Creative Global Investments

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Sabine CJ Blümel
Automotive Research

Creative Global Advisers (UK) LLP

sblumel@cg-inv.com
Tel +44 7785 301 588

Creative Global Investments LLC
115 East 57th Street
11th Floor
New York, NY 10022
Tel +1 212 939 7256

Creative Global Investments/Europe
5, op der Heed
L-1709 Senningerberg
Luxembourg
Tel +352 2625 8640

Objectivity

Integrity

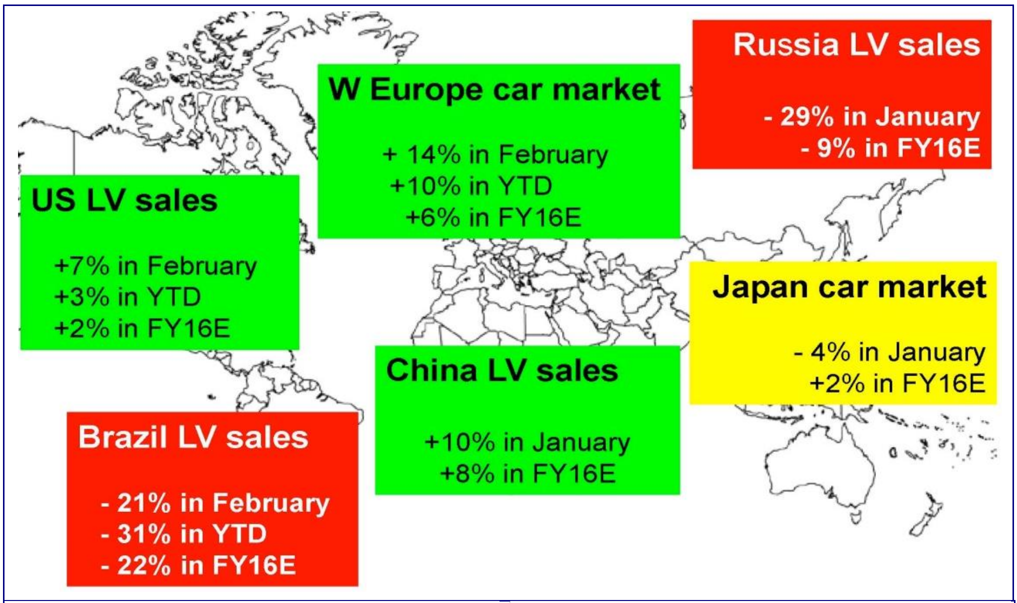
Creativity

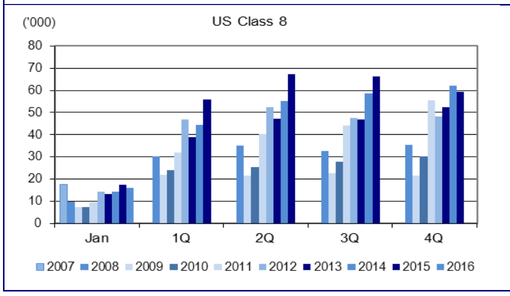
Global Automotive Demand Atlas

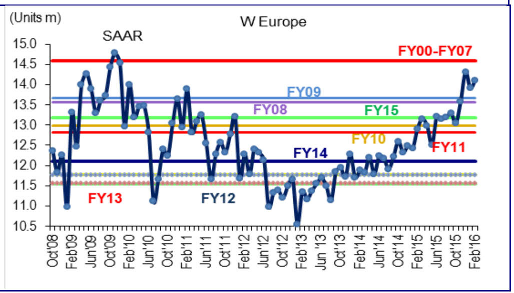
February-March 2016 edition

Global light vehicle markets

+2% in January
+3% in FY16E







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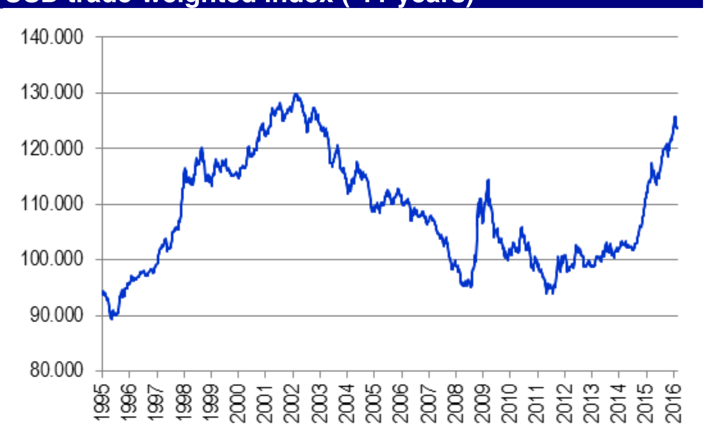
Contents

Brent crude oil (-10 years)

Source: tradesignalonline.com

USD trade-weighted index (-11 years)



Source: Board of Governors of the Federal Reserve System (US)

Global LV markets

+2.1% in January

+2.0% in FY15

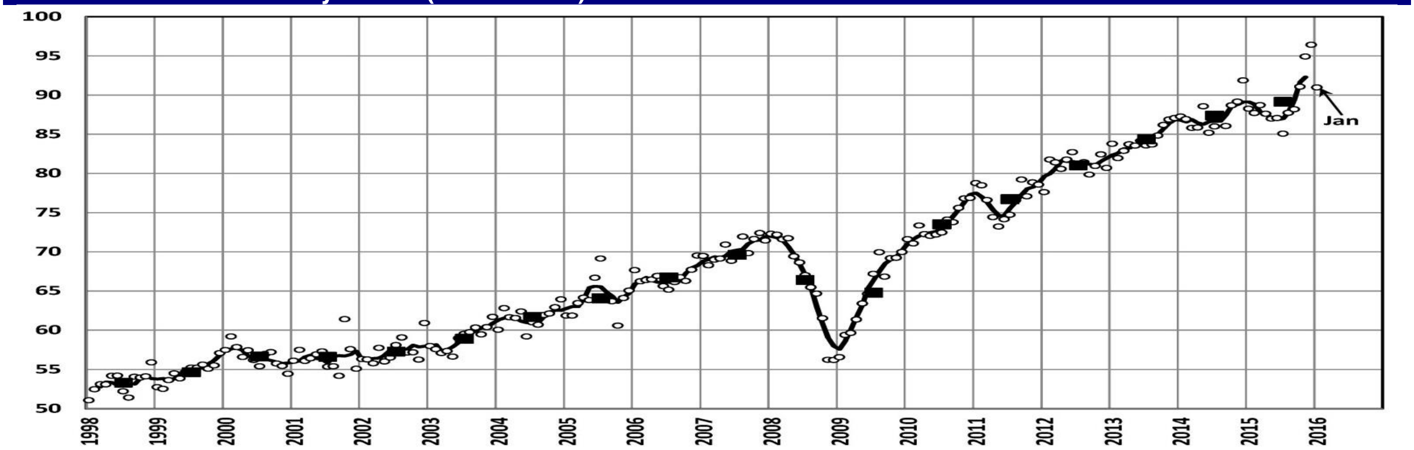
In January, global light vehicle sales increased 2.1% yoy to 7.30m, after increases of 5.2% in December and 2.0% to 89.10m in FY15.

LMC Automotive (LMCA) calculate that underlying demand weakened again in January, with a SAAR (seasonally adjusted annualised rate) of 90.95m units/year, 4.9% down from 95.7m in December. The strong recovery of the SAAR in 4Q15 was due to a strong recovery in China, supported by continuing strong performances in the US and Western Europe.

+3% in FY16E

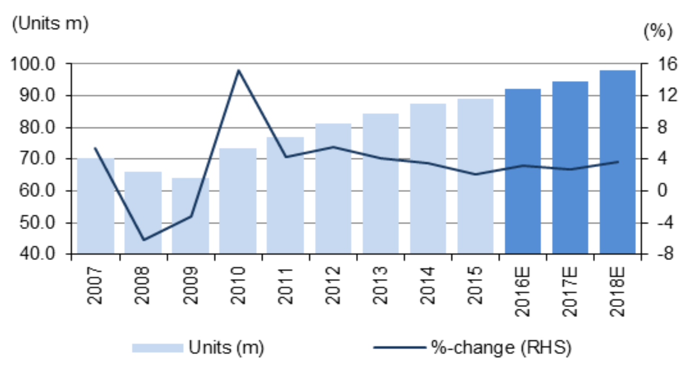
For FY16E, we expect a global LV market of almost 92m, implying an increase by some 3.0% or 2.9m, implying a slight acceleration from FY15's growth of 2.0%. We expect that the LV markets in the US, W Europe and China will continue to grow, while markets in commodity- and oil-dependent economies will incur another year of declining sales. In 2017E-18E, global LV sales are expected to grow by just over 3% p.a. Note that we left our FY16E estimate for global LV sales unchanged as downgrades for the Brazilian and Russian markets are compensated by an upgrade for W Europe. (See also GADA January 2016 edition of January 22nd, 2016.)

Global LV sales – monthly SAAR (1998-Jan16)



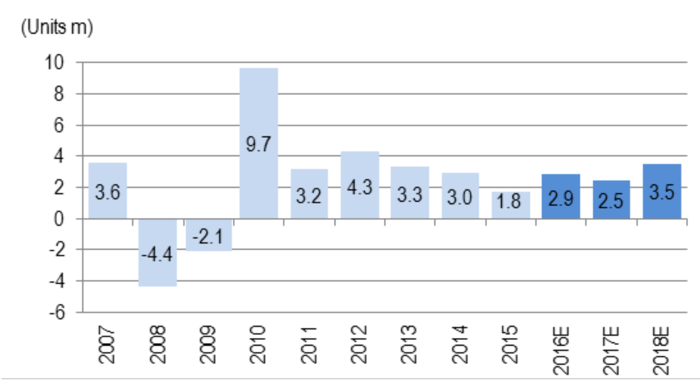
Source: LMC Automotive

Global LV sales - (2007-2018E)



Source: LMC Automotive and CGI estimates

Growth - global LV sales - (2007-2018E)



Source: LMC Automotive and CGI estimates

US LV sales

+6.8% in February

+3.4% in YTD

In February, US LV sales increased 6.8% yoy to 1.34m units, after having remained flat (-0.3% yoy) in January, resulting in a 3.4% increase to 2.49m YTD. This follows increases of 9.0% in December and 5.8% to 17.44m in FY15. Adjusted for the number of selling days (24 in Feb'16 & 24 in Feb'15, 24 in Jan'16), the market was up 6.8% yoy and 17.1% mom in February and up 7.7% yoy in YTD. The February SAAR of 17.54m was up 1.15m yoy and down 0.04m mom/from January's 17.58m.

Sales boom driven by consumers….

…and trucks

Retail sales have been the US market's dominant driver since May 2012. In January, the retail SAAR of 14.1m was up 0.3m yoy and down 0.4m from December's 14.6m and down 1.2m from a record 15.3m in September. Low gas prices have continued to fuel the outperformance of light trucks that advanced 12.8% in February and 9.8% to 1.46m or 58.6% of total market YTD, vs. 57.8% in FY15. Despite higher discounting, the improving mix has resulted in a further increase in average transaction prices by 1.8% yoy to EUR 34.0k in January, 3.4% down from an all-time record of USD 34.5k in December. (See pp.4-5.)

Big Four

At the **GM group**, sales declined 1.5% in February, resulting in a 0.6% dip to 431.6k YTD or a 17.3% share, driven by the attempt to reduce to low-margin sales to rental companies. Sales at the **Ford group** increased 20.2% in February and 8.8% to 388.5k or 15.6% YTD. **Toyota's group** sales increased 4.1% in February and remained flat YTD at 349.2k or 14.0%. **FCA** generated increases of 11.9% in February and 9.6% in YTD to 339.2k or 13.6%, driven by the Jeep brand and Ram trucks.

VW brand sales down -14% in YTD

Dieselgate: The VW emission scandal has practically wiped out diesel sales in the US LV market. The stop-of-sale of its diesel powered LVs greatly affected VW brand sales that had a pre-scandal 25% diesel share; the decline in VW sales deteriorated greatly from a pre-scandal -2.5% in 1-3Q15, to -11.3% in 4Q15 and -13.8% (to 42.4k units) YTD. Audi that had had a pre-scandal diesel share of 10% saw a slowdown in sales from +12.5% in 1-3Q15, to +7.4% in 4Q15 and +2.5% to 23.6k YTD, helped by the new Q7. With even a technical solution remaining elusive, domestic and foreign volume brands should continue to gain share at the expense of the VW brand.

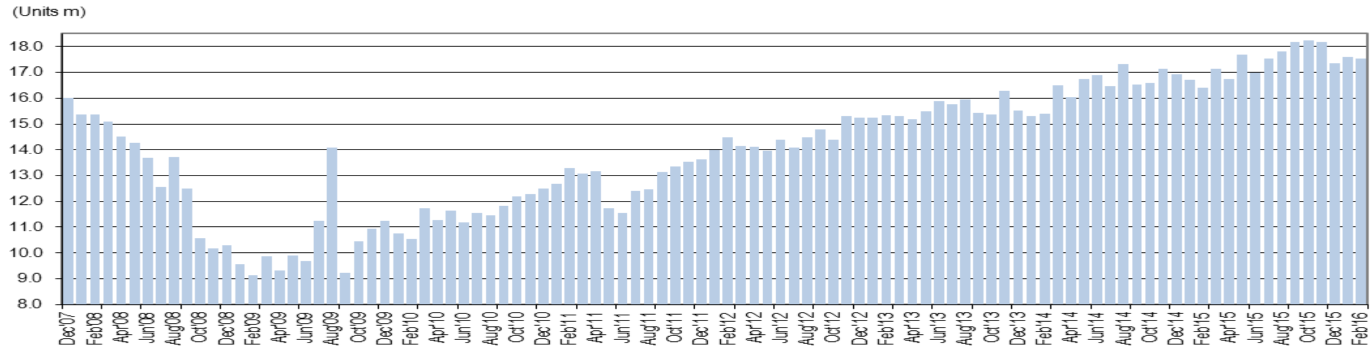
+2.1% in FY16E

At 17.44m units, the FY15 LV market reached the highest level since 2000, exceeding the 17m mark for the first time since 2001. Running currently at a SAAR of 17.5m, the LV is set for an increase of 2.1% to 17.81m units in FY16E. Positive factors include continuing pent-up demand, the economic recovery, strong consumer confidence, and plunging gas prices. However, the LV market has become increasingly dependent on generous consumer credit conditions, with easy access and extended loan terms. The steady growth of the average term of loans and the rising share of loans with duration longer than 72 months is a growing concern and could hamper future sales growth.

Stabilisation from 2017E onwards

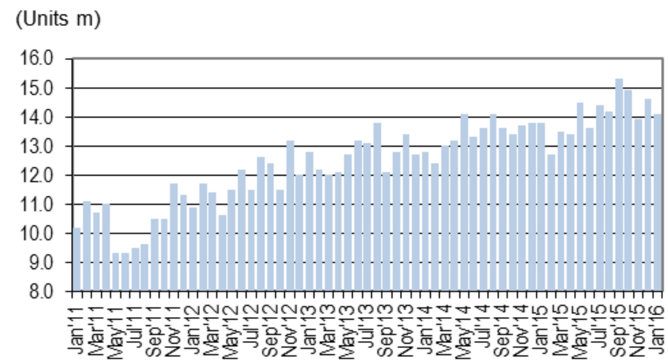
In 2017-18E, the US market is expected to stabilise at high levels; this is based on the assumption of annual GDP growth rates in excess of 2.0% and supporting factors such as replacement demand, growing household wealth, and new household creations.

US LV sales – monthly SAAR (Dec'07-Jan'16)



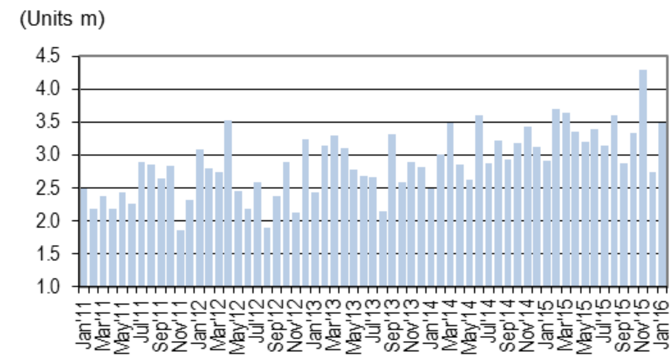
Note: The estimated seasonal factors for the SAAR calculations for July 2014 – June 2015 are restated due to the recent update of seasonal factors from the U.S. Bureau of Economic Analysis (BEA). Source: Autodata

US Retail LV sales – monthly SAAR (Jan'11–Jan'16)



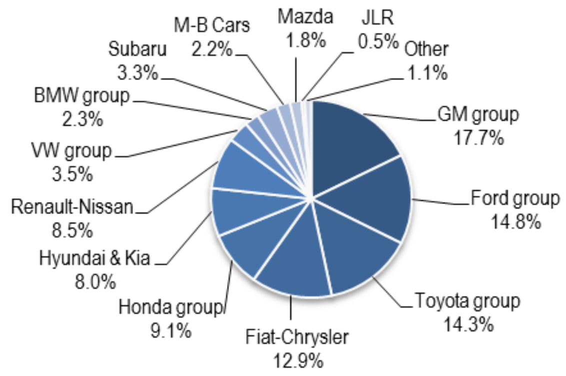
Source: LMC Automotive

US Fleet LV sales – monthly SAAR (Jan'11–Jan'16)



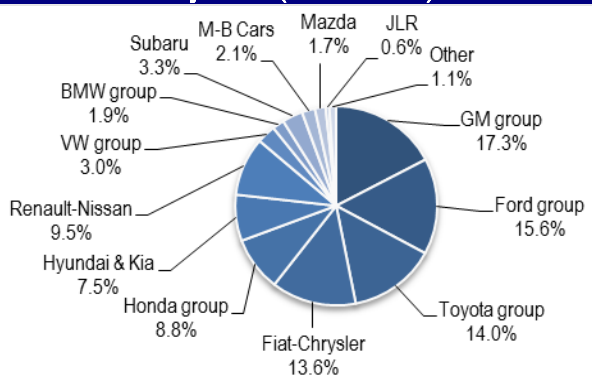
Source: LMC Automotive

US – LV market by OEM (FY15)



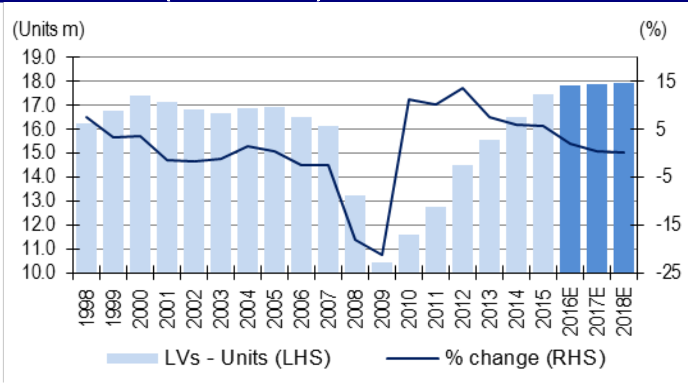
Source: LMC Automotive and CGI calculations

US – LV market by OEM (Jan-Feb'16)



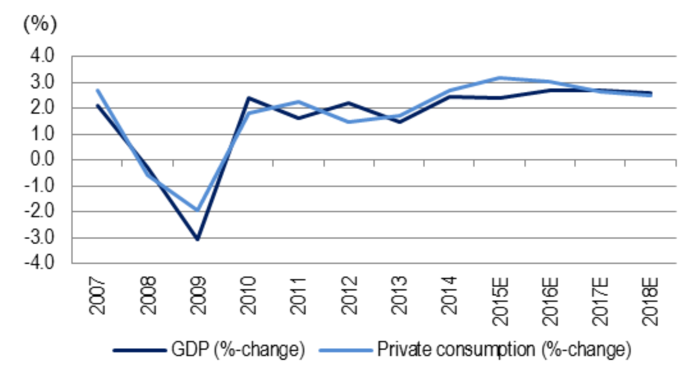
Source: LMC Automotive and CGI calculations

US LV sales (1998-2018E)



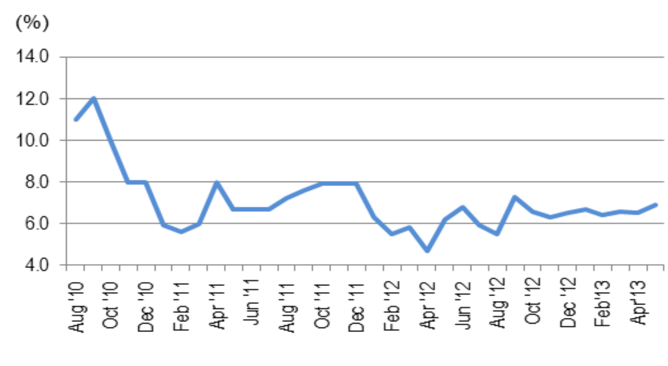
Source: LMC Automotive and CGI estimates

US – real GDP and private consumption (2007-18E)



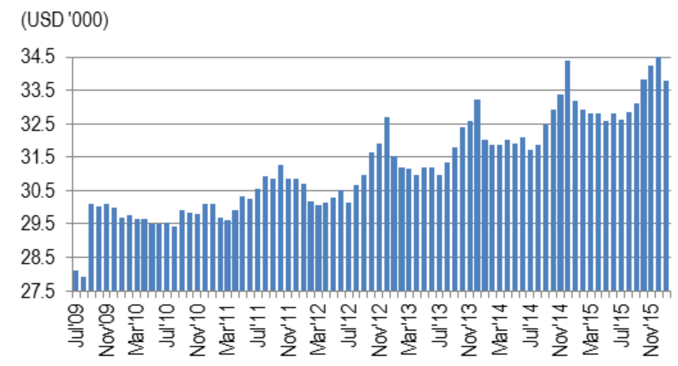
Source: Oxford Economic, IMF and CGI estimates

US LV – avge. discount from MSPR (Aug'10-May'13)



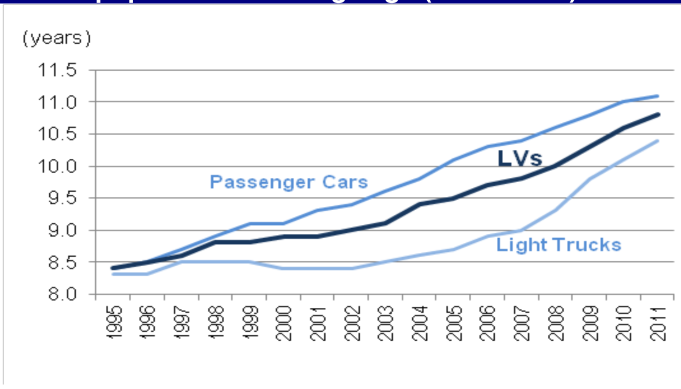
Source: TrueCar

US LV market – avge. transaction price (Jul'09-Jan'16)



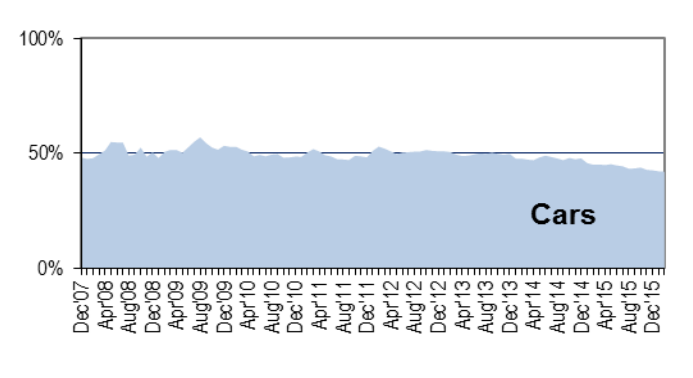
Source: PIN (Power Information Network by J.D. Power and Associates)

US LV population – average age (1995-2011*)



(*) July of respective year. Source: Polk

US LV sales - split cars & trucks (Dec'07-Feb'16)

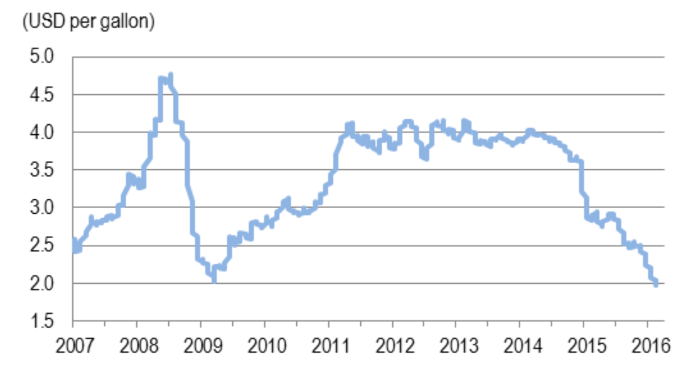


Source: Autodata

US – Gas retail price (USD/US gallon) (Jan'07-Feb'16)

Weekly U.S. All Grades All Formulations Retail Gasoline Prices (Dollars per Gallon) Source: EIA

US – Diesel retail price (USD/gallon) (Jan'07-Feb'16)



Weekly U.S. Diesel (On-Highway) - All Types (Dollars per Gallon) Source: EIA

WTI crude oil (-5 years)

Source: tradesignalonline.com

Brent crude oil (-5 years)

Source: tradesignalonline.com

US – Unemployment rate (Jan'01-Feb'16)

Source: Bureau of Labor Statistics

US – Consumer confidence (Jan'08-Jan'16)

S Source: Thomson Reuters/University of Michigan

Western Europe car market

+13.8% in February

+9.7% in FY15

In February, WE passenger car registrations increased 13.8% yoy to 1.00m units, helped by an additional working day, after +6.0% in January resulting in a 9.7% increase to 2.02m YTD; this follows a 9.0% increase to 13.20m in FY15. In February, the SAAR strengthened again to 14.10m, up 1.3% mom/from January's 13.91m, it remained only 1.5% below December's 14.31m, the best result since December 2009 (14.53m). While December 2009 had been boosted by scrappage schemes Germany and the UK, December 2015 had seen a major pull forward in sales in the Netherlands (ahead of changes in taxation) and a spike in the UK market. Although YTD's SAAR of 13.99m was 6.1% better than FY15's 13.20m, it remained 4.1% below the 2000-07 LT pre-crisis level of 14.69m.

All Big 5 advance strongly in YTD

Germany +7.8%

France +8.7%

UK +4.7%

Italy +22.4%

Spain +12.4%

Germany, Western Europe's largest car market by far increased 12.1% in February and 7.8% to 0.47m units YTD. YTD's SAAR of 3.48m was 8.5% higher than FY15's 3.21m and 5.4% higher than the LT pre-crisis level of 3.3mm. French car registrations grew 13.0% in February and 8.7% to 0.31m YTD. YTD's SAAR of 2.03m was 5.7% up on FY15's 2.09m and remained only 2.9% below the pre-crisis 2000-07 level of 2.09m. In the UK, the car market increased 8.4% in February and 4.7% to 0.25m YTD. At 2.68m units, YTD's SAAR was up 1.9% on FY15's 2.63m and 9.7% above the long-term pre-crisis average of 2.45m units. YTD, Italian car registrations increased 22.4% to 0.33m units and the SAAR of 1.89m remained 21% below the 2.34m LT pre-crisis trend. In Spain, improving consumer confidence and the PIVE incentive scheme drove the car market's 12.4% increase YTD. At 1.10m, the SAAR remained 25% below the LT pre-crisis trend of 1.45m. (See discussion for the Big Five on pp. 9-13.)

Dieselgate: In January, the VW group's volume brands lost market sales at the VW and Seat brands declined 4.1% and 7.6%, while Skoda sales grew 4.1%. This trend was evident in the two largest markets - Germany and the UK. The continuing decline in the WE diesel share to 51.0% in Jnauary'16, vs. 53.1% in January '15 and 51.7% in FY15 should be mostly unrelated to VW's diesel scandal.

+5.8% in FY16E

+1.9% in 2017E

A weak euro and lower energy prices have greatly enhanced the macro-economic fundamentals in Western Europe, in particular for consumer spending. However, external headwinds, such as turmoil in capital markets and a threatening deceleration in the global economy are growing downside risks. GDP growth in the Eurozone is set to continue to accelerate from 0.9% in FY14 to 1.5% in FY15P and 1.7% in 2016E. In the UK, GDP is set to continue to grow at 2.2% in FY16E, The WE car market is set to accelerate and grow 5.8% to 13.97m in FY16E and by 1.9% to 14.23m in 2017E

Only limited reversal of collapse in pricing discipline in the short term

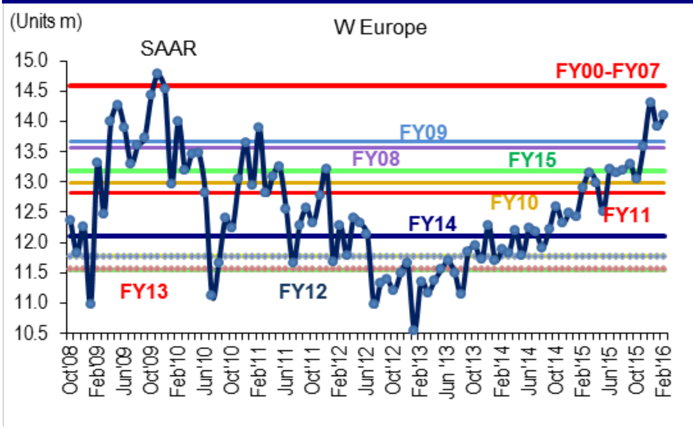
VW emission scandals should intensify again competitive pressure

However, we continue to caution that the recovery in the WE car market after six years of recession is overshadowed by OEMs expecting to be able to increase pricing only slowly and indicating that discounts from sticker prices in excess of 10% are still widespread. Although the horrendous competitive pressures originated in the crisis-hit Southern European markets, they have been spreading to the better performing northern European ones, a trend that has intensified since mid-2012. In addition to record discounts, special deals and cheap financing, OEMs and dealers have increasingly resorted to tactics such as pre-registering. This is the more the case as the VW group is seen and expected to continue to use aggressive marketing as a means to contain the erosion of market share as a result of the emission scandals.

Polarisation in demand

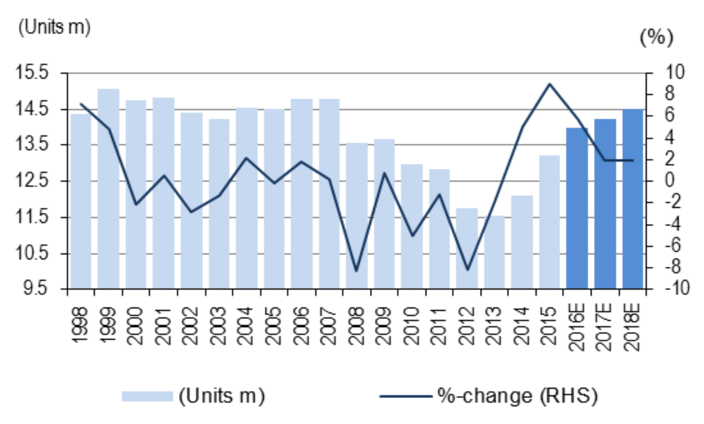
The trend of polarisation in demand into premium and discount brands and products has been intact for the past 20 years and intensified during the prolonged crisis. Driving forces have been the downsizing on the part of the premium brands and an improvement in quality of discount branded products.

W Europe – monthly SAAR[1] vs. trend (Oct'08–Feb'16)



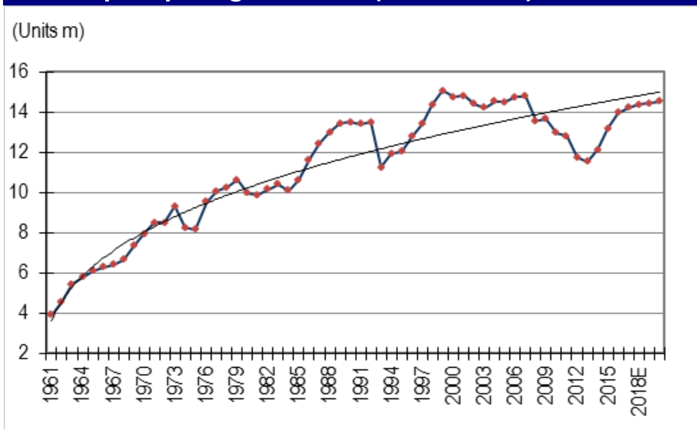
(1) SAAR according to calculations by LMC Automotive. Source: ACEA, LMC Automotive , CGI calculations

W Europe – pc registrations (1998-2018E)



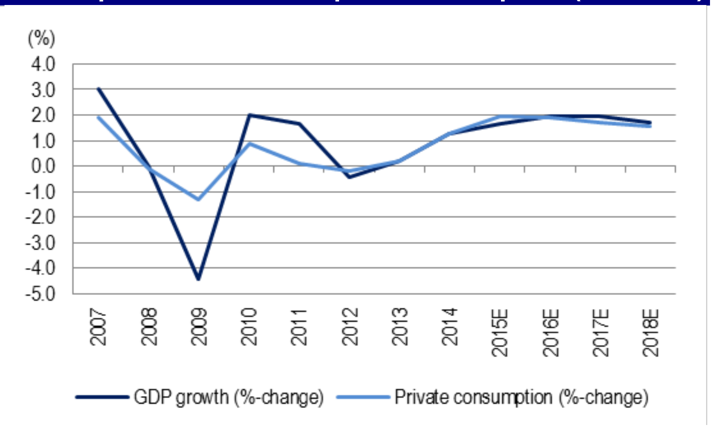
Source: LMC Automotive and CGI estimates

W Europe – pc registrations (1961-2020E)



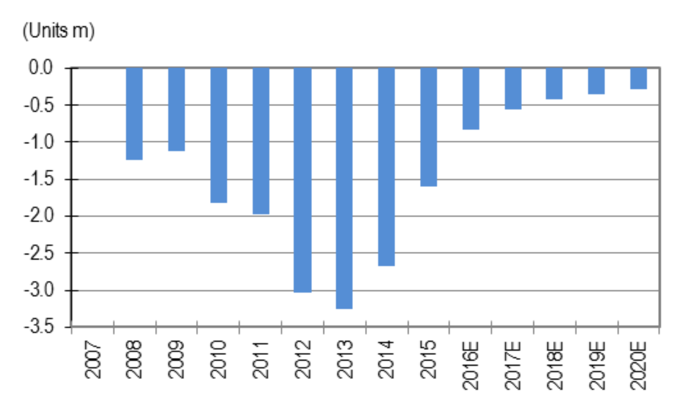
Source: ACEA, LMC Automotive and CGI estimates

W Europe – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

W Europe – depth of recession – 2008-20E volume decline vs. 2007



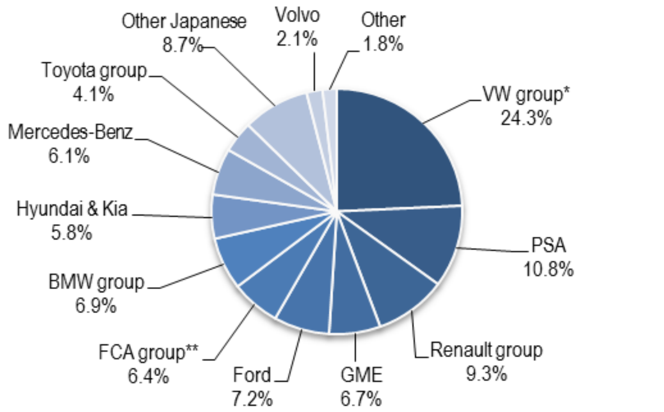
Source: LMC Automotive and CGI estimates

W Europe – current recession in historic context

	Depth[1] (Units m)	(%)	Duration (years)	Trend growth rate (%)
1970 - oil shock	-1.15	-12.4	< 3	5
Early 1980s recession	-0.75	-7.0	~ 6	3-4
1993 recession	-2.26	-16.8	~ 5	2-3
Current crisis (E)	-3.26	-22.0	~13	**1-2**

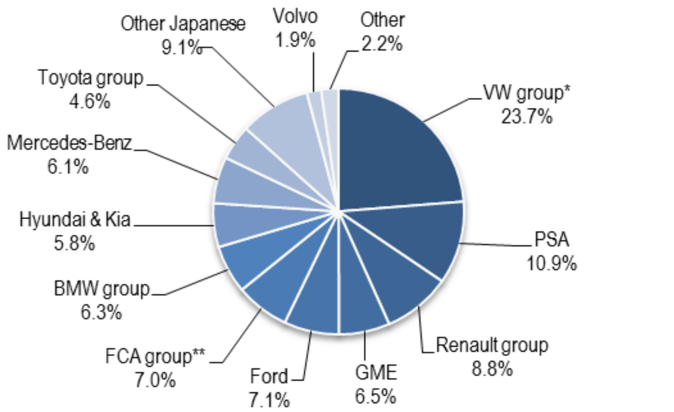
Source: LMC Automotive and CGI estimates

W Europe – pc market by OEM (FY15)



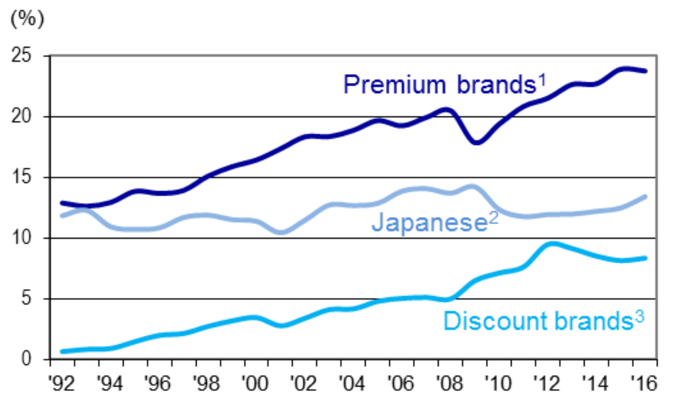
(*) VW group incl. Porsche. (**) Fiat group incl. Chrysler and Jeep. Source: Association Auxiliaire de l'Automobile, ACEA and CGI calculations

W Europe – pc market by OEM (Jan'16)



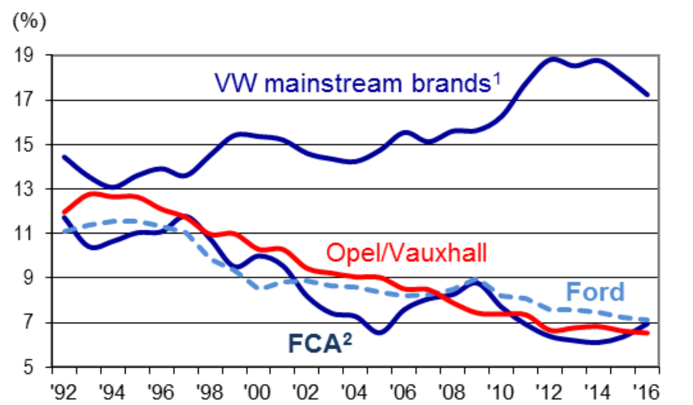
(*) VW group incl. Porsche. (**) Fiat group incl. Chrysler and Jeep. Source: ACEA and CGI calculations

Premium brands, Japanese and discount brands – WE market share ('92-'16*)



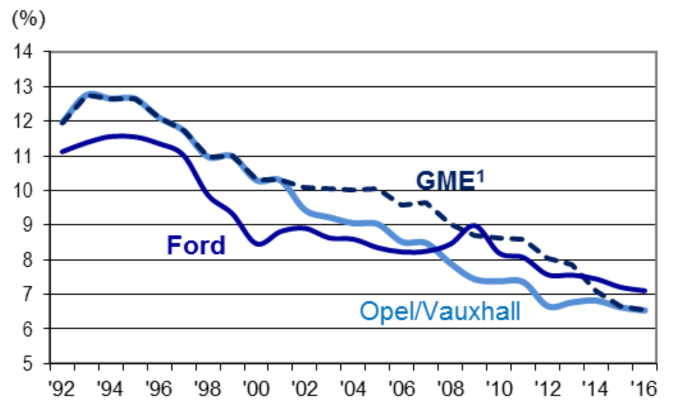
(1) Premium brands: BMW, Mini, Mercedes-Benz, Smart, Audi, Lexus, Porsche, Jaguar, Land Rover, Volvo, SAAB, DS and super-premium brands. (3) Discount brands: Kia, Hyundai, GM's Chevrolet, and Renault's Dacia. (2) Exl. Lexus (*) YTD=Jan. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calcs

Mainstream brands: VW group excl. Audi, Opel/Vauxhall, Ford, FGA – WE share ('92-'16*)



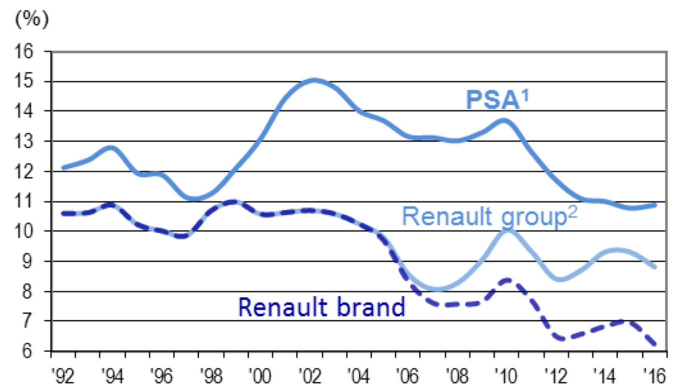
(1) VW mainstream brands: VW, Seat, Skoda. (2) FCA: Fiat, Lancia & Alfa Romeo. Since 2012 also Chrysler & Jeep. (*)YTD=Jan. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

Ford and GME – WE share ('92-'16*)



(1) GM Europe: Opel, Vauxhall, Chevrolet and other US GM brands; does NOT incl. SAAB. (*)YTD= Jan. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

PSA and Renault group – WE share ('92-'16*)



(1) PSA: Peugeot, Citroën & DS brands; (2) Renault group: Renault and Dacia brands. (*)YTD= Jan. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

+12.1% in February

+7.8% in YTD

Germany

In February, the German pc market grew 12.1% to 250.4k units, after 3.3% in January, resulting in a 7.8% increase to 0.47m units YTD. This follows a 5.6% increase to 3.21m in FY15. In February, underlying demand continued to strengthen to a SAAR of 3.52m, up 2.2m mom/from January's 3.44m and was the strongest month since an incentive boosted October'09 (3.65m). YTD's SAAR of 3.48m was 8.5% better than FY15's 3.21m and 5.4% higher than the 2000-07 LT pre-crisis level of 3.3m.

Retail share continues to decline

VW's aggresssive discounting since the scandal broke

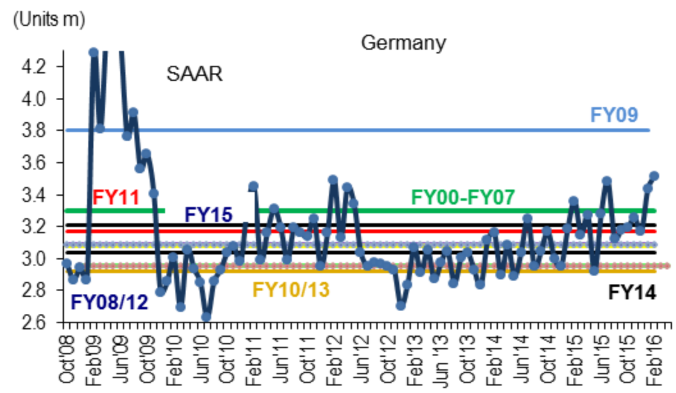
We understand that despite the solid recovery in the German market, the pricing improvement has been only moderate with discounts reportedly above 10%. In addition, the quality of the market has continued to deteriorate with fleet/business and pre-registrations driving sales; retail sales increased only 7.8% yoy reducing the share to 31.5% YTD, after 34.2% in FY15 and 36.2% in FY14. About one quarter of car registrations are pre-registered by dealers and then sold as 'used' cars at considerable discounts. **Dieselgate:** The VW group's volume brands continued to sharply underperform the total market YTD: sales declined -2.4% at VW and - 6.8% at SEAT, and increased +1.9% at Skoda. The diesel share in the German market continued to decline, to 47.9% YTD vs. 48.1% in FY15.

+1.1% in FY16E

+2.3% inrease

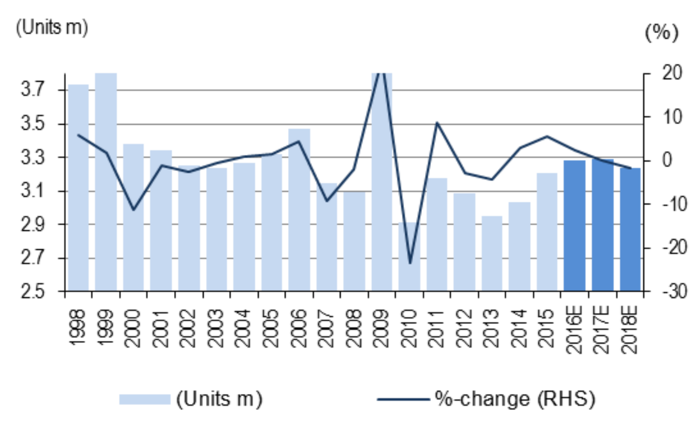
The medium-term outlook for the German car market is stability. In FY16E, the market is expected to grow 2.3% to 3.28m and 0.2% to 3.29m in 2017E. In FY15, GDP growth accelerated slightly to 1.7% from FY14's 1.6%, driven by strong domestic demand. Private consumption accelerated from 1.0% in FY14 to 1.9% in FY15. The combination of a tight labour market, rising wages and disposable income have propelled consumer confidence to a 13-year high and should ensure that consumption will remain the main driver behind a likely acceleration in GDP in 2016E-17E. While the huge increase in immigration could boost employment and economic growth in the medium term, in the short term, the growing refugee crisis should have a negative impact on consumer confidence and dramatically polarising the political debate.

Germany – monthly SAAR[1] vs. trend (Oct'08-Feb'16)



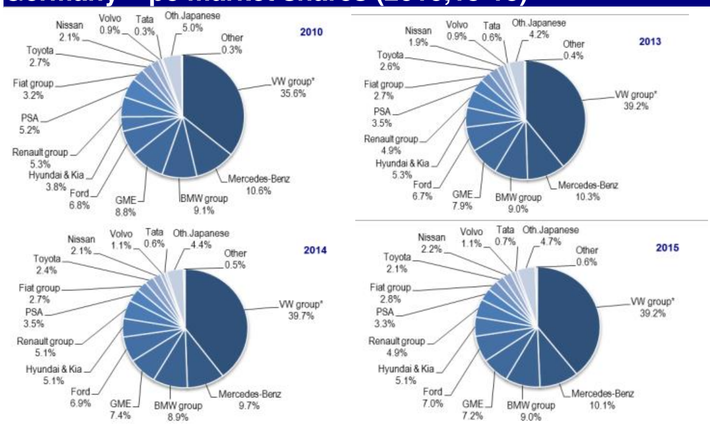
(1) SAAR according to LMC Automotive. Source: KFBA, LMC Automotive and CGI calculations

Germany – pc registrations (1998-2018E)



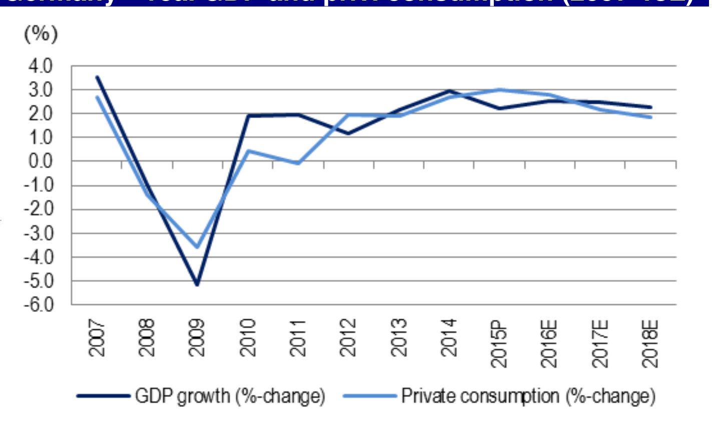
Source: KFBA, LMC Automotive and CGI estimates

Germany – pc market shares (2010,13-15)



(*) VW group incl. Porsche. Source: KFBA and CGI calculations

Germany – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

France

+13.0% in February

+8.7% in YTD

In February, French car registrations increased 13.0% to 166.7k units, after 3.9% in January, resulting in an 8.7% increase to 0.31m YTD, after increases of 12.5% in December and 6.8% to 1.92m in FY15. Adjusted for the number of working days, the yoy increase was 8.6% and 7.6% in January and February respectively.

+6.8% in FY15

In February, underlying demand remained strong at a SAAR of 2.03m, after three months of increase and remained just 1.3% below June's 2.06m that had been the strongest month since December 2011 (2.09m). YTD's SAAR of 2.03 remained only 2.9% below the 2000-07 LT pre-crisis level of 2.09m. **Dieselgate:** In January, the VW group's volume brands VW and Skoda managed to sharply outperform the market with sales growth of 6.2% and 21.3% resp., whereas Seat sales remained flat. The diesel share in the French continued to decline to 51.6% in January'16, from 59.1% in January '15 and 57.2% in FY15, driven by a shift in the relative costs and merits of fuel types, rather than by a loss of confidence in diesel. .

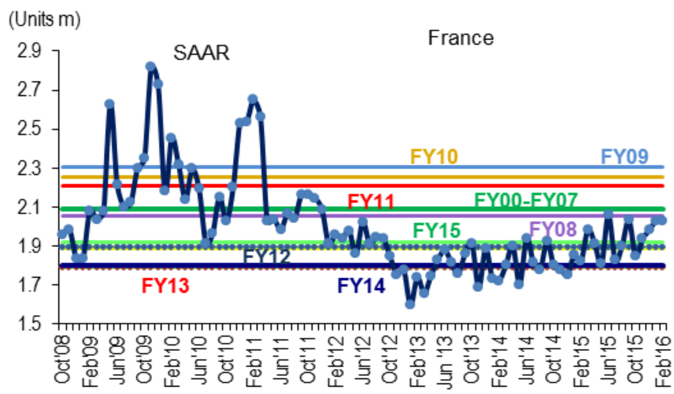
+4.0% in FY16E

+2.2% in 2017E

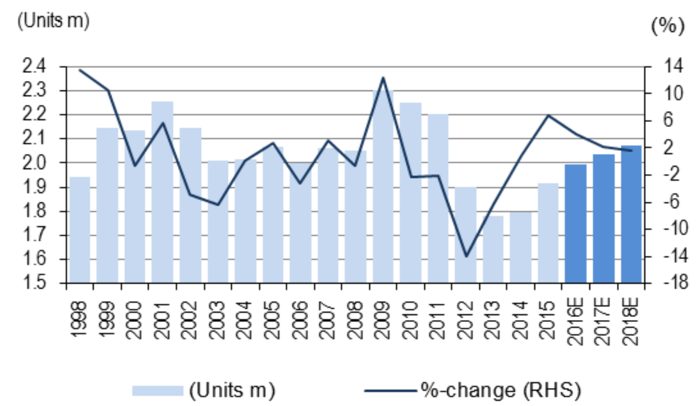
France's macro-economic credentials have remained mixed; thanks to a pick-up in domestic demand, GDP growth was 0.3% qoq in 4Q15 and 3Q15, after stagnation in 2Q15 and 0.7% growth in 1Q15. In FY15, GDP growth thus accelerated to 1.1%, from just 0.2% in FY14. While the absence of inflation is boosting disposable income, since mid-2014 and against EU trend, unemployment has increased again, to almost 11%.

With a medium-term outlook for the French pc market of 2.1-2.2m, we expect the French market to grow 4.0% to 1.99m units in FY16E and 2.2% to 2.04m in 2017E.

France – monthly SAAR[1] vs. trend (Oct'08-Feb'16)



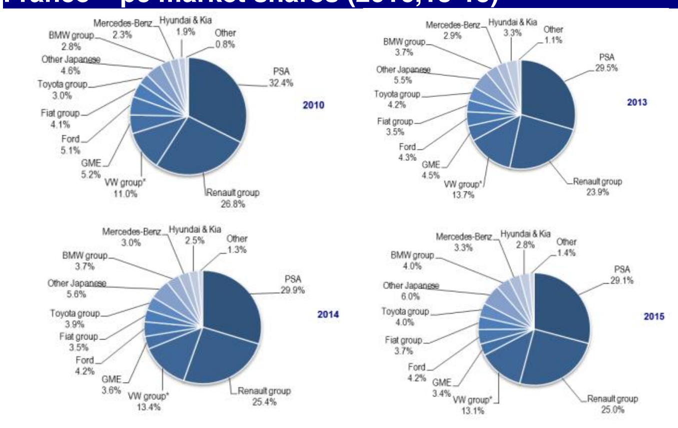
France – pc registrations (1998-2018E)



(1) SAAR according to calculations by LMC Automotive. Source: CCFA, LMC Automotive and CGI calculations

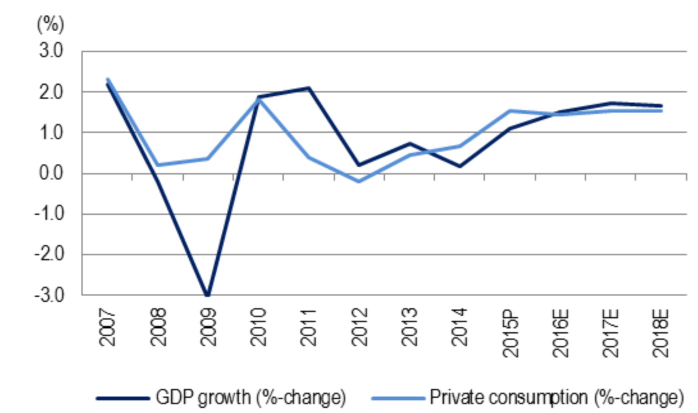
Source: CCFA, LMC Automotive and CGI estimates

France – pc market shares (2010,13-15)



(*) VW group incl. Porsche. Source: CCFA and CGI calculations

France – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics, IMF and CGI estimates

Italy

+27.3% in February

+22.4% in YTD

In February, Italian car registrations jumped 27.3% yoy to 172.2k units, after 17.4% January resulting in a 22.4% increase to 0.33m YTD. The Italian pc market has been growing for 21 consecutive months and recovered by 4.2% to 1.36m in FY14 and 15.8% to 1.57m in FY15. Underlying demand continued to strengthen in February, to a SAAR of 1.93m, the strongest month since December'11 (1.99m), up 3.6% mom/from January's 1.86m that itself had increased 17.2% mom. Although YTD's SAAR of 1.89m was 20.2% better than FY15's 1.57m, it remained 19.0% below the 2000-07 LT pre-crisis level of 2.34m.

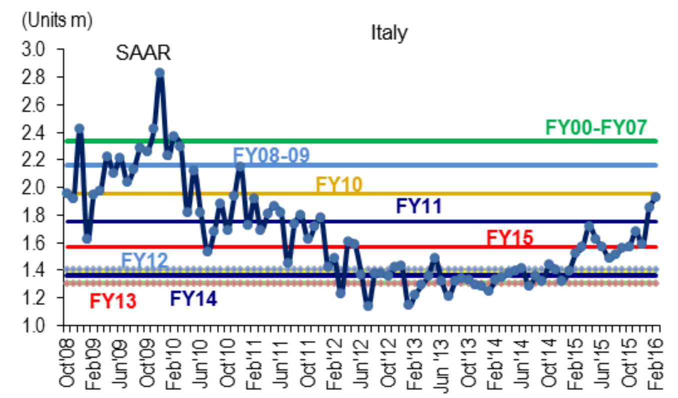
Things are looking up

Italy's recovery from a three-year, triple-dip recession has continued and broadened as the economy has now grown for four consecutive quarters. After having shrunk by almost 5% in 2012-14, real GDP recovered/grew 0.6% in FY15. The driving force has been domestic demand that benefited greatly from lower energy prices and deflation, with consumer confidence jumping to levels not seen since 2002. In 2016, private consumption should get an additional boost from tax cuts. Although we expect that the government's efforts in restructuring will have eventually some positive effect, there remain considerable challenges such as a vicious circle of austerity and, despite recent improvements, high unemployment that only recently has fallen to close to 11%.

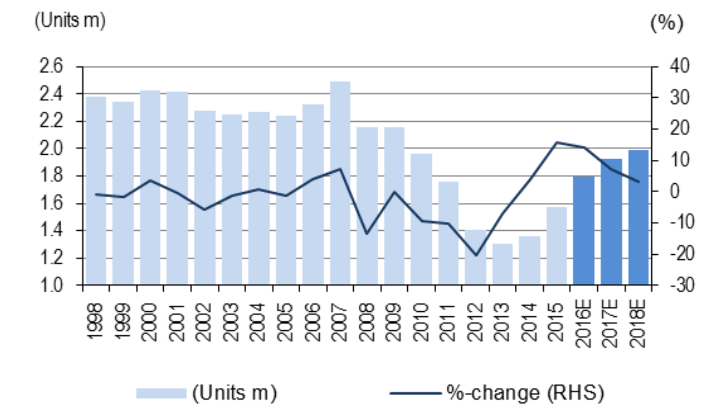
+14.0% in FY16E

In view of the macro-economic improvement, a large car parc and considerable pent-up demand, the Italian car market is set to continue to recover strongly. We expect that the market will grow 14.0% to 1.80m units in FY16E and 7.3% to1.93m in 2017E.

Italy – monthly SAAR[1] vs. trend (Oct'08-Feb'16)



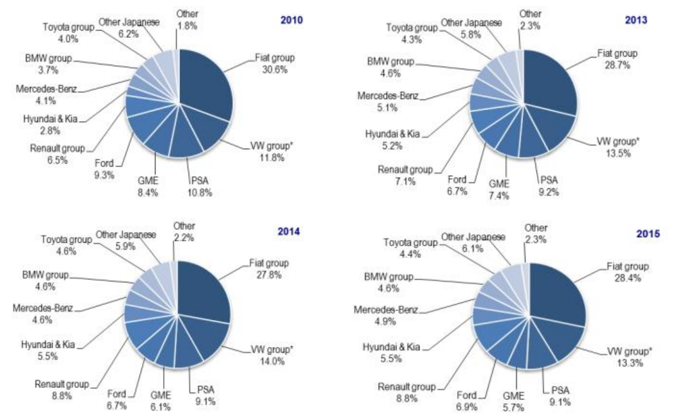
Italy – pc registrations (1998-2018E)



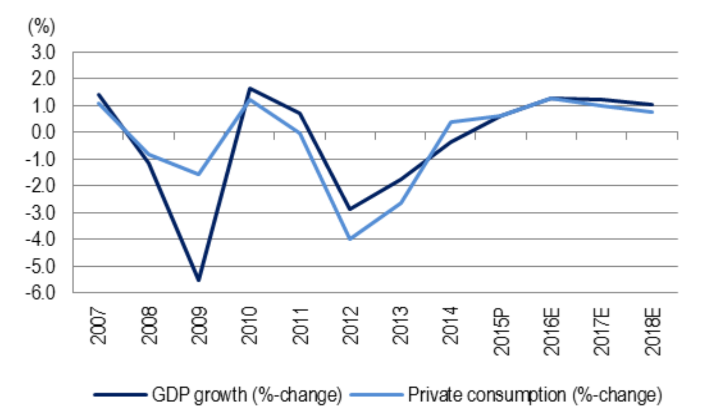
(1) SAAR according to calculations by LMC Automotive. Source: ANFIA, UNRAE, LMC Automotive and CGI calculations

Source: ANFIA, UNRAE, LMC Automotive and CGI estimates

Italy – pc market shares (2010,13-15)



Italy – real GDP and priv. consumption (2007-18E)



(*)VW group incl. Porsche. Source: Anfia and CGI calculations

Source: Oxford Economics and CGI estimates

Spain

+12.6% in February

+12.4% in YTD

In February, Spanish car registrations grew 12.6% to 97.7k units, after 12.2% yoy in January, resulting in a 12.4% increase to 174.0k YTD. In February, the SAAR weakened again to 1.09m, down 3.3% mom/from January's 1.13m that had been the strongest month since June 2010 (1.13m). Although YTD's SAAR of 1.10m was up 6.6% on FY15's 1.03m units, it remained 25.3% below the 2000-07 LT pre-crisis level of 1.45m.

Government incentive scheme

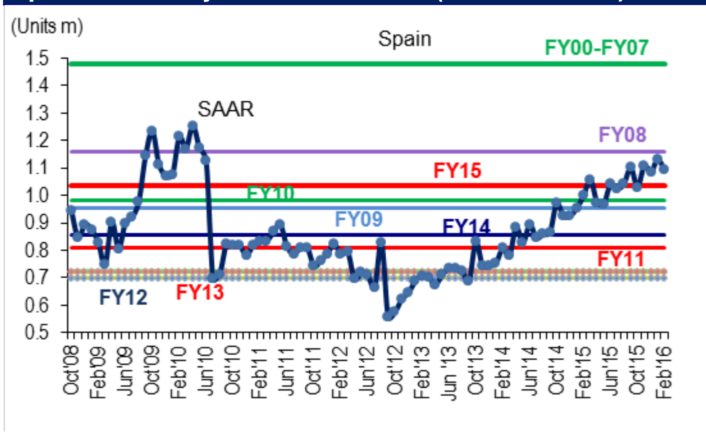
The relative strength of the Spanish car market since 4Q12 was initially primarily due to the PIVE scrappage scheme that was first announced and introduced in October 2012. It has been topped up and is now in its eighth incarnation that is scheduled to run until July 2016. However, increasingly important drivers of the car market have been the recovery in the Spanish economy, greatly exceeding that of the Eurozone, improving consumer confidence and replacement demand.

+12.0% in FY16E

+6.3% in 2017E

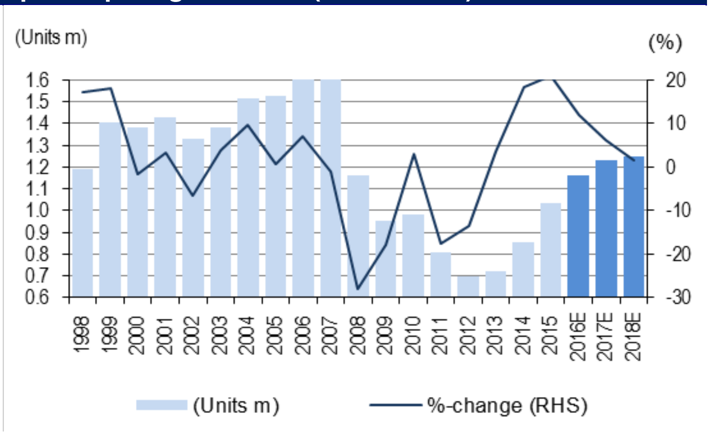
Spain, one of the fasted growing economies in the Eurozone, saw GDP growth accelerate to 3.2% in FY15 from 1.4% in FY14. The recovery has steadily broadened into services and the domestic sector, the latter benefiting from the 2012 labour market reforms; consumer confidence has recovered greatly since mid-2012, to the highest level in over a decade. This is notwithstanding considerable political uncertainties. However, unemployment that has eased only recently and being close to 21% overall should remain a drag for years to come. We understand that the Spanish authorities plan to keep extending the PIVE scheme in some form until underlying demand stabilises. On this basis, the Spanish pc market is set to grow 12.0% to 1.16m in FY16E and 6.3% to 1.23m in 2017E.

Spain – monthly SAAR[1] vs. trend (Oct'08-Feb'16)



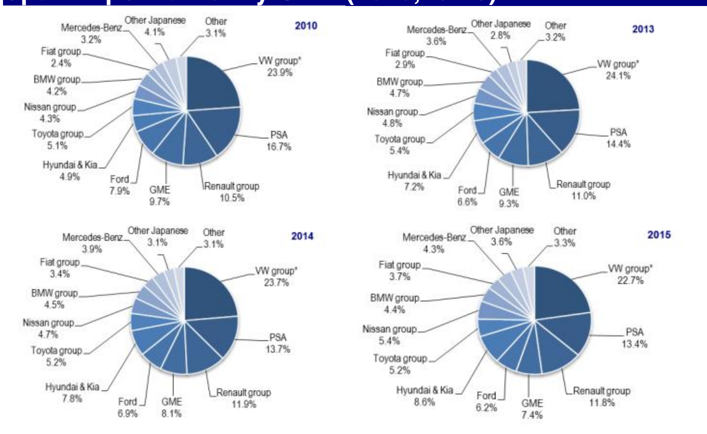
(1) SAAR according to calculations by LMC Automotive. Source: ANFAC, LMC Automotive and CGI calculations

Spain – pc registrations (1998-2018E)



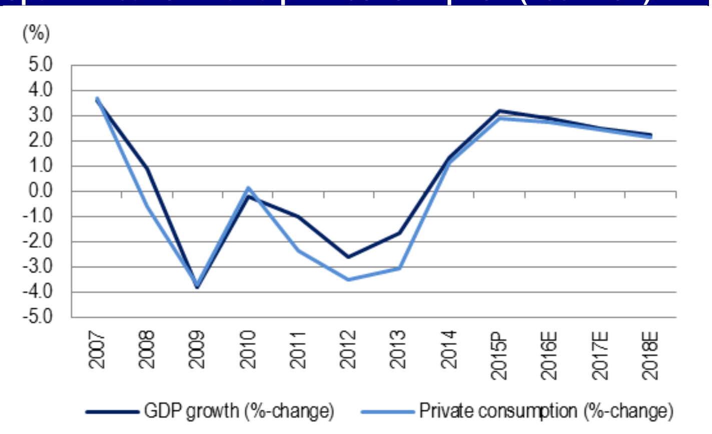
Source: ANFAC, LMC Automotive and CGI estimates

Spain – pc market by OEM (2010,13-15)



(*) VW group incl. Porsche. Source: ANFAC and CGI calculations

Spain – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

UK

+8.4% in February

+4.7% in YTD

In February, UK car registrations increased 8.4% to 83.4k units, after 2.9% in January, resulting in a 4.7% increase to 0.25m YTD. This follows a 6.3% increase to 2.63m in FY15, the best result ever. The February SAAR of 2.69m was flat mom, 10.1% down from December's all-time record SAAR of 2.99m. YTD's SAAR of 2.68m was 1.9% better than FY15's 2.63m and 9.7% better than the pre-crisis LT level of 2.45m. Note that February is historically among the two lowest volume months in the year, ahead of March, one of the two plate-change months.

The UK market is approaching the end of its longest growth period on record that has been driven by pent-up demand, easy credit, aggressive marketing and a continuing economic recovery, with GDP growing 2.9% in 2014 and 2.2% in FY15. Falling petrol prices, zero inflation and accelerating earnings growth have turbo-charged consumer confidence to record levels and private consumption accelerated to 3.0% in FY15.

'Brexit'…

…political and possibly economic uncertainties

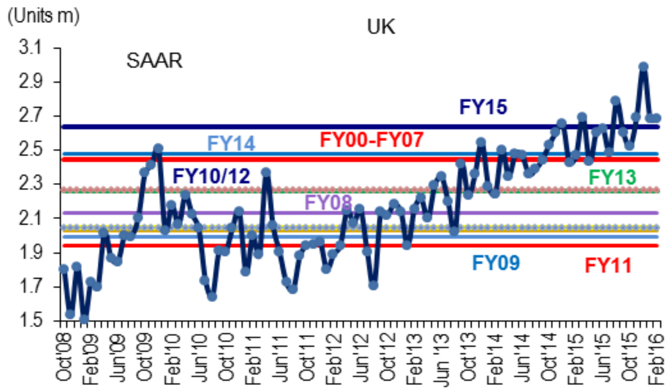
The slowdown in the UK market has been heralded throughout 2015 by the fact that fleet/business sales have taken over from retail as market driver. The retail sale share declined to 43.8% in YTD, from 45.9% in FY15 and 47.6% in FY14. **Dieselgate:** The VW group's volume brands incurred sharp YTD sales declines of -11.3% at VW, -24.6% at Seat and -2.4% at Skoda. The diesel share in the UK market continued to decline to 48.6% in YTD, compared to 49.8% in Jan-Feb'15, and 48.5% in FY15.

-1.9% in FY16E

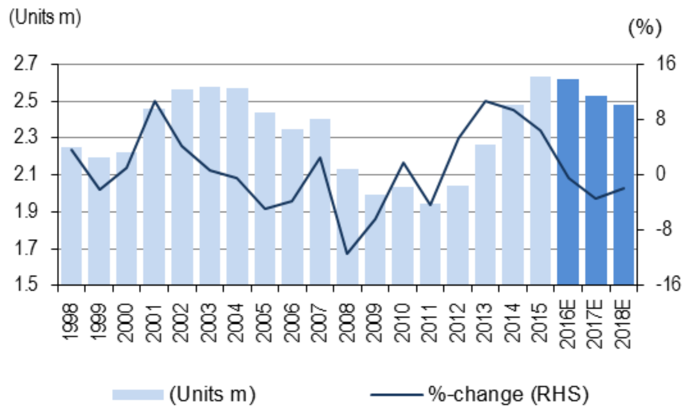
-2.5% in 2017E

We expect that the UK car market, having reached and surpassed its medium-term level, will plateau (-0.5%) at 2.62m in FY16E and decline -3.5% to 2.53m in 2017E, while the GDP growth rate is expected to continue to exceed 2.0%. Challenges include growing political uncertainty in view of the UK's relationship with Europe and great economic uncertainty, if the UK electorate votes in favour of Brexit at the EU referendum on June 23rd.

UK – monthly SAAR[1] vs. trend (Oct'08-Feb'16)



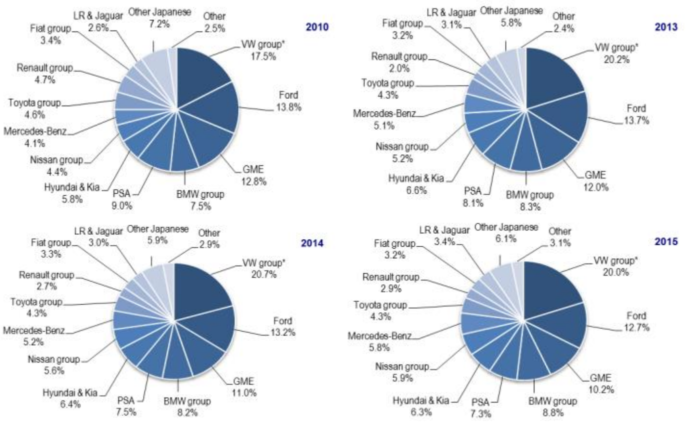
UK – pc registrations (1998-2018E)



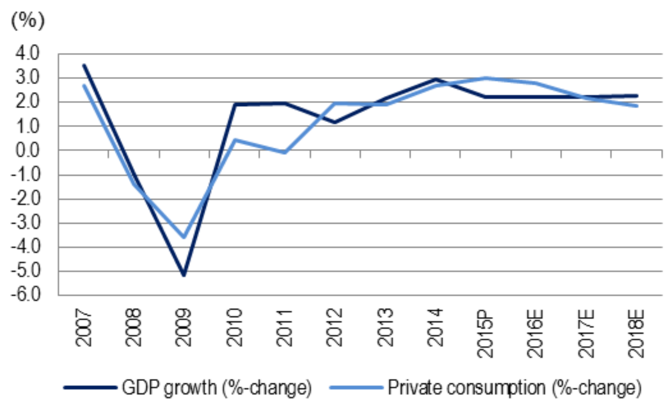
(1) SAAR according to calculations by LMC Automotive. Source: SMMT, LMC Automotive and CGI calculations

Source: SMMT, LMC Automotive and CGI estimates

UK – pc market by OEM (2010,13-14)



UK – real GDP and priv. consumption (2007-18E)



(*) VW group incl. Porsche. Source: SMMT and CGI calculations

Source: IMF, Oxford Economics and CGI estimates

Japan pc market

-4.4% in January

-10.3% in FY15

In January, vehicle sales declined -4.4% yoy to 0.33m pcs and -5.4% to 0.37m LVs. At 4.9m, the FY15 LV market was down 10.0% from FY14's strong 5.44m that had been boosted by the 1Q14 sales boom ahead of the increase in consumption tax from 5% to 8% on April 1st 2014. However, the LV SAAR deteriorated during 2015 from more than 5m in 1Q15 (due to pre-buying in anticipation of increases for the annual mini car tax and tighter rules to qualify for the 'eco-car' tax), to a low of 4.6mm in July and recovered to a solid 5.0m in 4Q15. However, more recently, the momentum declined again from a SAAR of 5.1m in December to 4.7m in January.

+1.9% in FY16E

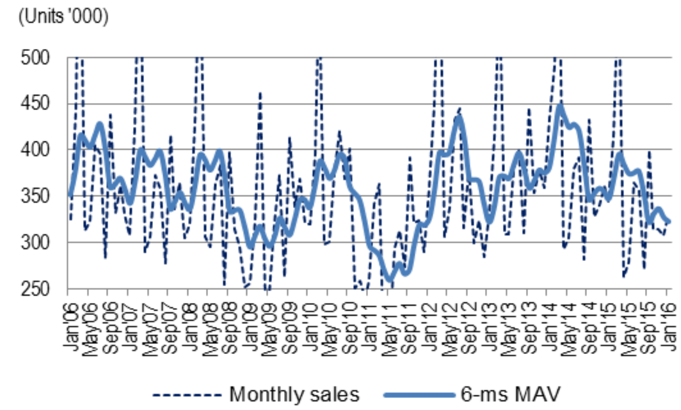
Sales are expected to recover during 2H16, ahead of the planned increase/hike in consumption tax to 10% in April 2017. The Japanese pc market is expected to grow by less than 2.0% to 4.29m in FY16E and then decline by more than 5% p.a. in 2017E-18E, reflecting the aforementioned consumer tax hike and a shrinking population.

Weak private demand…

…remains the greatest structural challenge

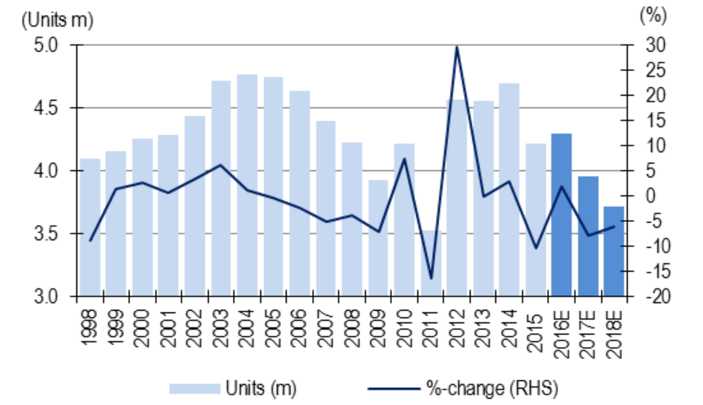
Despite four years of economic stimulus, the macro-economic indicators have remained disappointingly weak and prone to huge revisions: in 4Q15, GDP shrank an annualised -1.4%, after a +1.3% increase in 3Q15 (twice upgraded from a preliminary reading of -0.8%). In FY15, the recovery remained anaemic as GDP recovered just 0.4%, in line with Japan's long-term growth potential, after a small contraction in FY14 According to preliminary figures private consumption contracted 2.4% in 4Q15. Indeed, weak private demand has remained Japan's main challenge, in view of anaemic wage growth and savings surpluses at the domestic sector (and in particular at corporates.). A strengthening yen and the dramatic slowdown in the Chinese economy poses an additional headwind to PM Abe's attempt to reflate the Japanese economy; this is due both directly through lower direct exports and indirectly through the repercussion on other Asian economies.

Japan – monthly pc registrations (Jan'06-Jan'16)



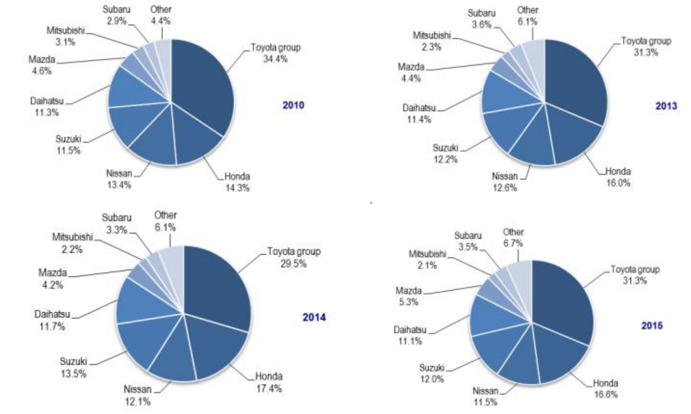
Source: JAMA and CGI calculations

Japan – pc market (1998-2018E)



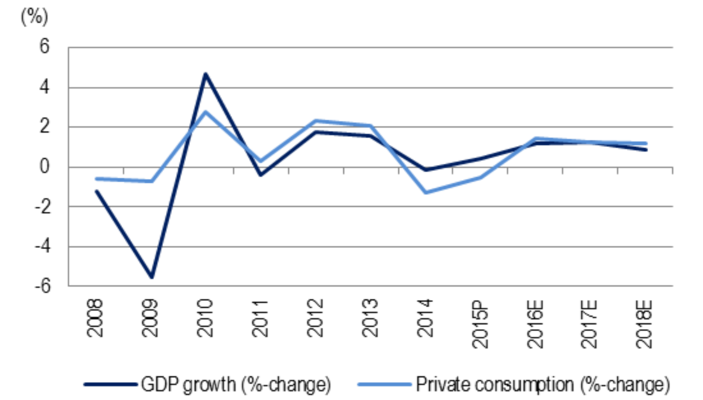
Source: JAMA, LMC Automotive and CGI estimates

Japan – pc market shares (2010,13-15)



Source: JAMA and CGI calculations

Japan – real GDP and private consumption (2008-18E)



Source: Oxford Economics and CGI estimates

China LV market

+9.6% in January

+5.3% in FY15

In January, the recovery in the China LV market continued to accelerate and LV wholesales advanced 9.6% yoy to 2.62m, after increases of 16.2% in December and 5.3% to 24.89m in FY15. The January LV SAAR of 27.2m was down 7.4% mom/from December's record 29.3m, but was 9% higher than FY15.

Srong 4Q15 recovery in PV sales….

…due to temporary tax cut…

…and after inventory adjustments

The introduction on October 1st of a temporary 50% cut in purchase tax for small cars (with engines of up to 1.6l) to 5% was the main driver of the sharp improvement in the dominant private vehicle (PV) segment. from lows of 19m in July/August to a SAAR 25.6m in December and 23.5m in January. During Jan-August 2015, the correction in the LV market had been partly due to a falling consumer confidence (reflecting a deteriorating economy and the stock market crash). This had been exacerbated by a necessary reduction in dealer inventories and pay-back in Tier 1&2 cities (where the fear of introduction of purchasing restrictions had led to buying frenzy in late 2013 and early 2014).

+7.5% in FY16E

With the inventory reduction out of the way and the tax cut in place until YE16, PV sales are expected to continue to recover during this year. On this basis, after having expanded by a CAGR of 9.6% in 2011-15, PV sales are expected to grow another 7.9% to 22.4m in FY16E and 1.0% to 23.2m in 2017E. (Note: LCVs continued their decline of four years by another 9% in FY15, due to uncertainties over emission regulations and the slowdown in construction.) As a result, growth in the overall LV market is expected to remain resilient and accelerate slightly in FY16E to 7.5% and 26.75m, after 5.3% in FY15A and 8.0% in FY14. .

'New normal'

Balancing act between…

…stimulus…

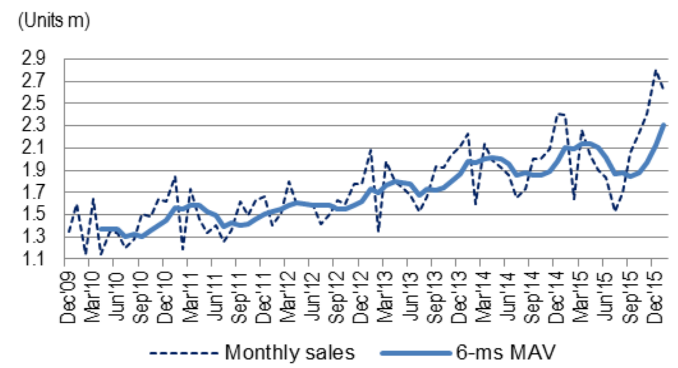
…and reform

GDP growth continued to decelerate to 6.8% in 4Q15, after 6.9% in 3Q15 resulting in 6.9% growth rate in FY15, down from FY14's 7.3%. The government just announced for FY16 a GDP growth target range of '6.5-7.0%' and a projected increase in fiscal deficit 3.0%, both reflecting the change of focus away from capital-intensive rapid growth towards employment and the environment. In the medium term, GDP growth should continue to decelerate considerably as domestic activity is curbed by a correction in the real estate market, high levels of debt and excess capacity in numerous industrial sectors. Although 'Likonomics' aims at weaning the economy off government-led FA investments and rebalancing it towards private consumption and services, the announcement indicates that the central and regional governments will continue to use mini-stimuli to stabilise the economy.

Long-term trends weaker

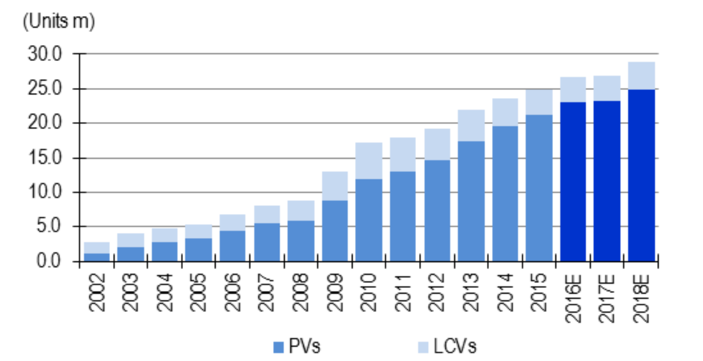
The Chinese LV market is expected to grow at a CAGR of 5.1% in 2014-2018E, the result of a flat LCV segment and a PV segment growing at a CAGR of 6.0%. During this period, the economy is also expected to develop private consumption as a growth engine. The expected long-term growth in the LV market should be supported by vehicle density growing in tandem with GDP/capita, rising urbanisation (from 52% in 2012) and a growing middle class. A growing customer base should be spreading demand inland from Tier 1 regions and the coastal areas. (See charts on p.16.)

China – monthly LV sales (Dec'09-Jan16)



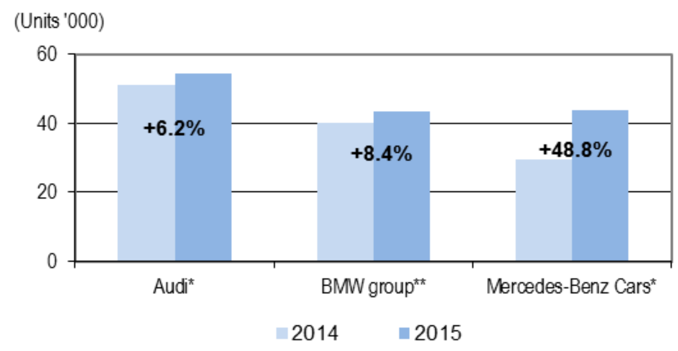
(1) incl. imports Source: LMC Automotive and CGI calculations

China – LV sales (2002-18E)



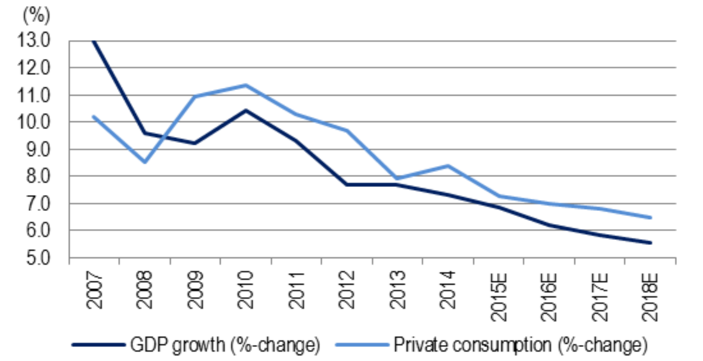
Source: LMC Automotive and CGI estimates

German premium brands[x] (Jan 2015 & 2016)



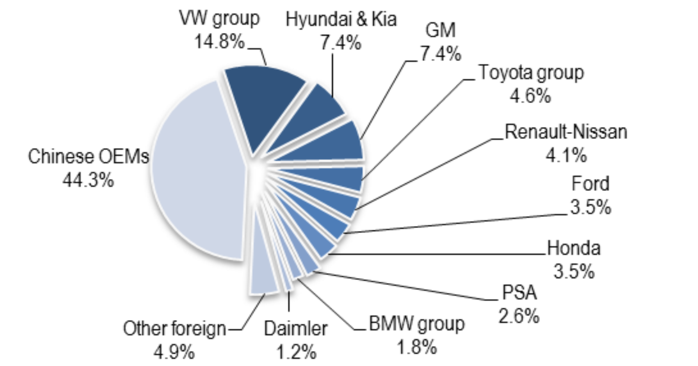
(x) Deliveries. (*) Incl. Hong Kong. (**) BMW and Mini only. Source: Company data and CGI calculations

China – real GDP and private consumption (2007-18E)



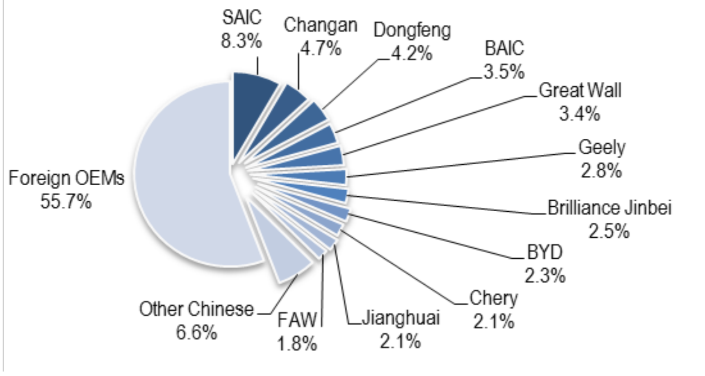
Source: Oxford Economics and CGI estimates

China – LV market by foreign OEM (2013)



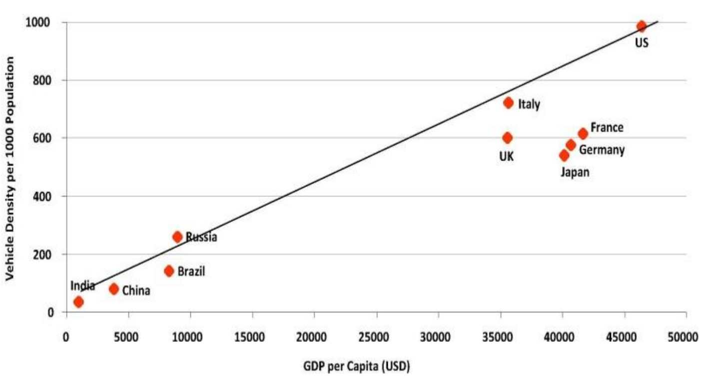
Source: LMC Automotive and CGI calculations

China – LV market by domestic OEM (2013)



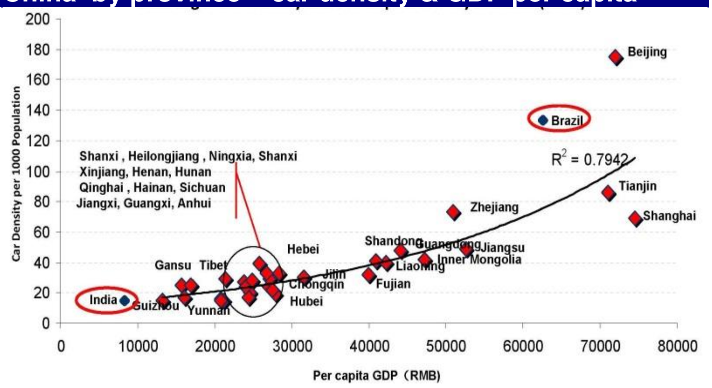
Source: LMC Automotive and CGI calculations

China – vehicle density & GDP per capita (2010)



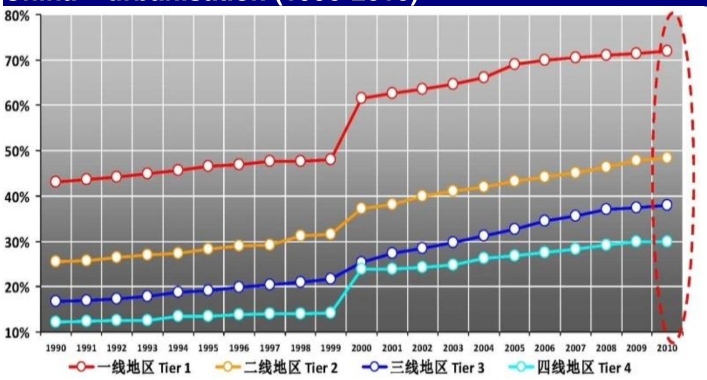
Source: LMC Automotive

China by province – car density & GDP per capita



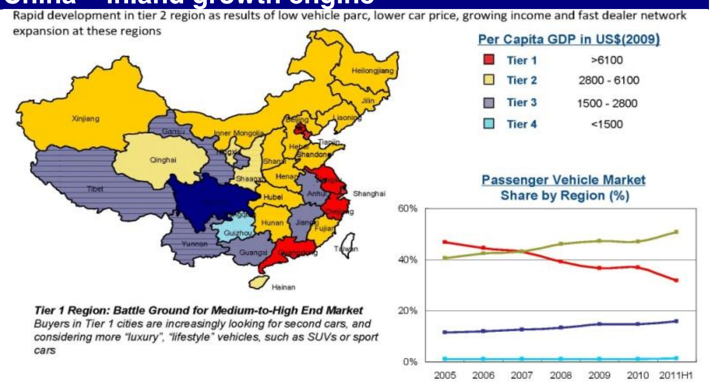
Source: LMC Automotive

China – urbanisation (1990-2010)



Source: LMC Automotive

China – inland growth engine



Source: LMC Automotive

Brazil LV market

-20.6% in BFebruary

-31.0% in YTD

In February, LV sales declined another 20.6% yoy to 180.1k, after declines of -38.7% in January, resulting in a 31.0% decline to 0.29m YTD. This follows a -25.6% decline to 2.48m in FY15. The downward trend in LV sales that started in mid-2012 has accelerated sharply since early 2015. Indeed, underlying demand has collapsed from a SAAR of 3.3m and 3.7m in November/December 2014 (a spike caused by pre-buying ahead of the expiry of the second tranche of IPI tax cuts), to less than 2.3m in 4Q15 and 1.9m in YTD, below levels seen in the financial crisis.

Brazil descending into deepest recession since the 1930s

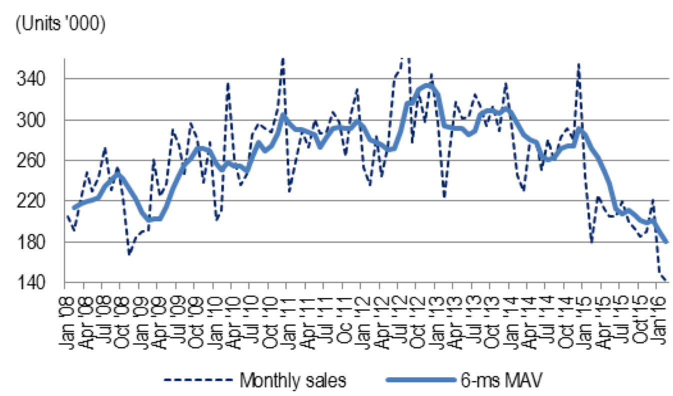
Consumer sector in meltdown

Brazil is further descending into a broad-based fiscal crisis and the deepest recession since at least the 1930s as the fall-out from declining exports (due to collapsing commodity prices and slower growth in China), rising inflation and interest rates is exacerbated by a deepening political crisis. Private consumption that, fuelled by subsidised credit, had been driving the economy in 2007-13, had slowed dramatically to 0.9% in FY14, and is expected to contract by close to -4.0% p.a. in FY15E and 2016E. The need for deleveraging is now overwhelming and consumer confidence has collapsed to levels not seen since 2001. Inflation has surged to close to 11%, fuelled by a collapsing currency that has lost a third vs. USD in the past 12 months alone. However, having raised interest rates by 700bpts between mid-2013 and July 30th 2015, the Bank of Brazil has kept the Selic rate unchanged for the past seven months as the economy is believed to be on the brink of 'fiscal dominance'.

-22.0% in FY16E

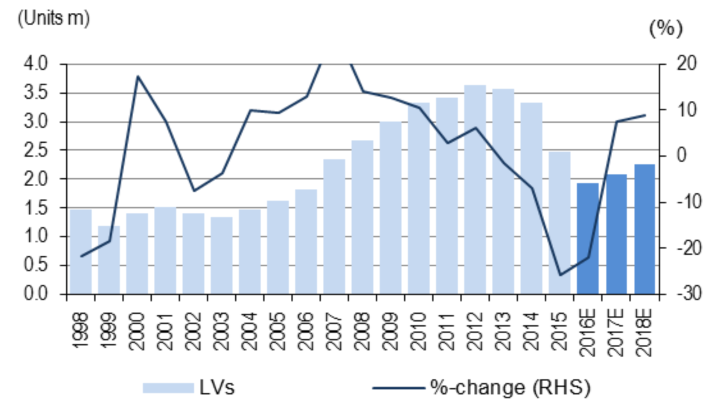
In view of the deteriorating macro-economic outlook and despite the fact that LV sales have already contracted -32% between 2012 and 2015, the Brazilian LV market is set for another year of a steep 22.0% decline to 1.93m units in FY16E, which is a downgrade vs. our previous forecast of -7% to around 2.3m units previously.

Brazil – monthly LV registrations (Jan'08-Feb'16)



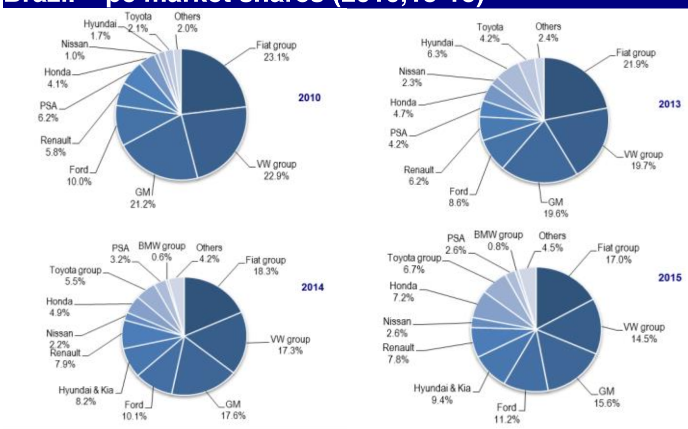
Source: ANFAVEA and CGI calculations

Brazil – LV market (1998-2018E)



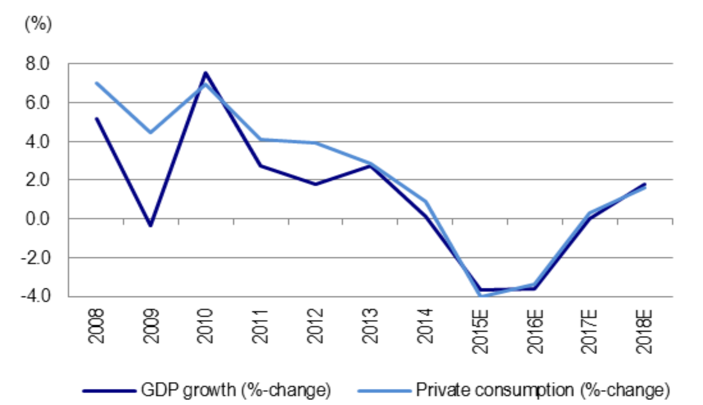
Source: ANFAVEA, LMC Automotive and CGI estimates

Brazil – pc market shares (2010,13-15)



Source: ANFAVEA and CGI calculations

Brazil – real GDP and private consumption (2008-18E)



Source: Oxford Economics and CGI estimates

Russia LV market

-29.1% in January

-35.7% in FY15

In January, Russian LV sales declined 29.1% yoy to 81.8k units, after -45.7% in December and -35.7% to 1.60m in FY15. Since April, the SAAR has hovered around the 1.5m mark, about 50% below the FY12 record of 2.94m and estimated to be close to the bottom of the current recession. The deeper yoy decline rates in 4Q15 reflect the relative strength of the market in 4Q14, following the introduction of a scrappage incentive scheme

Russia in major recesssion…

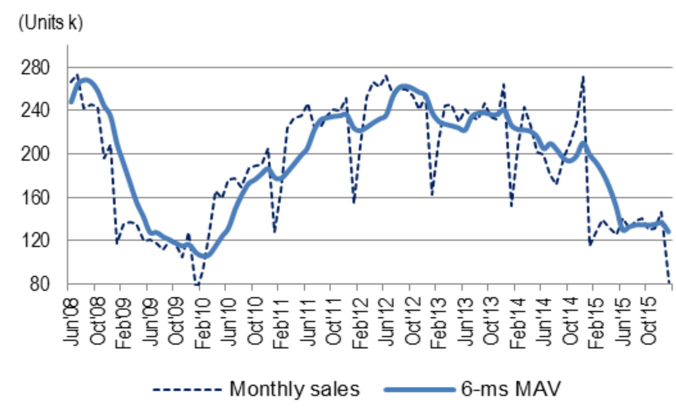
…as oil price outlook remains bleak

Over the past eight months, Russia's economic malaise has worsened dramatically and the speed of decline has increased after a brief glimmer of hope in 2Q15. Besides international sanctions and geopolitical tensions, the sharp and accelerating decline in the oil price to around USD 30-40/bbl and the corresponding weakening of the rouble are the greatest challenges. As a consequence the Bank of Russia is likely to further postpone the resumption of monetary easing; the benchmark interest rate has remained at 11.0% since July 31st. The prospect of the oil price recovery to be far-out and slow is set to prolong and deepen Russia's major recession. Indeed, GDP is expected to continue to contract by more than 2% in FY16E, after -3.7% in FY15A. This should be followed by an extremely subdued recovery from 2017E onwards, at the earliest. The consumer is being hit particularly badly as real wages are declining by an annual rate of 10%, resulting in private consumption contracting -10% and -2.5% in 2015E-16E.

-9.0% in FY16E

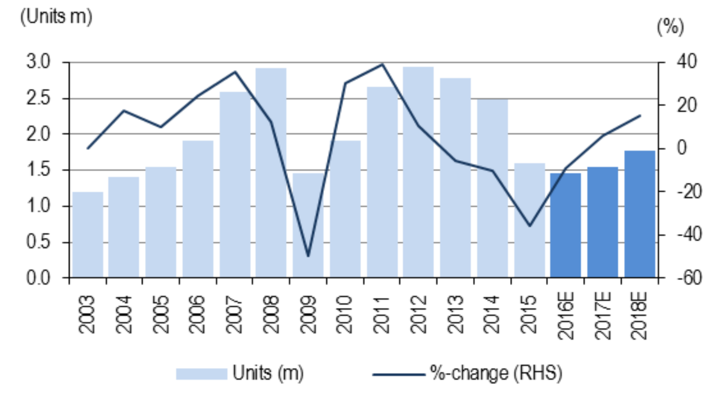
The outlook for the Russian LV market has also deteriorated and is set for another year of decline in FY16E, by 9% to 1.46m (worst-case scenario -16%). This takes into account multiple incentive schemes brought in by the government, including scrappage initiatives, discounted leasing support, and preferential loan interest subsidies. Interestingly, sales of luxury brands such as Porsche, Bentley, R&R, and Lexus have been growing as they offer cash buyers a price advantage compared to other countries and a good investment.

Russia – monthly LV sales[1] (Jun'08-Jan'16)



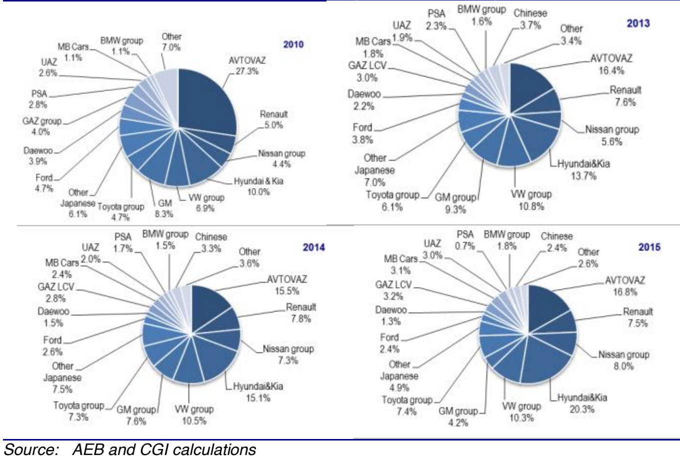
(1) LV sales = passenger cars and LCV. Source: AEB and CGI calculations

Russia – LV sales (2003-18E)



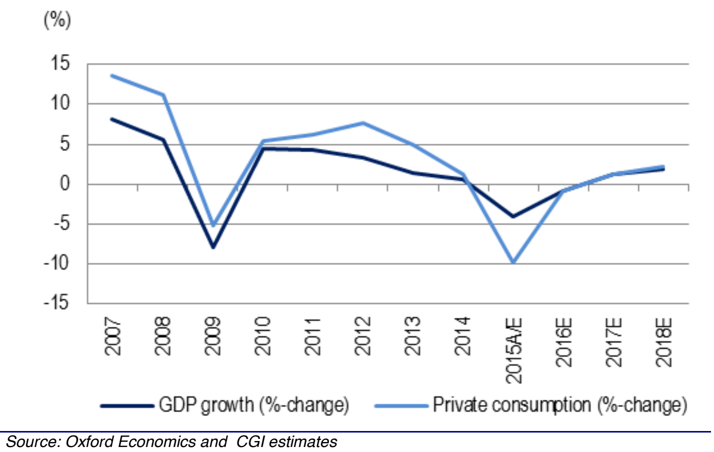
Source: AEB, LMC Automotive and CGI estimates

Russia – LV market shares (2010,13-15)



Source: AEB and CGI calculations

Russia – real GDP and private consumption (2007-18E)

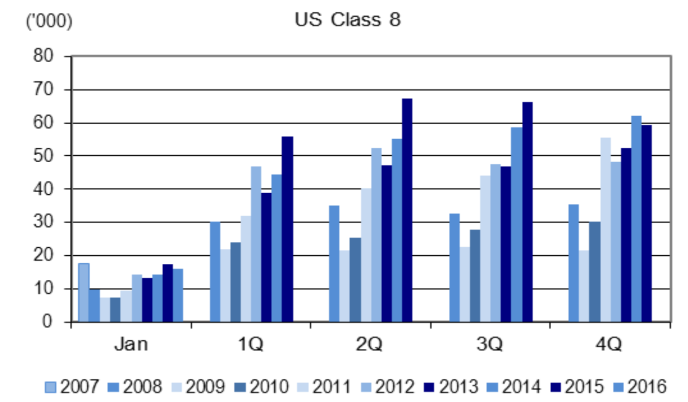


Source: Oxford Economics and CGI estimates

Demand trends for trucks

US medium & heavy truck market

US – Class 8 sales

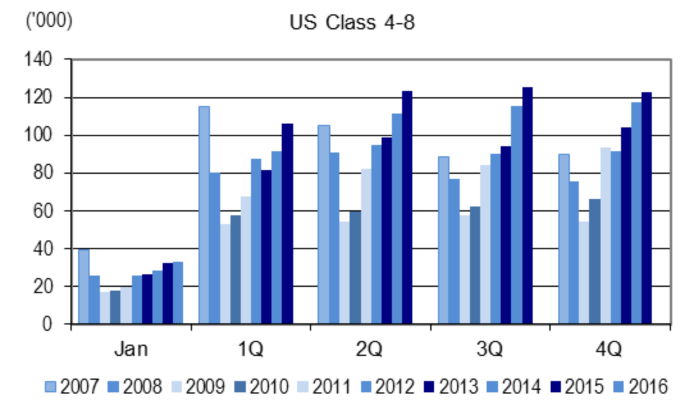


Source: Automotive News Data Center, CGI calculations

	Jan	1Q	2Q	3Q	4Q	FY
Units						
2011	9,245	31,978	40,110	43,907	55,430	171,425
2012	14,119	46,845	52,401	47,585	48,192	195,023
2013	13,169	38,828	47,064	46,788	52,242	184,922
2014	14,154	44,566	55,279	58,526	62,146	220,517
2015	17,385	55,839	67,395	66,378	59,278	248,890
2016	**15,953**	-	-	-	-	-
% change						
2012 yoy	52.7	46.5	30.6	8.4	-13.1	13.8
2013 yoy	-6.7	-17.1	-10.2	-1.7	8.4	-5.2
2014 yoy	7.5	14.8	17.5	25.1	19.0	19.2
2015 yoy	22.8	25.3	21.9	13.4	-4.6	12.9
2016 yoy	**-8.2**	-	-	-	-	-
2015 vs. 2007	-6.3	9.2	86.4	124.4	73.8	64.9
2016 vs. 2007	**-14.0**	-	-	-	-	-

Source: Automotive News Data Center, CGI calculations

US – Class 4-8 sales

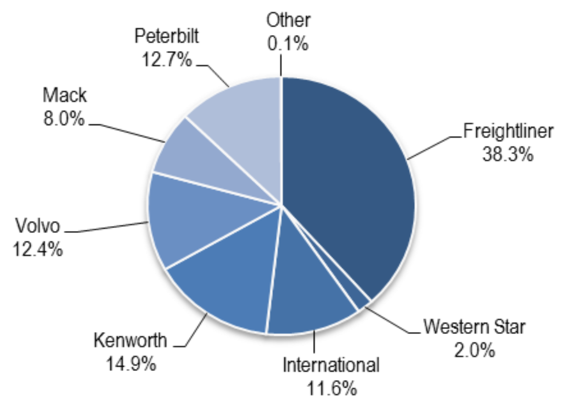


Source: Automotive News Data Center, CGI calculations

	Jan	1Q	2Q	3Q	4Q	FY
Units						
2011	19,847	67,399	82,416	84,409	93,768	327,992
2012	25,942	87,763	94,962	89,898	91,752	364,375
2013	26,629	81,254	98,680	94,150	104,073	378,157
2014	28,412	91,432	111,169	115,103	117,095	434,799
2015	32,286	106,075	123,685	125,193	122,475	477,428
2016	**32,946**	-	-	-	-	-
% change						
2012 yoy	30.7	30.2	15.2	6.5	-2.1	11.1
2013 yoy	2.6	-7.4	3.9	4.7	13.4	3.8
2014 yoy	6.7	12.5	12.7	22.3-	12.5	15.0
2015 yoy	13.6	16.0	11.3	8.8	4.6	9.8
2016 yoy	**2.0**	-	-	-	-	-
2015 vs. 2007	23.9	-7.8	17.4	41.5	36.0	19.7
2016 vs. 2007	**92.7**	-	-	-	-	-

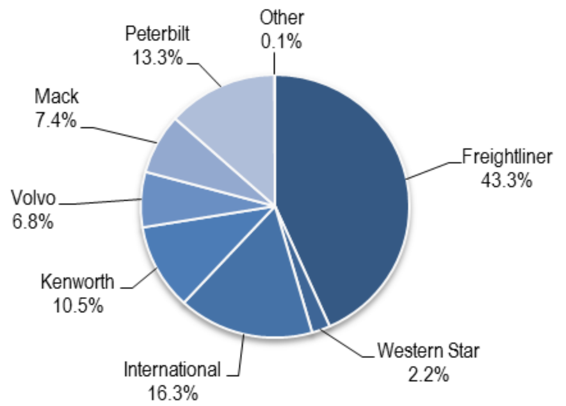
Source: Automotive News Data Center, CGI calculations

US – Class 8 sales by manufacturer (FY15)



Source: Automotive News Data Center, CGI calculations

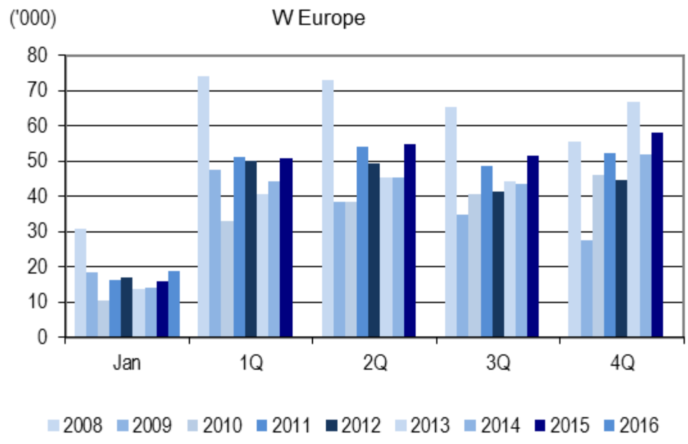
US – Class 8 sales by manufacturer (Jan'16)



Source: Automotive News Data Center, CGI calculations

Europe heavy truck markets

W Europe – truck registrations (>=16t)

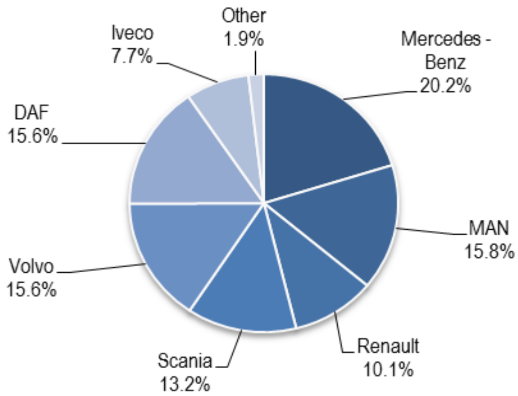


Source: ACEA, CGI calculations

	Jan	1Q	2Q	3Q	4Q	FY
Units						
2011	16,449	50,998	53,938	48,692	52,099	205,727
2012	17,112	50,162	49,411	41,293	44,674	185,540
2013	13,639	40,649	45,321	44,436	66,956	197,508
2014	14,265	44,355	45,298	43,638	51,662	185,397
2015	15,779	50,716	54,712	51,593	57,989	215,010
2016	**18,721**	-	-	-	-	-
% change						
2012 yoy	4.0	-1.6	-8.4	-15.2	-14.3	-9.8
2013 yoy	-20.3	-19.0	-8.3	7.6	49.7	6.5
2014 yoy	4.6	9.1	-0.1	-1.8	-22.7	-6.0
2015 yoy	10.6	14.3	20.8	18.2	11.4	16.0
2016 yoy	**18.6**	-	-	-	-	-
2015 vs. 2008	-48.7	-31.4	-24.9	-21.0	4.3	-19.7
2015 vs. 2008	**-21.4**	-	-	-	-	-

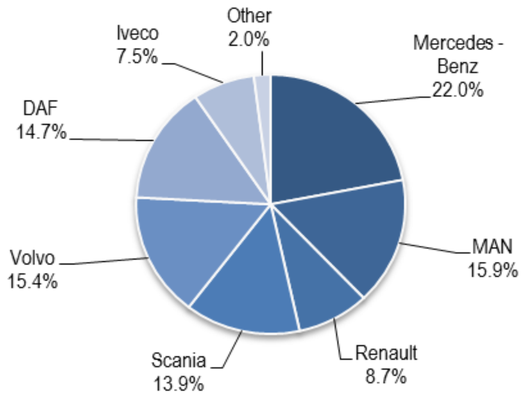
Source: ACEA, CGI calculations

W Europe – truck registrations by manufacturer (FY12)



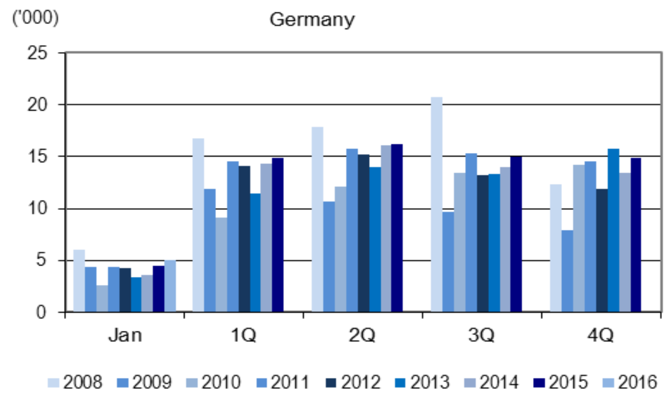
Source: Association Auxiliaire de l'Automobile, CGI calculations

W Europe – truck registrations by manufacturer (FY13)



Source: Association Auxiliaire de l'Automobile, CGI calculations

Germany – truck registrations (>=16t)

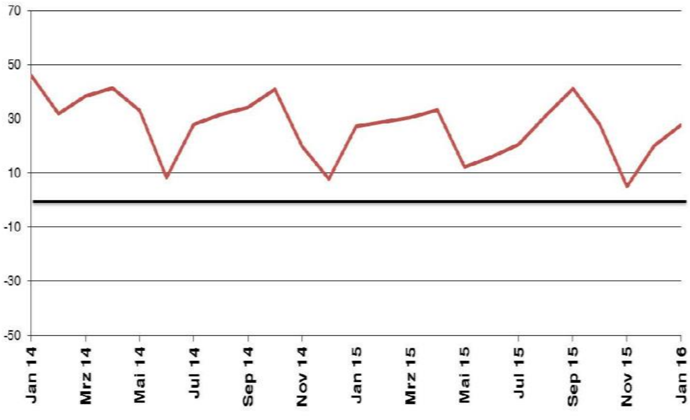


Source: ACEA, CGI calculations

	Jan	1Q	2Q	3Q	4Q	FY
Units						
2011	4,332	14,577	15,718	15,358	14,560	60,213
2012	4,261	14,148	15,226	13,211	11,859	54,444
2013	3,325	11,432	14,038	13,310	15,796	54,576
2014	3,622	14,287	16,133	14,016	13,450	57,886
2015	4,429	14,842	16,255	14,935	14,915	60,947
2016	**4,988**	-	-	-	-	-
% change						
2012 yoy	-1.6	-2.9	-3.1	-14.0	-18.6	-9.6
2013 yoy	-22.0	-19.2	-7.8	0.7	33.2	0.2
2014 yoy	8.9	25.0	14.9	5.3	-14.9	6.1
2015 yoy	22.3	3.9	0.8	6.6	10.9	5.3
2016 yoy	**12.6**	-	-	-	-	-
2015 vs. 2008	-26.3	-11.6	-9.2	-27.9	20.8	-10.0
2016 vs. 2008	**15.1**	-	-	-	-	-

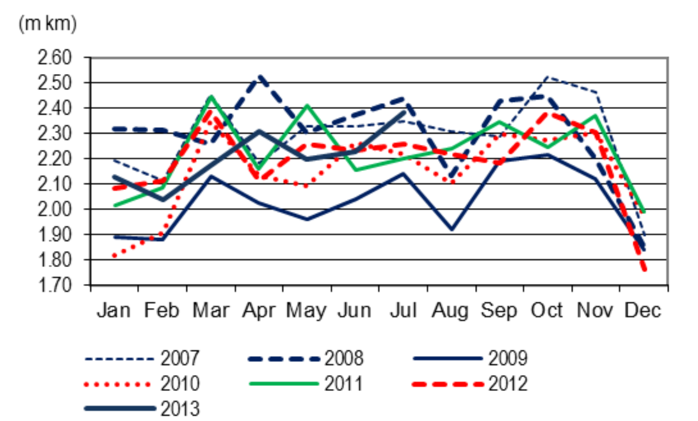
Source: ACEA, CGI calculations

SCI Logistics Barometer (Germany) (Jan'14-'16)



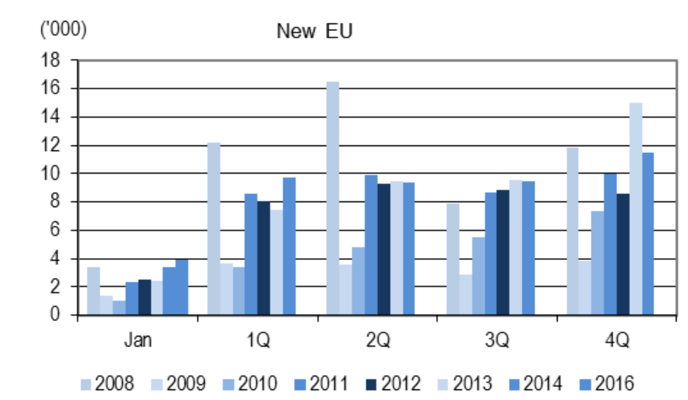
Business confidence indicator – transport and logistics industries in Germany. Source: www.sci.de

Toll Collect – Driven kms on German motorways



Source: Bundesamt für Güterverkehr

New EU[1] – truck registrations (>=16t)



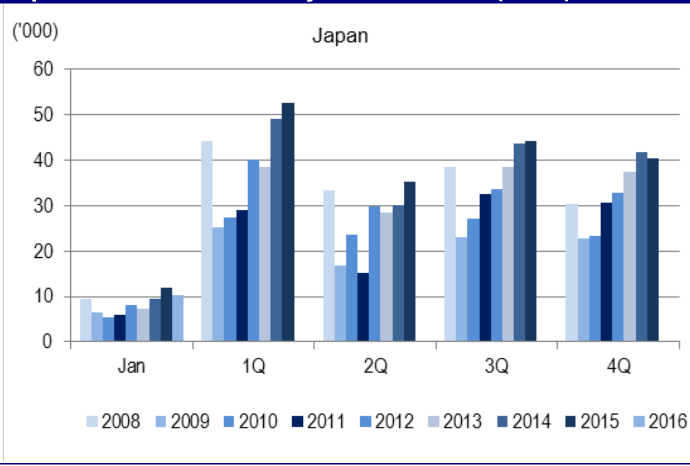
	Jan	1Q	2Q	3Q	4Q	FY
Units						
2011	2,317	8,594	9,912	8,693	10,016	37,215
2012	2,516	8,020	9,333	8,811	8,585	34,749
2013	2,420	7,468	9,505	9,513	14,990	41,476
2014	3,385	9,737	9,365	9,430	11,463	39,995
2015	3,356	11,430	12,912	12,374	15,456	52,172
2016	**3,901**	-	-	-	-	-
% change						
2012 yoy	8.6	-6.7	-5.8	1.4	-14.3	-6.6
2013 yoy	-3.8	-6.9	1.8	8.0	74.6	19.4
2014 yoy	39.9	30.4	-1.5	-0.9	-23.5	-3.6
2015 yoy	-0.9	17.4	37.9	31.2	34.8	30.4
2015 yoy	**16.2**	-	-	-	-	-
2015 vs. 2008	-2.3	-6.5	-21.6	57.6	30.9	7.9
2015 vs. 2008	**13.6**	-	-	-	-	-

(1) New EU, mostly Central Europe and Baltic countries. Source: ACEA, CGI calculations

Source: ACEA, CGI calculations

Japan medium & heavy truck market

Japan – medium & heavy truck market (>3.5t)



	JAn	1Q	2Q	3Q	4Q	FY
Units						
2011	6,088	28,993	15,094	32,598	30,605	107,290
2012	8,111	40,273	29,714	33,645	32,727	136,359
2013	7,304	38,568	28,572	38,666	37,466	143,272
2014	9,554	49,245	30,085	43,732	41,753	164,815
2015	11,850	52,737	35,252	44,149	40,364	172,502
2016	**10,378**	-	-	-	-	-
% change						
2012 yoy	33.2	38.9	96.9	3.2	6.9	27.1
2013 yoy	-9.9	-4.2	-3.8	14.9	14.5	5.1
2014 yoy	30.8	27.7	5.3	13.1	11.4	15.0
2015 yoy	24.0	7.1	17.2	1.0	-3.3	4.7
2016 yoy	**-12.4**	-	-	-	-	-
2015 vs. 2008	25.1	19.1	5.6	14.4	32.5	17.6
2016 vs. 2008	**9.5**	-	-	-	-	

Source: JAMA, CGI calculations

Source: JAMA, CGI calculations

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Carlo R Besenius, CEO & Head of Global Strategy
cbesenius@cg-inv.com
office: +352 2625 8640
mobile: +352 691 106 969
Luxembourg/Europe

Steve Gluckstein, Global Strategist
sgluckstein@cg-inv.com
office: 212 939 7256
mobile: 732 768 8843
New York, NY, USA

Sabine CJ Blümel, Head of Global Automotive Research
sblumel@cg-inv.com
office: +44 7785 301 588
London, UK

Marc Peters, Head of Global Industrial Strategy
mpeters@cg-inv.com
office: +352 26 25 86 40
mobile: +352 621 36 44 50
Luxembourg/Europe

Feliks Lukas, Director of Industrial Consulting
flukas@cg-inv.com
office NY: 212-939-7256
mobile: +385 9848 8951
Kastela, Croatia

Allison M Cimon, Director of Sales & Technology
amcimon@cg-inv.com
office: 646 228 4321
Boston, MA, USA

Gary Schieneman, Director,
Global Accounting and Finance
gschieneman@cg-inv.com
office: 917 868 6842
New York, NY, USA

Jennifer Crisman, COO
jcrisman@cg-inv.com
office: + 352 2625 8640
Luxembourg/Europe

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