21%
Citroen	11,462	14,469	14,711	19,690	34%	2,071	888	-57%	9,683	5,152	-47%	1,040	-15%
Toyota	29,341	26,450	20,099	22,421	12%	2,475	576	-77%	12,333	3,146	-74%	647	-11%
Others	79,466	89,738	78,040	84,160	8%	7,082	5,524	-22%	37,347	26,506	-29%	5,641	-2%
<b>Total</b>	<b>354,150</b>	<b>414,031</b>	<b>409,676</b>	<b>517,528</b>	<b>26%</b>	<b>45,282</b>	<b>34,819</b>	<b>-23%</b>	<b>228,420</b>	<b>168,849</b>	<b>-26%</b>	<b>34,722</b>	<b>0%</b>

Source: ODD, TSKB Economic Research

## Exhibit: 6 LCV Market In Turkey

## LCV Sales

(Units)	2010	2011	2012	2013	%Chg	Jun-13	Jun-14	%Chg	6M2013	6M2014	%Chg	May-14	May-Jun %
Local	149,720	158,586	129,399	98,778	-23.7%	8,305	6,739	-18.9%	46,961	30,266	-35.6%	5,804	16.1%
Import	101,409	112,334	92,082	89,945	-2.3%	7,501	6,146	-18.1%	42,676	30,822	-27.8%	5,938	3.5%
Domestic Sales	251,129	270,920	221,481	188,723	-14.8%	15,806	12,885	-18.5%	89,637	61,088	-31.8%	11,742	9.7%
Imports as % of Total	40.4%	41.5%	41.6%	47.7%		47.5%	47.7%		47.6%	50.5%		50.6%	

## LCV - Imports

(Units)	2010	2011	2012	2013	%Chg	Jun-13	Jun-14	%Chg	6M2013	6M2014	%Chg	May-14	May-Jun %
Volkswagen	24,018	26,361	26,048	23,752	-9%	2,088	2,004	-4%	12,059	9,400	-22%	1,956	2%
Mercedes	5,262	8,395	9,234	10,421	13%	902	658	-27%	4,591	3,198	-30%	493	33%
Renault	19,109	25,128	16,331	11,550	-29%	863	666	-23%	5,631	3,315	-41%	613	9%
Fiat	4,141	5,380	4,962	6,245	26%	308	424	38%	2,491	2,761	11%	514	-18%
Dacia	5,938	3,402	1,298	7,494	477%	818	409	-50%	3,334	2,401	-28%	427	-4%
Citroen	8,780	9,258	7,672	6,679	-13%	363	666	83%	3,392	2,155	-36%	448	49%
Mitsubishi	3,647	4,640	2,684	3,592	34%	266	168	-37%	1,496	1,240	-17%	196	-14%
Toyota	1,539	1,351	2,615	2,413	-8%	185	83	-55%	991	858	-13%	66	26%
Isuzu	2,622	2,296	2,296	2,587	13%	199	123	-38%	1,192	1,030	-14%	190	-35%
Peugeot	11,252	9,968	9,112	8,323	-9%	1,002	438	-56%	3,942	1,854	-53%	539	-19%
Iveco	1,130	1,833	1,673	2,204	32%	189	189	0%	909	954	5%	168	13%
Hyundai	2,153	2,557	2,454	1,480	-40%	92	67	-27%	702	586	-17%	126	-47%
Nissan	1,965	1,746	1,247	878	-30%	41	19	-54%	561	83	-85%	20	-5%
Others	9,853	10,019	4,456	2,327	-48%	185	232	25%	1,385	987	-29%	182	27%
<b>Total</b>	<b>101,409</b>	<b>112,334</b>	<b>92,082</b>	<b>89,945</b>	<b>-2%</b>	<b>7,501</b>	<b>6,146</b>	<b>-18%</b>	<b>42,676</b>	<b>30,822</b>	<b>-28%</b>	<b>5,938</b>	<b>4%</b>

Source: ODD, TSKB Economic Research



## Economics: Special Section

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Cross-border capital flows fell to 60% of what they were before Lehman, but the share of emerging markets in the lot skyrocketed between 2009 and 2013. In 2013, especially in the second half, this trend gave way to an exodus of capitals, and most emerging credits were hit hard, notably Turkey, Russia, South Africa etc. Starting from February 2014, there was again a reversal: confidence in emerging markets was perhaps not fully restored, but amidst cautions, money poured in nonetheless. Among all asset classes, fixed income assets performed best and rallied first. Demand for both EM and developed world corporate debt became exuberant; spreads flattened out –e.g. Greek Eurobonds and German sovereign debt; European sovereign debt trades at historic lows –i.e. the lowest in 270 years in France etc. The cycle has run its course, and assets have possibly reached their peaks.

In Turkey, the likelihood of a 50-75 bps policy rate cut is rather high, but the CBT has better stop at that, although what a central bank should do has more often than not no bearing on what it actually does, especially in this part of the world. Budget dynamics clearly point at a loosening stance prior to the presidential elections. Primary surplus fell, budget deficit increased in real terms, and notwithstanding privatisation revenues, the budget deficit-to-GDP ratio hovers around 2%. With a slowing CAD, but still c. 6% of GDP, this is not an appropriate mix. After asset purchases ends in October, Yellen will probably be genuinely tested for the first time. Misalignment of the rate of interest can obviously cause trouble towards the year-end.

12-month forward ex-ante

TURKEY DATA MONITOR



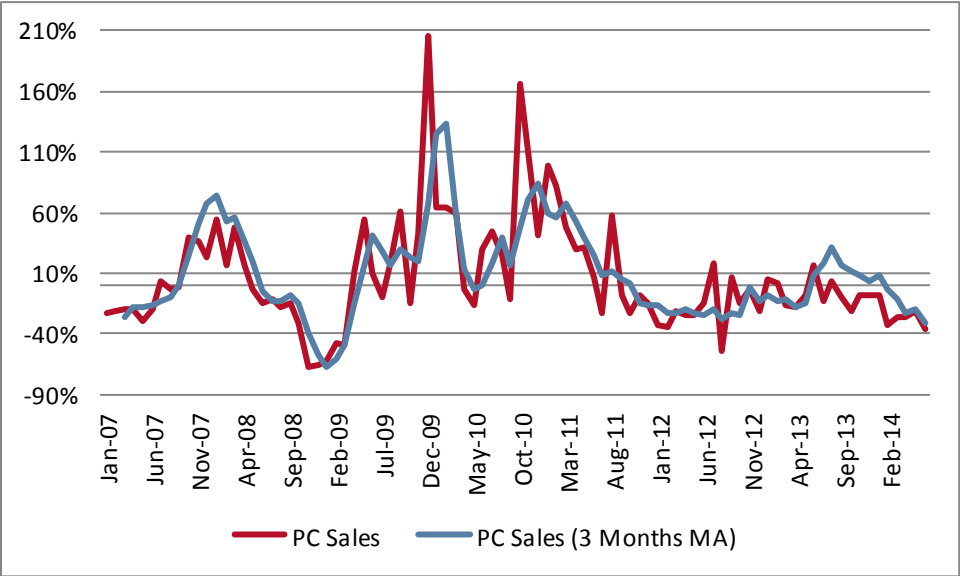
The argument in favour of further rate cuts does not come from the inflation outlook, which is set to remain above 8%. Year-end consensus stands at 8.3%, which we find a bit low, given upward risks, notably of long-awaited natural gas and electricity price hikes. It does not come from a growth perspective either because all estimates point to a 3.2-3.7% GDP growth rate this year. Obviously industrial output is losing momentum, as expected, and consumer and real sector confidence indices fell recently. However, this is perfectly in line with expectations given the strong Q1 performance. In a year of rebalancing, i.e. switching the source of growth from domestic demand to international trade in an effort to lower the CAD, about 3.5% GDP growth is nothing but acceptable, if not admirable. So why stimulate growth further although curtailing demand through loan growth deceleration is a preset policy choice?

One reason may lie in the construction sector, which combined with energy, is the sole growth driver. Sales have been falling relative to supply, but in absolute terms, the fall should not be exaggerated given that 2013 was the "golden year". After a peak sales performance, nobody should expect further increases. It is true however, that housing demand is quite sensitive to the interest rate. On the other hand, policy rate movements of high magnitude and frequency induce credit cycles, which is completely unwarranted. Here is a portrait of one real rate of interest since 2010, i.e. the ex ante loan rate.

Another argument, although not convincing, could come from the long view of domestic TL government debt securities. Indeed, over the last 7 years, duration for TL-denominated fixed-coupon debt increased from 8 months to 27 months. Furthermore, extension now arrays to 10 years and the long-end of the curve is liquid as well as the

benchmark. Now, 68% of TL government debt has a longer tenor than 24 months, a novelty of course. However, the trend-wise performance of public debt should not pass for an argument in favour of current rate cuts, given that Brazil stands still at 11%.

Overall, barring any currency shock, car sales stabilise in the sense that actual sales and moving averages do now echo each other, after a few months of sharp drop. The worst is probably behind us in the sense that the damage is already done and factored in. Expect stable production and poor domestic sales performance, but decent export outlook.





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