

Automotive Messenger

November 2011

At this stage of 2011 we might have expected to be able to make a relatively straightforward assessment of how the automotive industry is managing its way out of the economic downturn. However, the worsening debt crisis in the Euro Zone and the downgrading of the USA's credit rating add new risk and complexity to what was already an extremely fragile situation.

Additionally, many OEMs are now expressing concerns about vehicle demand levels in Europe and the US, with some fearing the return of recession and considering the implementation of non-production days to manage supply.

In Europe, the scale of Italy's fiscal problems is emerging, and the country's automotive sector is performing worse than every major European market except Spain. In June, Daimler CEO Dieter Zetsche said that the debt crisis may impact automakers manufacturing in Europe through its effect on the Euro and the availability of credit, adding that the crisis may eventually impact the ability of companies to refinance their operations.

Conversely however, the weak Euro has been helping Daimler and other OEMs exporting from Europe – especially the German premium brands, which have been enjoying not only increased profits but the growing demand in China and other emerging markets, and a relatively buoyant USA vehicle market.

Vehicle demand in Germany is strong too, up 11.2% for the eight

months to August 2011, in contrast with the Mediterranean countries, and helping to create a dual Europe in which generalised performance data for the region (down 1.1%) is relatively meaningless. The northern part of the EU performed quite well economically as a whole in the first half of the year, and in June the IMF raised its 2011 growth forecast for the Euro zone while lowering it for the USA, the UK and Japan. The European Central Bank has already started to increase rates, which will bring capital inflows to support the currency, especially from China. Nevertheless, the situation in southern Europe has the potential to affect the rest of the region in terms of customer credit availability and possibly bringing a second period of recession.

Ongoing austerity measures and low economic growth mean that many European markets are likely to experience a further reduction in demand for vehicles for the rest of the year and into 2012. Indeed, VW, GM and Fiat all announced major incentives in August, with low-cost and finance and cash rebates. However, interest rates will remain low and the situation will



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create a pent-up demand which could see a sharp rise in sales when confidence recovers. That situation in part accounts for the relative health of the automotive sector in the USA, where data provider IHS is forecasting a full-year market above 12.5 million units, which would be an increase of one million over 2011.

September's Frankfurt motor show gave the impression of an industry already rebounding strongly, with several brands including Honda returning after missing the last event in 2009. The German brands always make a show of strength at Frankfurt, but this year Audi, like BMW, had its own purpose-built complex, which reputedly cost €40m, and both companies even had a driving circuit inside their halls. There were several notable mini-car concepts and production vehicle launches including VW's high-tech Up! model, but there was even more activity at the luxury end of the market, where Ferrari, Porsche, Maserati, Jaguar and Lexus all displayed significant new models.

Globally, the big winner in the first half of the year was GM, which overtook Toyota to become the world's biggest carmaker, ahead of VW. Toyota slipped to third following the March earthquake and subsequent supply issues, although both Toyota and Honda are reporting that stock levels in the vital USA market are now recovering strongly. In fact, in early August Toyota raised its full-year profit forecast on the back of this improvement. Elsewhere Saab continues to teeter on the brink: court protection

from creditors was awarded on appeal, but new and essential funding from rumoured Chinese investors has not yet materialised. Meanwhile, the year in which the first wave of mainstream electric vehicles has begun to hit the market has been marked by the Norwegian manufacturer TH!NK going bust, and other independents Fisker and Tesla struggling to bring cars to production. Even GM's Volt is being hampered by production limitations, not to mention subdued demand. In new technology, start-ups struggle in the car industry, even in times of economic stability.

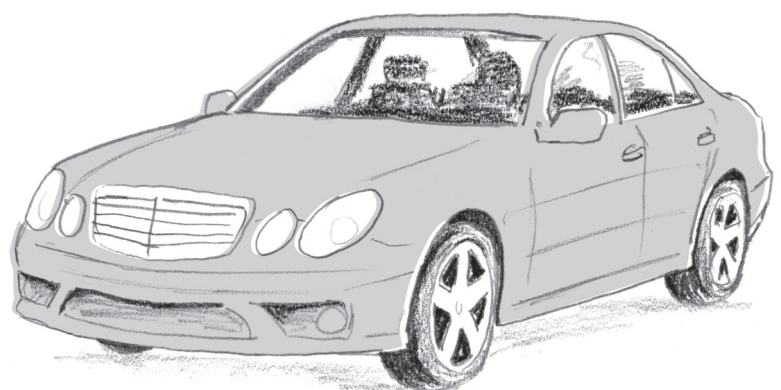
Here in the UK the car market was down 6.1% for the first eight months of the year. Not only does this place it in the middle of the big five markets (France was up 0.4%), but the country straddles the divide in the European region - Greece was down 38%, Spain 22% and Italy 12%, while 11 markets in northern and central Europe recorded double-digit growth. However, fleet and business sales accounted for over 57% of the UK market to August, and in August the government's business secretary issued warnings of a double-

dip recession on the back of the Bank of England's growth forecast.

August and September have been tough months (especially for retail sales), which could then mean a long haul through winter.

The automotive retail industry is going to face stern challenges over the coming months, compounded by next year's new Block Exemption Regulation, which we examine in this issue of AutoMessenger. Nevertheless, as we also discuss in this issue, results from the sector in the UK shows that there are profits to be had – if dealership businesses get the basics right and target the right revenue streams.

I would be delighted to have your comments to help us shape future issues. Meantime, I hope you find this Automotive Messenger both informative and useful.



UK market review

With the exception of August, every one of the first nine months of 2011 indicated a year on year fall in new vehicle registrations, and the market is cumulatively 5% down on 2010. Q3 volumes decline was the lowest in the year, but the market looks to be in stagnation. August sales recovered with a 7.3% increase, but the key month of September failed to build on this momentum (1% decline), remaining heavily fleet skewed and manufacturer supported.

Consumer confidence remains weak, reflecting the fragile economic recovery. General retail sales slowed their annual rate of decline towards the end of the first half of 2011 as shops began summer sale promotions early, bringing CPI inflation down from 4.5% to 4.2% in June, but major purchases like cars continued to suffer. The Nationwide's consumer confidence index fell four points to 51 from May to June, to 28 points below its long-term average and 11 points below June 2010, the building society citing a decline in people's future expectations. It is no surprise that private car sales fell by 18.1% in the first half of the year.

The new-car market is therefore increasingly reliant on business and fleet sales to maintain the levels which the SMMT claims put the market on target to hit its full-year forecast of 1.92m units. Grant Thornton estimates a full-year volume of c.1.9m. However, this will be driven by OEM incentives and forced registrations, with the natural market being nearer 1.8m units.

Demand in the fleet sector rose 4% in the nine months to September and continues to increase (8% in September), accounting (together with business registrations) for over 57% of the total market, demonstrating the weak contribution of private sales. This compares with just 52% to the same point in 2010, and will inevitably be impacting on dealer profitability because of the reduced margins in fleet sales compared to retail.

Two-tier market

A mitigating factor however is the fact that the most successful brands in the first half of the year were those operating in the premium and luxury segments, so dealers with these franchises have the opportunity to capitalise on the better margins associated with premium and luxury products.

All except five of the manufacturers which grew between January and September were from these segments. Audi was the best performer, up

13%, with BMW growing 11% and Mercedes-Benz a still impressive 10%.

Of the mainstream brands, only Nissan, Seat, Skoda and VW managed growth, and all were significantly below the premium brands, with Nissan performing best to record an increase of 8.4%. Each of these brands is aggressively targeting fleet business, so will be walking a tight line between sales volumes and profit.

Most volume brands saw a decline in volumes in the first half, notably Renault and Mazda both around 30% down compared to the prior year. In part the scale of Renault's decline can be attributed to the fact that it doubled its registrations in the first half of 2010 after a poor 2009, but the French brand is lacking new products and as a result currently requires high levels of incentives to maintain sales momentum. Mazda similarly can put the low sales rate down to product issues with a lack of competitive models in the current market. This should start to be remedied in the latter part of the year with the introduction of the new fuel efficient and eco-friendly Skyactiv engine technologies which should improve competitiveness and consumer appeal.

All the major Japanese brands except Nissan inevitably suffered additional pain from the earthquake disaster and its effect on supply, and were between 20% and 30% down. They were joined by Fiat and Kia, whose 9% drop in part reflects its extraordinary growth during 2010 when it was a main beneficiary of the scrappage incentive scheme and continued that momentum with its

own incentives. Sister brand Hyundai, which also capitalised on the scrappage scheme, fell by 5%.

Dealer performance and activity

As reported in the last issue, dealer group performance improved dramatically in 2010, and further evidence of this was provided in dealer announcements over the summer.

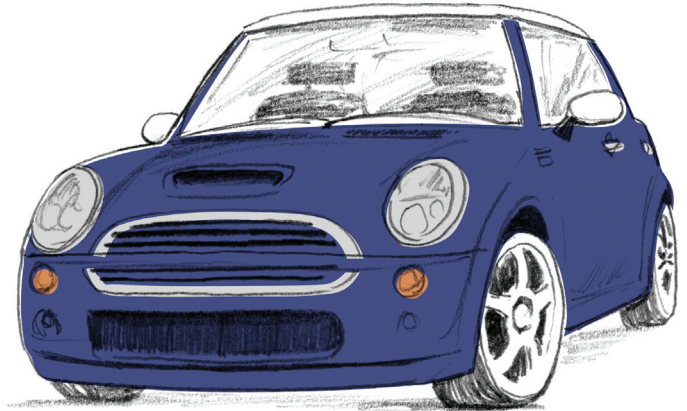
Marshall's Motor Group (11th largest group by turnover) reported very strong results, building on the strength of the operating model and its OEM relationships to increase turnover by 28.5% to £581m and net profit by 67% from £5.6m to £9.4m. Return on sales was 1.74% and return on capital employed 16.9%. The group also generated £13.5m in cash, which is significant as it funds its own acquisitions: Marshall's added 15 new businesses in 2010.

Dealers will have to work hard to maintain performance and profitability levels in 2011 where market conditions have become progressively more difficult as the year has progressed.

This was illustrated by Vertu, the UK's ninth-largest group - having reported double-digit increases in revenues and profits for the year to 28 February, it said at its AGM in July that consumer demand from March to June had proven to be fragile in both new and used sales. This was followed by the recent announcement that earnings before tax for the six months to August 2011 were down 16% to £4.1m.

Other significant news in recent months was the rights issue announced by Pendragon, with a view to improving its borrowing terms and raise £75 million to address its pension deficit. Revised borrowing arrangements have now been agreed through to 2014 (these previously expired in 2012). The shares were issued at a significant discount, and were undersubscribed, leaving the underwriters to mop up the balance of 242.7 million shares (32% of the rights issue). Overall the move has provided

a degree of medium term financial stability enabling the business to face the operational and market challenges in 2011 without the distraction of a looming refinancing need.



Outlook

There is consensus amongst dealers and funders alike that the balance of 2011 will be very challenging. The sector has proved uncannily resilient through the recession, but the continuing fragility of consumer confidence is beginning to tell in retail sales. Registrations in September were about level with 2010 (down 1%) - fleet sales up by 10% partly compensated for retail sales down by the same amount. Also of note were the increased levels of manufacturer and demonstrator registrations - a sign of market push to hit targets rather than meet genuine demand. This could be a sign of problems being stored up for later. There is also the suggestion that in some cases targets were hit by eating into (and pulling forward sales from) order banks which have not been replenished - this points to a challenging time in Q4.

We are already seeing signs of dealers reaching the tipping point, typically those where problems have bubbled under the surface for the last couple of years, with the various support measures providing just enough to keep them afloat. In the current market, with sales under pressure, and with resources constrained in all areas, manufacturers are looking closely at dealers who in the past have been supported and thinking long and hard as to whether this represents value for money. In an increasing number of cases in the coming months the decision will be that resources are better directed elsewhere. Reinforcing this point in early October was the collapse of Waters Autoplanet into Administration. The business represented six manufacturers from over 13 locations and is the largest failure in the sector for well over two years. The failure came on the back of a number of years of heavy losses, depleting cash reserves and undermining the confidence of funders and manufacturer stakeholders.

One positive sign from a dealer perspective is that manufacturers in Europe have started to review production strategies due to concerns of oversupply - perhaps a sign that lessons from 2008 have not yet been forgotten. Properly managing supply to reflect demand levels will be key in helping to mitigate dealer distress this winter.

Thought leadership

Block exemption

The new Block Exemption Regulation (BER), which comes into force on 1 June 2013, will introduce a fundamental shift from the current regulations, and the effects on the retail motor industry will begin to be felt well ahead of implementation. Dealers may want to consider their current situation and plan ahead to benefit from the current regulations while they can.

The new set of regulations looks likely, in general, to reverse the changes made in 2002, which broadly benefited the dealer - and crucially they come at a time when market forces are clearly not in the retail market's favour. The new legislation moves away from regulations specific to the motor retail trade into generic competition law applied across the European Union. That is very different.

Ten years ago there was concern that motor manufacturers were creating artificial markets across Europe based on price. This was central to the European Competition Commission's original BER, which moved the balance of power away from manufacturers to the consumer, with the retailer seeing some of that benefit. It was designed to encourage competition within each brand by creating additional sales channels. But this did not happen and was never likely to - margins are so tight in this business that two motor alleys in all but the biggest cities would lead to a rash of failures.

That framework is now coming to an end. From a consumer's perspective not

much will change; the most significant impact will be on the retailer, because a general BER allows more influence for the NSCs. In simple terms it provides manufacturers with the opportunity to issue new contracts to its dealers. How they choose to exercise the additional powers will be the key.

Four clauses within the new BER will have the most significant impact on change within the sector:

1. The non-compete clause

The 2002 BER encouraged multi-franchising in the expectation that the consumer would be best served by walking between rival brand areas within the same showroom. In mainland Europe, this type of outlet has started to gain traction despite a slow start.

Under the new rules manufacturers will be able, in theory, to restrict multi-franchising or insist on standalone franchised sites. But if dealers are suddenly forced to go single-franchise,

their business model may be severely affected. For example, if a dealer is running a dual-franchise site, with one brand selling 200 new units and the other 400, it would not make sense for the higher-selling brand to insist on the dealer going solus if losing the other brand's 200-unit contribution makes the dealer business uneconomic overnight, threatening the 400 sales and ultimately territory market share.

These issues are beginning to surface. By the end of 2011, many new contracts will have been issued to dealers and we will know if the NSCs will include in them the power to insist on solus representation, or at least wide-ranging new conditions. It is almost inevitable they will; the question is whether they use it. While they don't like multi-franchise sites, NSCs will probably continue to tolerate them where there is a lack of an alternative, because of the viability it brings to dealers which otherwise might fail. This is especially relevant in the current difficult market conditions, where commercial common sense may well prevail over brand aspirations.

2. The termination clause

The effect of the new BER is likely to be felt most strongly in relation to the termination clause. The current exemption specifies the length of termination period, requires manufacturers to provide reasons for termination and gives dealers the right to appeal. Equally, dealers have been locked in to their contracts, and options for early termination have been limited.

Under the new regulations NSCs will effectively have more scope to set their termination clauses at whatever notice period they feel appropriate. ACEA's short code of conduct suggests best practice is a notice period for both parties of no less than six months for a fixed contract and, on a rolling contract, two years. But while a number of manufacturers have subscribed to the code, some will not have done so. Other manufacturers may therefore feel able to impose shorter notice periods.

Dealers which comply with standards and invest substantially in their brands need the comfort of longevity, as do their funders to commit to the borrowing requirement. A new draft European code has recently been published by the dealer representative bodies to cover issues like this. Whether it works has yet to be seen. In the meantime, it appears that a number of NSCs are doing this in consultation with their dealer councils – and it is likely that this will lead to more regulated and agreeable periods.

3. The veto clause

Currently, if a dealer business represents a brand in one area and wants to acquire another dealer representing the same brand anywhere in Europe, there are no grounds for the NSC to prevent that.

Under the new regulations no such freedom exists - an NSC has the right to veto a dealer's decision. This appears to have profound implications, in particular for dealers seeking to sell their business and wanting to attract as broad a choice of potential buyers as possible.

However, in general buying and selling has invariably been done with the approval of the relevant manufacturers, even in the years preceding the 2002 BER when there was a wave of consolidation in the industry. Good sense suggests that deals will continue to be predicated by a mutual understanding between dealer and NSC.

Nevertheless, over the last 10 years there have been many occasions when an NSC would have preferred another dealer to purchase the dealer holding its franchise, and, under the new rules, the NSC can veto the deal. This could have an impact on the vendor's anticipated price and ability to sell to the bidder offering the best available terms.

The mere existence of the clause will undoubtedly make those dealers which are unsure about their future in the industry consider an exit strategy prior to 31 May 2013. For an acquirer, waiting until after new BER contracts come into force may lower prices.

4. The location clause

The existing BER provided the opportunity for one dealer group to establish a brand centre in a territory where the brand was already represented. The new location clause removes this ability to open an unauthorised dealership in any location. However, there are very few cases where this freedom in law was taken up, as being in direct opposition to the wishes of an NSC would have proved economic suicide.

Conclusion

It is impossible not to see the four clauses presenting a situation where the rules are weighted more in favour of the NSCs.

But what is important is the health of the sector and the profit opportunity. This is determined by the strength of the relationships between dealers and NSCs, and how the NSCs are supported by manufacturers. The industry is realistic enough to recognise that the profit available can be flexed, and market conditions will play a big part in that process.

However, an under-performing dealer, or one with an unclear future, will now face even greater pressure to improve, to hit targets and to comply with standards. It will also be in a weaker position if the NSC believes

that the dealer has no future in the network.

The new rules will favour the established, cash-positive dealers with scale. The owner-operator businesses will be under more pressure - there are brands which openly state their preference for this type of partner, for the share of voice and attention they will be given, but they are diminishing fast. NSCs do not want to support businesses where the focus is on the personal lifestyle of the MD rather than the development of the brand. The new BER gives far greater powers to the NSC to do something about this.

If a dealer feels that it is in a weak position - for example a family business without a succession plan – arguably the owners should now consider selling the business. Similarly, if a dealer is looking to grow, then now is the time to start talking to dealers in a position to sell. The new BER may well lower prices, but freedom to choose has equal merit.

By increasing NSCs' ability to control competition, the new BER is likely to lead to fewer dealer points. But this will probably be healthy for the retail sector in the long run, resulting in stronger businesses, generating more sales, which can in turn negotiate better terms with NSCs.

And the very fact that so much power has been put in the hands of the NSCs may paradoxically work in favour of a stronger dealer sector, because the new BER almost demands a conciliatory approach, with greater consultation, equanimity and, ultimately, business partnership.



Performance commentary

| UK New cars registrations | | | | | | | | | | | | | | | | |
|---------------------------|--------------|---------|--------------|---------|-----------|-----------|---------|-----------|---------|-----------|-----------|---------|-----------|-----------|---------|-----------|
| Brand | Sep 2011 YTD | | Sep 2010 YTD | | Regs Δ | | FY2010 | | FY2009 | | Regs Δ | | FY2008 | | Regs Δ | |
| | Units | Share % | Units | Share % | 2010/2009 | Units | Share % | Units | Share % | 2010/2009 | Units | Share % | 2009/2008 | Units | Share % | 2008/2007 |
| Ford | 214,628 | 13.8% | 230,426 | 14.1% | (6.9)% | 280,364 | 13.8% | 316,369 | 15.9% | (11.4)% | 322,514 | 15.1% | (1.9)% | 348,982 | 14.5% | (7.6)% |
| Vauxhall | 188,113 | 12.1% | 198,623 | 12.1% | (5.3)% | 247,265 | 12.2% | 237,840 | 11.9% | 4.0% | 298,912 | 14.0% | (20.4)% | 331,321 | 13.8% | (9.8)% |
| Volkswagen | 143,459 | 9.2% | 138,211 | 8.4% | 3.8% | 174,655 | 8.6% | 161,137 | 8.1% | 8.4% | 179,189 | 8.4% | (10.1)% | 197,020 | 8.2% | (9.1)% |
| Audi | 92,324 | 5.9% | 81,739 | 5.0% | 12.9% | 99,828 | 4.9% | 91,172 | 4.6% | 9.5% | 100,845 | 4.7% | (9.6)% | 100,864 | 4.2% | (0.0)% |
| BMW | 90,727 | 5.8% | 82,049 | 5.0% | 10.6% | 109,418 | 5.4% | 98,683 | 4.9% | 10.9% | 113,132 | 5.3% | (12.8)% | 121,575 | 5.1% | (6.9)% |
| Peugeot | 77,900 | 5.0% | 89,234 | 5.5% | (12.7)% | 109,324 | 5.4% | 102,574 | 5.1% | 6.6% | 118,701 | 5.6% | (13.6)% | 146,094 | 6.1% | (18.8)% |
| Nissan | 77,184 | 5.0% | 71,178 | 4.4% | 8.4% | 89,681 | 4.4% | 77,924 | 3.9% | 15.1% | 66,336 | 3.1% | 17.5% | 66,426 | 2.8% | (0.1)% |
| Mercedes-Benz | 65,071 | 4.2% | 59,220 | 3.6% | 9.9% | 74,977 | 3.7% | 72,281 | 3.6% | 3.7% | 74,883 | 3.5% | (3.5)% | 82,321 | 3.4% | (9.0)% |
| Toyota | 58,118 | 3.7% | 71,947 | 4.4% | (19.2)% | 87,396 | 4.3% | 102,612 | 5.1% | (14.8)% | 105,717 | 5.0% | (2.9)% | 118,493 | 4.9% | (10.8)% |
| Citroen | 54,967 | 3.5% | 59,218 | 3.6% | (7.2)% | 73,317 | 3.6% | 72,450 | 3.6% | 1.2% | 81,237 | 3.8% | (10.8)% | 97,750 | 4.1% | (16.9)% |
| Renault | 53,341 | 3.4% | 75,791 | 4.6% | (29.6)% | 95,608 | 4.7% | 63,174 | 3.2% | 51.3% | 89,570 | 4.2% | (29.5)% | 126,816 | 5.3% | (29.4)% |
| Hyundai | 49,091 | 3.2% | 51,815 | 3.2% | (5.3)% | 61,752 | 3.0% | 56,726 | 2.8% | 8.9% | 28,036 | 1.3% | 102.3% | 29,765 | 1.2% | (5.8)% |
| Kia | 43,253 | 2.8% | 47,523 | 2.9% | (9.0)% | 56,114 | 2.8% | 50,637 | 2.5% | 10.8% | 31,324 | 1.5% | 61.7% | 29,372 | 1.2% | 6.6% |
| Honda | 39,564 | 2.5% | 52,275 | 3.2% | (24.3)% | 63,652 | 3.1% | 74,819 | 3.8% | (14.9)% | 83,805 | 3.9% | (10.7)% | 106,018 | 4.4% | (21.0)% |
| MINI | 38,147 | 2.5% | 32,820 | 2.0% | 16.2% | 43,894 | 2.2% | 39,866 | 2.0% | 10.1% | 40,736 | 1.9% | (2.1)% | 47,661 | 2.0% | (14.5)% |
| Skoda | 36,297 | 2.3% | 32,527 | 2.0% | 11.6% | 41,240 | 2.0% | 37,253 | 1.9% | 10.7% | 37,100 | 1.7% | 0.4% | 39,907 | 1.7% | (7.0)% |
| Fiat | 34,192 | 2.2% | 43,857 | 2.7% | (22.0)% | 53,093 | 2.6% | 60,337 | 3.0% | (12.0)% | 55,325 | 2.6% | 9.1% | 59,409 | 2.5% | (6.9)% |
| Land Rover | 28,684 | 1.8% | 30,790 | 1.9% | (6.8)% | 37,272 | 1.8% | 29,185 | 1.5% | 27.7% | 32,567 | 1.5% | (10.4)% | 46,552 | 1.9% | (30.0)% |
| Mazda | 27,070 | 1.7% | 37,810 | 2.3% | (28.4)% | 45,449 | 2.2% | 47,934 | 2.4% | (5.2)% | 49,858 | 2.3% | (3.9)% | 50,947 | 2.1% | (2.1)% |
| Volvo | 26,115 | 1.7% | 29,910 | 1.8% | (12.7)% | 37,435 | 1.8% | 34,857 | 1.7% | 7.4% | 33,358 | 1.6% | 4.5% | 30,058 | 1.3% | 11.0% |
| Other | 114,849 | 7.4% | 118,696 | 7.3% | (3.2)% | 148,880 | 7.3% | 166,931 | 8.4% | (10.8)% | 188,650 | 8.8% | (11.5)% | 226,656 | 9.4% | (16.8)% |
| Total | 1,553,094 | 100.0% | 1,635,659 | | (5.0)% | 2,030,614 | | 1,994,761 | | 1.8% | 2,131,795 | | (6.4)% | 2,404,007 | | (11.3)% |
| Excl. scrappage | 1,553,094 | | 1,526,952 | | 1.7% | 1,921,907 | | 1,811,074 | | 6.1% | 2,131,795 | | (15.0)% | 2,404,007 | | (11.3)% |

Source: SMMT

UK Registrations – Sept YTD

- The UK market fell by just 0.8% in September, one of two plate-change months which account for a disproportionate share of annual volumes; private registrations declined by 9.3%
- Registrations fell by only 0.7% for the whole of Q3, although the plate-change spike masks the fact that in reality the market is still in marked decline
- YTD volumes were down 5.0%, and the Society of Motor Manufacturers and Traders is forecasting a full-year drop of 5.3%
- Private vehicles accounted for 43.0% of the market YTD, down from a 47.9% share in 2010; the market is still therefore more reliant on the fleet and business sector than a year ago
- Diesel cars took 49.9% of the market compared with 44.5% in the same period in 2010, reflecting the increasing cost of motoring
- However, alternative-fuel vehicles have not yet made an impact in spite of several mainstream electric vehicles having been launched in 2011, with their market share increasing only marginally from 1.1% a year ago to 1.3%
- Record low average CO₂ emissions of 138.5g/km were nevertheless recorded; company car tax incentives mean that this trend will continue strongly while fleet is driving the market
- The best-selling cars YTD were Ford's Fiesta and new Focus, boosted by the latest-generation model, followed by Vauxhall's Corsa
- Ford, Vauxhall and VW were the top three brands, but only the latter showed growth (3.8%)
- Premium brands performed well: Audi, up 12.9%, led BMW (up 10.6%) and Mercedes-Benz (up 9.9%); MINI was up 16.23%, good enough to make the top 10 models
- The Japanese brands have predictably suffered from earthquake disruption and supply issues, with Mazda down 28.4%, Honda 24.3%, Toyota 19.2%, Mitsubishi 14.5% and Suzuki 4.2%; only Nissan (up 8.4%) and the low-volume Lexus brand bucked the trend
- Renault continued its very difficult year, down 29.6%, while Fiat (down 22.0%) and its sister brand Chrysler (down 32.60%) face a significant challenge in the UK

Automotive Messenger

Global Sales and Registrations – Aug YTD

| EU (EU27 + EFTA) sales by brand (passenger cars) | | | | | | | | | | | | | | | | |
|--|-----------------|---------|-----------------|---------|-------------------------|------------|---------|------------|---------|-------------------------|------------|---------|-------------------------|------------|---------|-------------------------|
| | August 2011 YTD | | August 2010 YTD | | Regs Δ 2011/ 2010 | FY2010 | | FY2009 | | Regs Δ 2009/ 2010 | FY2008 | | Regs Δ 2008/ 2009 | FY2007 | | Regs Δ 2007/ 2008 |
| | Units | Share % | Units | Share % | | Units | Share % | Units | Share % | | Units | Share % | | Units | Share % | |
| Volkswagen | 1,131,750 | 12.3% | 1,049,247 | 11.3% | 7.9% | 1,541,279 | 11.2% | 1,649,309 | 11.4% | (6.6)% | 1,572,132 | 10.7% | 4.9% | 1,632,353 | 10.2% | (3.7)% |
| Renault | 702,455 | 7.6% | 783,843 | 8.4% | (10.4)% | 1,147,486 | 8.3% | 1,097,647 | 7.6% | 4.5% | 1,102,813 | 7.5% | (0.5)% | 1,209,663 | 7.6% | (8.8)% |
| Ford | 732,021 | 8.0% | 764,749 | 8.2% | (4.3)% | 1,109,588 | 8.0% | 1,297,001 | 9.0% | (14.4)% | 1,232,535 | 8.4% | 5.2% | 1,302,703 | 8.1% | (5.4)% |
| Opel/Vauxhall | 675,502 | 7.4% | 661,002 | 7.1% | 2.2% | 1,006,832 | 7.3% | 1,064,305 | 7.3% | (5.4)% | 1,154,063 | 7.8% | (7.8)% | 1,343,885 | 8.4% | (14.1)% |
| Peugeot | 644,134 | 7.0% | 690,620 | 7.4% | (6.7)% | 1,005,916 | 7.3% | 994,544 | 6.9% | 1.1% | 1,006,467 | 6.8% | (1.2)% | 1,106,652 | 6.9% | (9.1)% |
| Citroen | 538,833 | 5.9% | 579,712 | 6.2% | (7.1)% | 838,147 | 6.1% | 869,685 | 6.0% | (3.6)% | 856,522 | 5.8% | 1.5% | 943,300 | 5.9% | (9.2)% |
| Fiat | 481,826 | 5.2% | 588,920 | 6.3% | (18.2)% | 825,376 | 6.0% | 1,017,310 | 7.0% | (18.9)% | 958,991 | 6.5% | 6.1% | 978,450 | 6.1% | (2.0)% |
| Audi | 456,560 | 5.0% | 418,102 | 4.5% | 9.2% | 623,536 | 4.5% | 612,783 | 4.2% | 1.8% | 663,305 | 4.5% | (7.6)% | 661,676 | 4.1% | 0.2% |
| BMW | 426,905 | 4.6% | 393,744 | 4.2% | 8.4% | 609,196 | 4.4% | 572,285 | 3.9% | 6.4% | 676,829 | 4.6% | (15.4)% | 705,659 | 4.4% | (4.1)% |
| Mercedes | 390,737 | 4.3% | 376,635 | 4.1% | 3.7% | 586,146 | 4.3% | 588,510 | 4.1% | (0.4)% | 685,566 | 4.7% | (14.2)% | 729,557 | 4.6% | (6.0)% |
| Toyota | 351,615 | 3.8% | 391,120 | 4.2% | (10.1)% | 582,457 | 4.2% | 710,374 | 4.9% | (18.0)% | 783,188 | 5.3% | (9.3)% | 945,492 | 5.9% | (17.2)% |
| Skoda | 331,823 | 3.6% | 305,516 | 3.3% | 8.6% | 468,034 | 3.4% | 483,597 | 3.3% | (3.2)% | 462,178 | 3.1% | 4.6% | 482,355 | 3.0% | (4.2)% |
| Nissan | 305,849 | 3.3% | 266,317 | 2.9% | 14.8% | 402,654 | 2.9% | 368,373 | 2.5% | 9.3% | 336,922 | 2.3% | 9.3% | 311,794 | 1.9% | 8.1% |
| Hyundai | 264,941 | 2.9% | 240,682 | 2.6% | 10.1% | 358,284 | 2.6% | 345,896 | 2.4% | 3.6% | 271,296 | 1.8% | 27.5% | 306,696 | 1.9% | (11.5)% |
| Seat | 211,538 | 2.3% | 209,871 | 2.3% | 0.8% | 301,931 | 2.2% | 316,856 | 2.2% | (4.7)% | 335,984 | 2.3% | (5.7)% | 386,565 | 2.4% | (13.1)% |
| Dacia | 165,718 | 1.8% | 181,045 | 1.9% | (8.5)% | 262,777 | 1.9% | 235,465 | 1.6% | 11.6% | 183,460 | 1.2% | 28.3% | 173,462 | 1.1% | 5.8% |
| Kia | 179,985 | 2.0% | 172,751 | 1.9% | 4.2% | 262,627 | 1.9% | 257,573 | 1.8% | 2.0% | 234,370 | 1.6% | 9.9% | 253,422 | 1.6% | (7.5)% |
| Volvo | 168,252 | 1.8% | 147,923 | 1.6% | 13.7% | 230,307 | 1.7% | 206,050 | 1.4% | 11.8% | 223,239 | 1.5% | (7.7)% | 265,966 | 1.7% | (16.1)% |
| Suzuki | 118,146 | 1.3% | 129,959 | 1.4% | (9.1)% | 195,458 | 1.4% | 249,772 | 1.7% | (21.7)% | 249,269 | 1.7% | 0.2% | 286,708 | 1.8% | (13.1)% |
| Honda | 96,936 | 1.1% | 125,537 | 1.4% | (22.8)% | 187,408 | 1.4% | 244,751 | 1.7% | (23.4)% | 265,010 | 1.8% | (7.6)% | 311,743 | 1.9% | (15.0)% |
| Mazda | 96,167 | 1.0% | 126,624 | 1.4% | (24.1)% | 182,684 | 1.3% | 210,641 | 1.5% | (13.3)% | 244,111 | 1.7% | (13.7)% | 239,740 | 1.5% | 1.8% |
| Other | 718,316 | 7.8% | 685,713 | 7.4% | 4.8% | 1,057,575 | 7.7% | 1,096,144 | 7.6% | (3.5)% | 1,239,984 | 8.4% | (11.6)% | 1,425,596 | 8.9% | (13.0)% |
| Total | 9,190,009 | | 9,289,632 | | (1.1)% | 13,785,698 | | 14,488,871 | | (4.9)% | 14,738,234 | | (1.7)% | 16,003,437 | | (7.9)% |

Source: ACEA

| Sales by country | | | | | | | | | | | |
|-------------------------------|-----------------|-----------------|---------|------------|------------|----------------------|------------|----------------------|------------|----------------------|--|
| | Aug 2011 YTD | Aug 2010 YTD | Var (%) | FY2010 | FY2009 | Var (%) 2010/2008 | FY2008 | Var (%) 2009/2008 | FY2007 | Var (%) 2008/2007 | |
| Germany | 2,121,047 | 1,907,104 | 11.2% | 2,916,260 | 3,807,175 | (23.4)% | 3,090,040 | 23.2% | 3,148,163 | (1.8)% | |
| Italy | 1,222,431 | 1,388,544 | (12.0)% | 1,960,282 | 2,158,010 | (9.2)% | 2,160,131 | (0.1)% | 2,493,106 | (13.4)% | |
| France | 1,493,745 | 1,487,546 | 0.4% | 2,251,669 | 2,268,671 | (0.7)% | 2,050,282 | 10.7% | 2,064,543 | (0.7)% | |
| United Kingdom | 1,220,618 | 1,300,413 | (6.1)% | 2,030,846 | 1,994,999 | 1.8% | 2,131,794 | (6.4)% | 2,404,007 | (11.3)% | |
| Spain | 568,354 | 730,909 | (22.2)% | 982,015 | 952,772 | 3.1% | 1,161,176 | (17.9)% | 1,614,835 | (28.1)% | |
| Belgium | 399,119 | 397,052 | 0.5% | 547,347 | 476,563 | 14.9% | 536,276 | (11.1)% | 524,795 | 2.2% | |
| Netherlands | 410,923 | 345,115 | 19.1% | 483,619 | 387,699 | 24.7% | 499,983 | (22.5)% | 505,538 | (1.1)% | |
| Austria | 242,784 | 223,345 | 8.7% | 328,563 | 319,403 | 2.9% | 293,697 | 8.8% | 298,182 | (1.5)% | |
| Switzerland | 206,259 | 194,161 | 6.2% | 294,239 | 264,771 | 11.1% | 287,803 | (8.0)% | 284,688 | 1.1% | |
| Sweden | 201,031 | 180,830 | 11.2% | 289,684 | 213,408 | 35.7% | 253,982 | (16.0)% | 306,799 | (17.2)% | |
| EU10 (Central/Eastern Europe) | 498,787 | 492,377 | 1.3% | 803,707 | 858,831 | (6.4)% | 1,180,173 | (27.2)% | 1,209,793 | (2.4)% | |
| Europe (EU27 + EFTA) | 9,190,009 | 9,289,632 | (1.1)% | 13,785,698 | 14,488,871 | (4.9)% | 14,738,234 | (1.7)% | 16,003,436 | (7.9)% | |
| US (incl. light trucks) | 8,465,186 | 7,662,414 | 10.5% | 11,590,340 | 10,432,577 | 11.1% | 13,246,951 | (21.2)% | 16,153,913 | (18.0)% | |
| Japan | 2,198,477 | 3,061,736 | (28.2)% | 4,212,280 | 3,923,741 | 7.4% | 4,227,643 | (7.2)% | 4,400,299 | (3.9)% | |
| Brazil (incl. commercials) | 2,370,803 | 2,194,810 | 8.0% | 3,515,064 | 3,141,240 | 11.9% | 2,193,277 | 43.2% | 1,975,518 | 11.0% | |
| China (incl. commercials) | 11,569,640 | 10,959,285 | 5.6% | 14,930,000 | 11,340,000 | 31.7% | 8,894,702 | 27.5% | 7,900,000 | 12.6% | |
| World | 41,594,000 | 39,705,000 | 4.8% | 72,200,000 | 59,250,000 | 13.2% | 65,000,000 | (8.8)% | 68,000,000 | (4.4)% | |

Source: ACEA, Automotive News, IHS, JAMA, ANFAVEO

US sales by brand (passenger cars and light trucks)

| | August 2011 YTD | | August 2010 YTD | | Regs Δ 2010/ 2008 | FY2010 | | FY2008 | | Regs Δ 2008/ 2009 | FY2008 | | Regs Δ 2008/ 2009 | FY2007 | | Regs Δ 2007/ 2008 |
|---------------|-----------------|---------|-----------------|---------|-------------------------|------------|---------|------------|---------|-------------------------|------------|---------|-------------------------|------------|---------|-------------------------|
| | Units | Share % | Units | Share % | | Units | Share % | Units | Share % | | Units | Share % | | Units | Share % | |
| Ford | 1,366,780 | 16.1% | 1,155,713 | 15.1% | 18.3% | 1,752,511 | 15.1% | 1,440,653 | 13.8% | 21.6% | 1,680,321 | 12.7% | (14.3%) | 2,087,048 | 12.9% | (19.5%) |
| Chevrolet | 1,206,322 | 14.2% | 1,052,773 | 13.7% | 14.6% | 1,563,881 | 13.5% | 1,338,612 | 12.8% | 16.8% | 1,790,519 | 13.5% | (25.2%) | 2,250,352 | 13.9% | (20.4%) |
| Toyota | 918,651 | 10.9% | 988,992 | 12.9% | (7.1%) | 1,488,588 | 12.8% | 1,496,211 | 14.3% | (0.5%) | 1,843,667 | 13.9% | (18.8%) | 2,161,467 | 13.4% | (14.7%) |
| Honda | 691,129 | 8.2% | 729,407 | 9.5% | (5.2%) | 1,096,874 | 9.5% | 1,045,061 | 10.0% | 5.0% | 1,284,106 | 9.7% | (18.6%) | 1,371,439 | 8.5% | (6.4%) |
| Nissan | 617,413 | 7.3% | 533,004 | 7.0% | 15.8% | 805,159 | 6.9% | 689,014 | 6.6% | 16.9% | 838,361 | 6.3% | (17.8%) | 941,200 | 5.8% | (10.9%) |
| Hyundai | 440,863 | 5.2% | 363,491 | 4.7% | 21.3% | 538,228 | 4.6% | 435,066 | 4.2% | 23.7% | 401,742 | 3.0% | 8.3% | 467,009 | 2.9% | (14.0%) |
| Dodge | 305,368 | 3.6% | 266,747 | 3.5% | 14.5% | 383,675 | 3.3% | 522,686 | 5.0% | (26.6%) | 784,113 | 5.9% | (33.3%) | 1,058,402 | 6.6% | (25.9%) |
| Kia | 331,796 | 3.9% | 237,954 | 3.1% | 39.4% | 356,269 | 3.1% | 300,063 | 2.9% | 18.7% | 273,397 | 2.1% | 9.8% | 305,473 | 1.9% | (10.5%) |
| GMC | 261,740 | 3.1% | 204,558 | 2.7% | 28.0% | 333,204 | 2.9% | 253,053 | 2.4% | 31.7% | 361,739 | 2.7% | (30.0%) | 484,932 | 3.0% | (25.4%) |
| Jeep | 268,228 | 3.2% | 178,943 | 2.3% | 49.9% | 291,138 | 2.5% | 231,701 | 2.2% | 25.7% | 333,901 | 2.5% | (30.6%) | 475,237 | 2.9% | (29.7%) |
| Subaru | 174,616 | 2.1% | 172,182 | 2.2% | 1.4% | 263,820 | 2.3% | 216,652 | 2.1% | 21.8% | 187,699 | 1.4% | 15.4% | 187,121 | 1.2% | 0.3% |
| Volkswagen | 208,422 | 2.5% | 172,747 | 2.3% | 20.7% | 256,830 | 2.2% | 213,453 | 2.0% | 20.3% | 223,127 | 1.7% | (4.3%) | 230,571 | 1.4% | (3.2%) |
| Mazda | 165,794 | 2.0% | 156,190 | 2.0% | 6.1% | 229,566 | 2.0% | 207,767 | 2.0% | 10.5% | 263,949 | 2.0% | (21.3%) | 295,713 | 1.8% | (10.7%) |
| Mercedes-Benz | 159,082 | 1.9% | 144,753 | 1.9% | 9.9% | 225,026 | 1.9% | 190,514 | 1.8% | 18.1% | 225,005 | 1.7% | (15.3%) | 253,277 | 1.6% | (11.2%) |
| Lexus | 120,652 | 1.4% | 145,490 | 1.9% | (17.1%) | 229,329 | 2.0% | 215,975 | 2.1% | 6.2% | 260,087 | 2.0% | (17.0%) | 329,177 | 2.0% | (21.0%) |
| Chrysler | 133,992 | 1.6% | 140,755 | 1.8% | (4.8%) | 197,446 | 1.7% | 177,015 | 1.7% | 11.5% | 335,108 | 2.5% | (47.2%) | 543,011 | 3.4% | (38.3%) |
| BMW | 155,929 | 1.8% | 139,236 | 1.8% | 12.0% | 220,113 | 1.9% | 196,502 | 1.9% | 12.0% | 249,113 | 1.9% | (21.1%) | 293,795 | 1.8% | (15.2%) |
| Ram | 163,401 | 1.9% | 133,698 | 1.7% | 22.2% | 212,952 | na | na | na | na | na | na | na | na | na | na |
| Buick | 126,493 | 1.5% | 101,125 | 1.3% | 25.1% | 155,389 | 1.3% | 102,306 | 1.0% | 51.9% | 137,197 | 1.0% | (25.4%) | 185,791 | 1.2% | (26.2%) |
| Cadillac | 100,450 | 1.2% | 92,393 | 1.2% | 8.7% | 146,925 | 1.3% | 109,092 | 1.0% | 34.7% | 161,159 | 1.2% | (32.3%) | 214,726 | 1.3% | (24.9%) |
| Other | 548,303 | 6.5% | 552,602 | 7.2% | (0.8%) | 843,417 | 7.3% | 1,051,181 | 10.1% | (19.8%) | 1,612,641 | 12.2% | (34.8%) | 2,018,172 | 12.5% | (20.1%) |
| Total | 8,465,424 | | 7,662,753 | | 10.5% | 11,590,340 | | 10,432,577 | | 11.1% | 13,246,951 | | (21.2%) | 16,153,913 | | (18.0%) |

Source: Automotive News

EU

- YTD registrations were 1.1% down on 2010, but with huge variance between different markets
- Germany was up 11.2% and France continued to show marginal growth (0.4%), but the UK, Italy (-12.0%) and Spain (-22.2%) all slipped significantly YTD
- The EU displayed a north-south divide reflecting wider economic patterns, with almost all markets in central/northern Europe growing but southern markets and the UK down in decline, with Greece falling by 38.1%
- However, August saw growth in most European markets including all the major countries, possibly indicating a bottoming out of the

decline experienced by some countries

- The VW brand continued to grow its share in the number one spot, up 7.9% for a 12.3% share of the market; Ford and Renault remained in second and third places but fell by 4.3% and 10.4% respectively YTD
- Nissan was the big winner among the volume brands with growth of 14.8%, while emerging brands Hyundai and Skoda grew by 10.0% and 8.6% respectively
- Premium makes continue to outperform the market across Europe, with Audi and BMW both up more than 8%, MINI recording 24.0% growth and Lexus up 34.6% on the back of the launch of the CT200h compact hybrid;

Volvo showed 13.7% growth as it settled into Chinese ownership and benefited from the launch of the new S/V60

- As in the UK, most of the Japanese brands continue to struggle, Mazda down 24.1%, Honda 23.1%, Toyota 10.1% and Suzuki 9.1%

Automotive Messenger

Other Major Markets

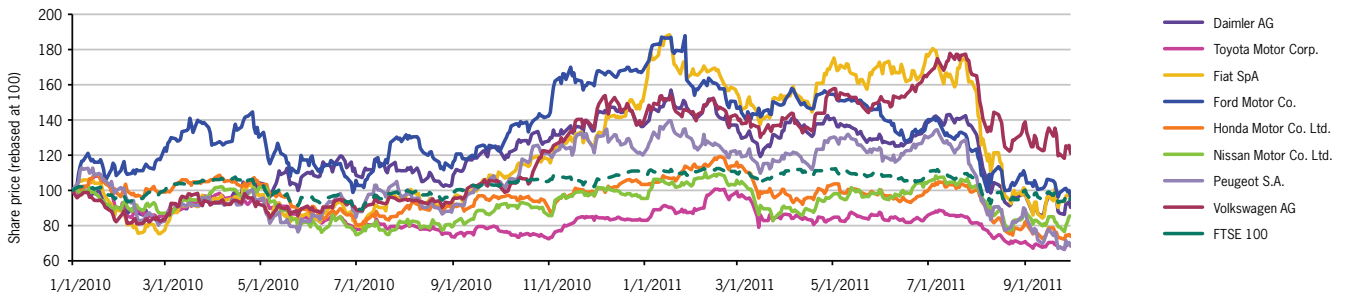
- The US light vehicle market was up 10.5% to the end of August, slowing from 20% growth to April
- Supply issues following the Japanese earthquake have inhibited US sales to some extent, but pent-up demand resulting from the long-term economic difficulties is allowing retail business to remain buoyant
- Japan is stabilising after the earthquake but the depressed economy means that the market remained 28.2% down to the end of August, albeit improving from a fall of 38% to June
- The Chinese market grew 5.6%, slowing down dramatically from full-year growth of almost 32% in 2010 and Q1 2011 growth of 9.0%, reflecting government measures to avoid an economic bubble and to control congestion and pollution; 2011 full-year forecasts now estimate 5% growth
- Growth in India for Q2 was 15.1%, slowing from 22.6% in Q1; forecasts are for 10-12% growth for the 12 months to April 2012; Brazil showed growth of 8% to August, far exceeding the forecast 4.2%
- Russia is recovering rapidly from the downturn, with sales increasing 85% by value in the first half of the year and the market expected to grow by as much as 35% over 2011 in volume terms according to Renault, which is investing heavily in the country; Russia is predicted to become Europe's largest market by 2015

Economic snapshot (in GBP, as at 1 October 2011)

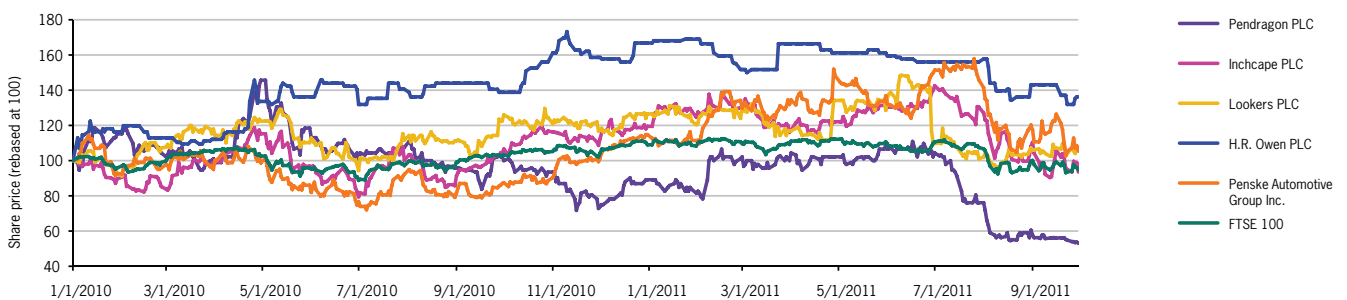
| Economic snapshot (in GBP, as at 1 October 2011) | | | | | | | |
|--|----------------------|-----------------------|-----------------------|-----------------------|------------------------------|--------------------|---------------------------|
| | Last share price (£) | % change in last year | Market Cap (£million) | Latest quarterly EBIT | Previous year quarterly EBIT | Latest Annual EBIT | Previous year annual EBIT |
| OEMs | | | | | | | |
| Audi AG | 450.4 | (12.7)% | 19,369 | 952 | 424 | 2,294 | 613 |
| BMW AG | 43.0 | (2.9)% | 25,906 | 2,416 | 1,370 | 4,381 | 56 |
| BYD Co. Ltd. | 1.1 | (78.9)% | 862 | na | na | 254 | 397 |
| Daihatsu Motor Co. Ltd. | 11.7 | 26.1% | 5,012 | 130 | 253 | 777 | 275 |
| Daimler AG | 29.0 | (27.6)% | 30,885 | 1,956 | 1,474 | 6,010 | (785) |
| Fiat SpA | 3.5 | (13.2)% | 3,853 | 463 | 559 | 953 | 747 |
| Ford Motor Co. | 6.2 | (21.0)% | 23,148 | 2,116 | 2,664 | 8,297 | 1,052 |
| Geely Automobile Holdings Ltd. | 0.1 | (54.5)% | 1,076 | na | na | 126 | 117 |
| Honda Motor Co. Ltd. | 19.1 | (22.4)% | 34,682 | 170 | 1,708 | 4,279 | 2,457 |
| Hyundai Motor Co. Ltd. | 115.0 | 37.9% | 25,326 | 1,157 | na | 5,107 | 2,822 |
| Mazda Motor Corp. | 1.3 | (21.4)% | 2,343 | (174) | 46 | 179 | 64 |
| Mitsubishi Corp. | 13.3 | (19.6)% | 21,923 | 633 | 748 | 2,374 | 1,226 |
| Nissan Motor Co. Ltd. | 5.8 | (4.9)% | 26,091 | 1,131 | 1,224 | 4,037 | 2,105 |
| Peugeot S.A. | 13.9 | (34.5)% | 3,259 | na | na | 1,539 | (614) |
| Porsche Automobil Holding SE | 31.2 | 16.6% | 4,776 | na | na | (74) | (4,833) |
| Renault S.A. | 21.6 | (33.6)% | 6,385 | na | na | 942 | (353) |
| SAIC Motor Corp. Ltd. | 1.6 | (5.2)% | 14,847 | 502 | 502 | 1,840 | 184 |
| Suzuki Motor Corp. | 14.3 | (1.9)% | 8,046 | 192 | 233 | 800 | 533 |
| Toyota Motor Corp. | 22.4 | (10.3)% | 77,187 | (812) | 1,542 | 3,517 | 996 |
| Volkswagen AG | 80.3 | 15.3% | 23,681 | 2,030 | 1,428 | 4,380 | (866) |
| Retailers | | | | | | | |
| Pendragon PLC | 0.1 | (48.1)% | 134 | na | na | 61 | 54 |
| Inchcape PLC | 2.8 | (10.4)% | 1,287 | na | na | 225 | 171 |
| Lookers PLC | 0.5 | (13.8)% | 199 | na | na | 45 | 43 |
| H.R. Owen PLC | 0.8 | (1.9)% | 19 | na | na | 2 | (2) |
| Penske Automotive Group Inc. | 10.3 | 21.2% | 946 | 44 | 42 | 156 | 134 |
| Group 1 Automotive Inc. | 22.8 | 19.0% | 540 | 33 | 25 | 102 | 83 |
| Suppliers | | | | | | | |
| Denso Corp. | 20.9 | 1.5% | 18,488 | (33) | 515 | 1,415 | 923 |
| Magna International Inc. | 21.3 | (17.9)% | 5,165 | 204 | 258 | 783 | (197) |
| Johnson Controls Inc. | 16.9 | (13.5)% | 11,506 | 250 | 238 | 928 | 308 |
| Aisin Seiki Co. Ltd. | 21.7 | 0.1% | 6,395 | (36) | 314 | 1,031 | 591 |
| TRW Automotive Holdings Corp. | 21.0 | (21.2)% | 2,599 | 221 | 202 | 770 | 250 |
| GKN PLC | 1.8 | 3.8% | 2,732 | na | na | 429 | 102 |
| ThyssenKrupp AG | 16.0 | (22.5)% | 8,218 | 406 | 363 | 706 | (1,503) |

Source: Factset

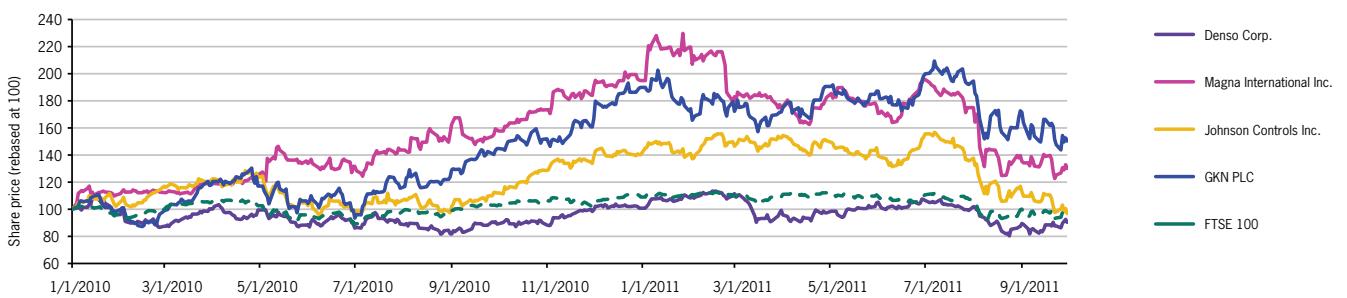
Selected OEMs share price performance



Selected retailers share price performance



Selected suppliers share price performance



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