

Investor  
Presentation

# Teknosa İç ve Dış Ticaret A.Ş.

## *2Q15 Results*

**«Turkey's Leading Electronics Retailer»**

Korhan Bilek, CFO

Erman Tütüncüoğlu, Head of IR

*August 03, 2015*

Leading the market with pioneer services & products...

1

**Strong Growth Potential in the Market**

- Young population with higher tendency for electronics spending
- Turkey's CE retail is under-penetrated, growing strongly with favorable demographics and rising per capita income

2

**Undisputed Market Leader**

- Having the first-mover advantage, Teknosa is the by far market leader amongst electronics retailers

3

**Flexible Store Formats Supporting Fast Expansion**

- Three different store formats and assortment matching diverse customer needs & different store sizes supporting fast expansion

4

**On-line Platforms**

- Emphasizing growth both as an omni-channel player through teknosa.com and as a pure player through kliksa.com

5

**Financial Strength**

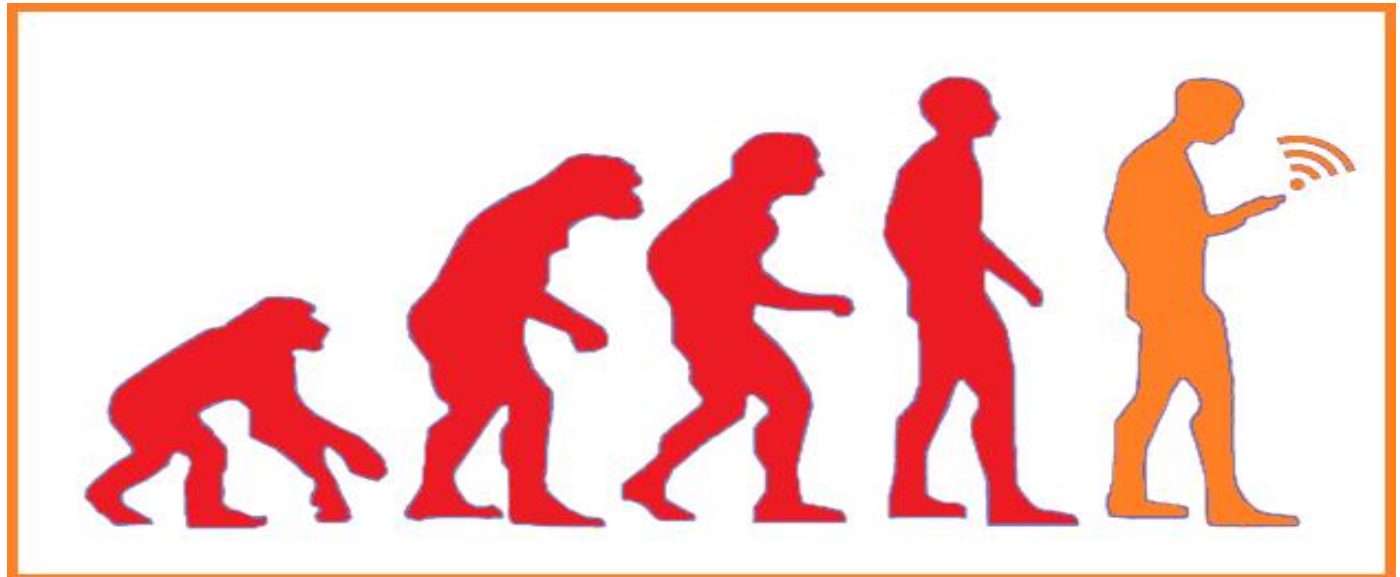
- Strong & debt free balance sheet
- Strong cash flow generation supported by the negative working capital cycle

6

**Strong Operational and Technical Infrastructure**

- Targeted marketing via advanced ERP and CRM programs
- Teknosa Akademi, the first and only training program in electronics retail
- State of the art logistics infrastructure

The evolution towards a «Service Provider» continues...



Pioneer  
services &  
products  
launched over  
the last year...

- Teknosa will continue to differentiate itself from the competition in 2015, carrying on its evolution into a «service provider» from a «classical box mover»
- As the first step towards this goal, «**TeknoFinans**» was launched in June 2014, offering new financing options to our customers
- «**Teknosa Mobil**» launched in February 2015, rendering Teknosa as the first & only Electronics Retailer in Turkey offering complete telecom services under its own brand
- «**Teknosa Preo**» branded smartphone and smartwatch was launched in July 2015 as the first private label product by an electronic retailer in Turkey



TeknoFinans:  
~90,000 loans  
~8% share in  
sales...

TEKNOSA

AKBANK

ING  BANK

- After its launch in June 2014 in collaboration with ING Bank, consumer financing business saw a rapid increase in the number of applicants.
- Akbank also entered into picture in October 2014 with its wide network, which makes a positive impact on growth figures.
- Consumers are benefitting from installments up to 36 months on every product, with interest rates rivalling mortgages and without bearing any additional fees.
- Unlike the competition, Teknosa is partnering with larger scale banks with better IT structures for its consumer financing program, helping the procedures to run smoothly and without a glitch.
- Consumer financing business saw a rapid increase in the number of applicants, particularly in 2Q15.
- Sales are en-route to our 10% target.

Teknosa Mobil  
is to support  
growth in  
Telecom  
segment...

## The First & Only Electronic Retailer in Turkey Offering Complete Telecom Services under its Own Brand



- **Creating synergies with the existing product line, while also turning the business to a profit center by utilizing a revenue sharing model**



- ✓ Utilizing Teknosa's strong brand image synonymous with high-tech products to attract subscribers
- ✓ Wide store network reaching all cities of Turkey, visited by ~100mn people each year
- ✓ ~1mn mobile phones sold in 2014, which is to be further boosted with Teknosa Mobil
- ✓ **We aim to achieve a subscriber base of 100K in YE15 and expand it to 1mn by YE18**

## Benefits of the MVNO...

- **To offer a «one-stop-shop» experience for the customers where the product and the related services are offered under one roof**



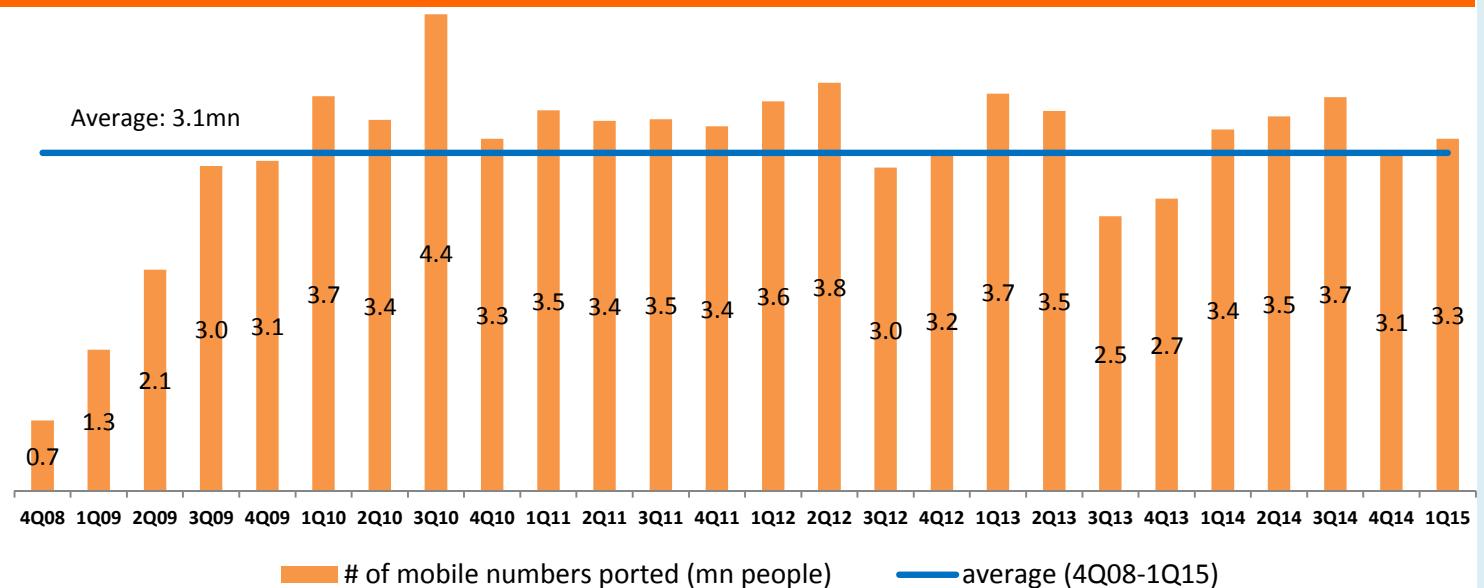
- ✓ The lack of GSM contract options in the TSS channel prevents it to be the #1 address in customer's mind in telecom products
- ✓ Coupled with Teknosa's wide product range, we aim to garner market share in telecom segment in all channels

- **To create a continuous & closer relationship with the customer via the monthly receipt**
- **New private label products to further enhance the already sizeable product spectrum**

Telecom customers are responsive to new offers...

- As of 1Q15, there are 72mn subscribers in the sector
- Mobile penetration stands at 92.7% in Turkey as of 1Q15, indicating further growth potential compared to 135% average in major EU countries
- Since the law came into effect in November 2008, an average of 3.1mn subscribers per quarter carried their mobile numbers to an other operator

Mobile Numbers Ported Per Quarter: 3.1 million



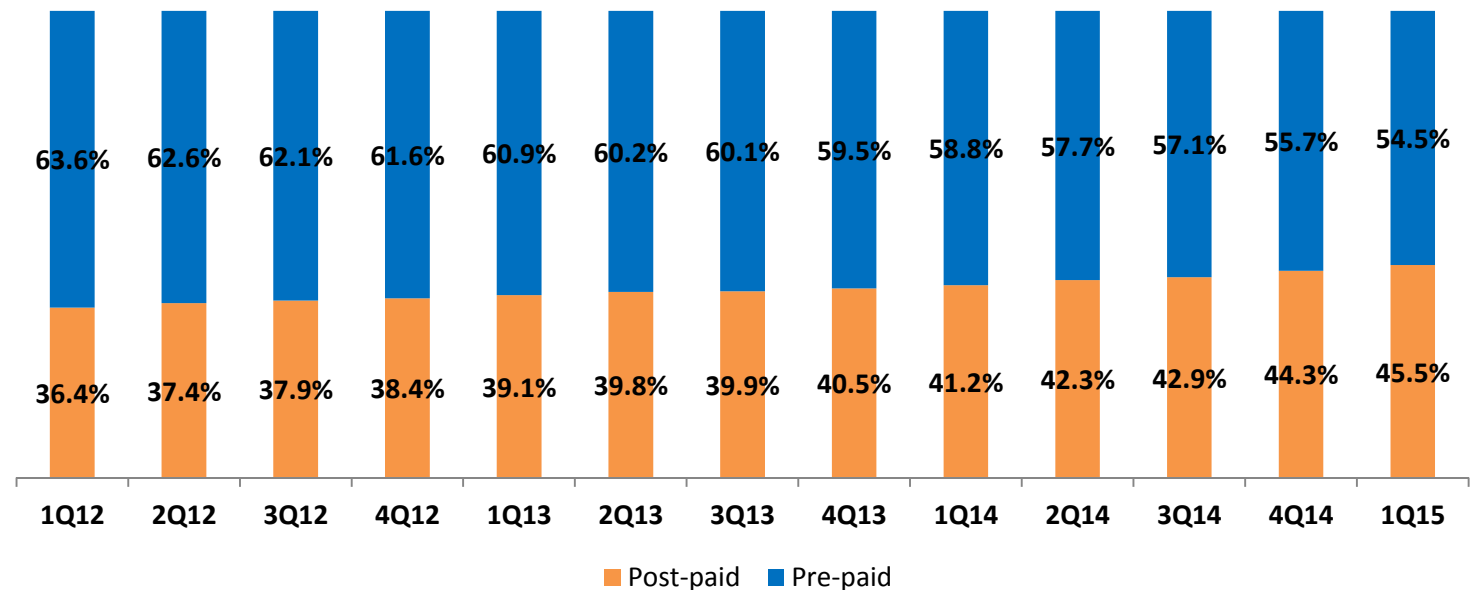
Source: Information and Communication Technologies Authority



Higher value post paid customers are increasing...

- The share of post-paid subscribers increased by 9.1pps since 1Q12, reaching 46% in 1Q15, supporting our strategy of offering post-paid contracts initially
- The share of post-paid contracts in Turkey points out to further growth opportunities, vis-a-vis 61% average in major EU countries
- Post paid subscribers also complement our strategy to target the middle segment

Breakdown of Post-Paid / Pre-Paid Subscribers



Source: Information and Communication Technologies Authority

First private  
label product  
offered by a  
Turkish  
Electronics  
Retailer ...

- Teknosa launched its own private label products (Preo smartphone, smart watch and phone case) in the telecom category – the largest category in the electronics market
- This initiative not only aims to increase the margins but also enhance Teknosa Mobil sales through bundled offers
- As the next step, new private label categories such as accessories, complimentary products and tablets are being analyzed, while discussions with different suppliers continue

preo  
TEKNOSA



## Agenda

### Results at a Glance

Electronics Retail Market

Financial Overview

Year-end Guidance

## Main messages

### **Strong e-commerce performance maintained...**

- E-commerce has been the growth engine with 29% YoY increase in 2Q15 to TL 94mn
- 13% of Net Sales in 2Q15; from 10% in 2Q14

### **Weak consumer confidence continued to put a cap on top-line growth...**

- Fragility of TL coupled with uncertainties prior to elections dragged CCI as low as 64.4 in May, the trough point of last 6 years

### **Improvement in existing value added services continue, while new ones are being launched ...**

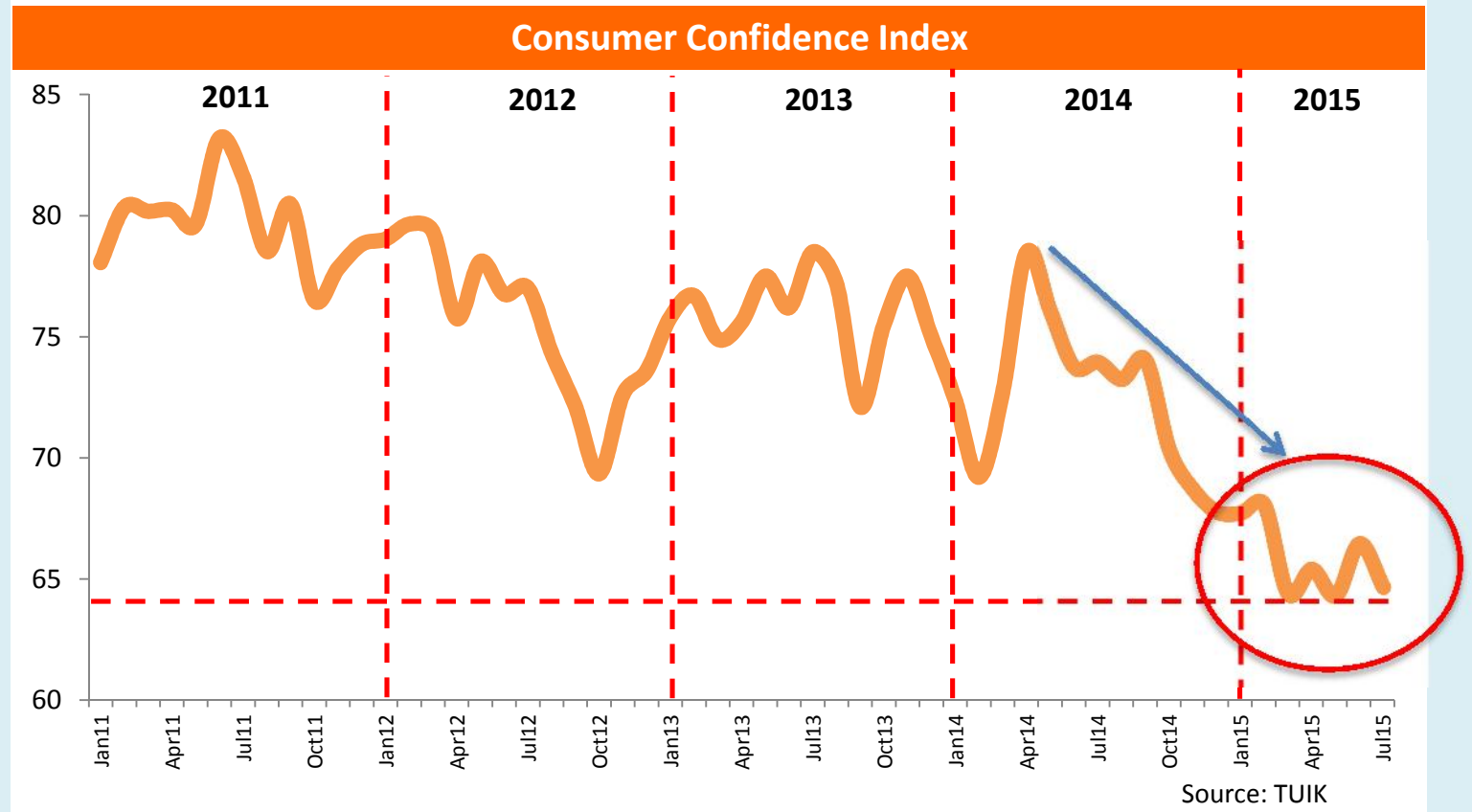
- Aftersales services revenues up by +20% YoY in 1H15, despite a stagnant topline
- Consumer credit gained further traction with +90k loans issued over the last year, claiming 7-8% share in our sales
- Mobile service launched in February
- Teknosa Preo: The first private label product by a Turkish Electronics Retailer

### **Marketing expenses are the major culprit behind lower EBITDA in 2Q15...**

- EBITDA margin pressurized by higher marketing expenses to promote Teknosa Mobil and higher on-line marketing expenses

CCI anchored to the trough point of last six years...

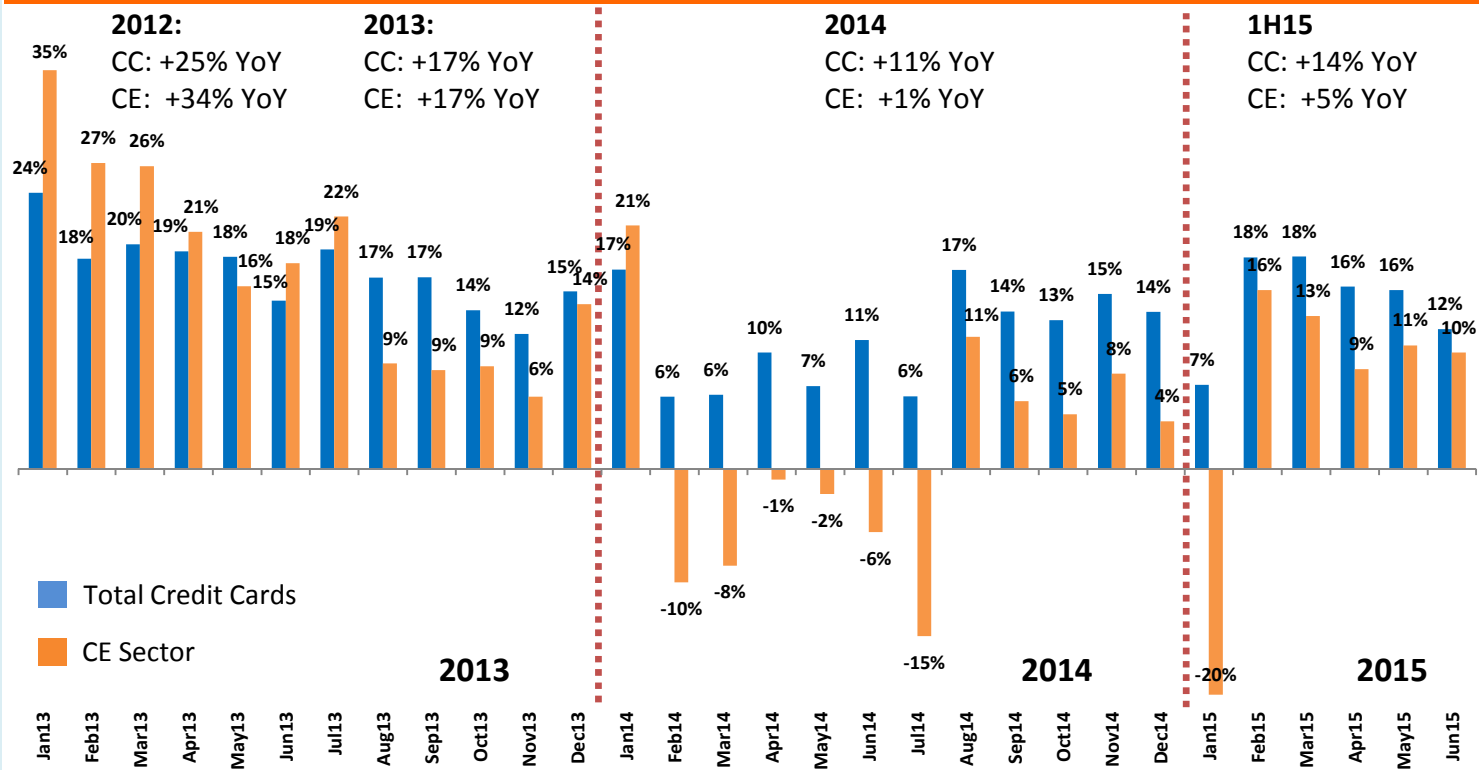
- Outlook in the global economy was volatile amidst the declining oil prices and stronger US\$ in 2014, and the Consumer Confidence Index hit the trough point of the last 4 years in December. With macro and political uncertainties in Turkey, the downward trend has endured in 1Q15, pushing CCI further back to 2009 levels in March, with no improvement in 2Q15



## Consumer Electronics spending via Credit Cards is improving...

- Due to the high base year effect of January 2014, CE spending via credit cards remained at 5% in 1H15. However, double digit growth rates attained since February 2015, boding well for the remainder of the year

YoY Growth Rates of Credit Card Total and CE Sector Spending



**2012:**  
CC: +25% YoY  
CE: +34% YoY

**2013:**  
CC: +17% YoY  
CE: +17% YoY

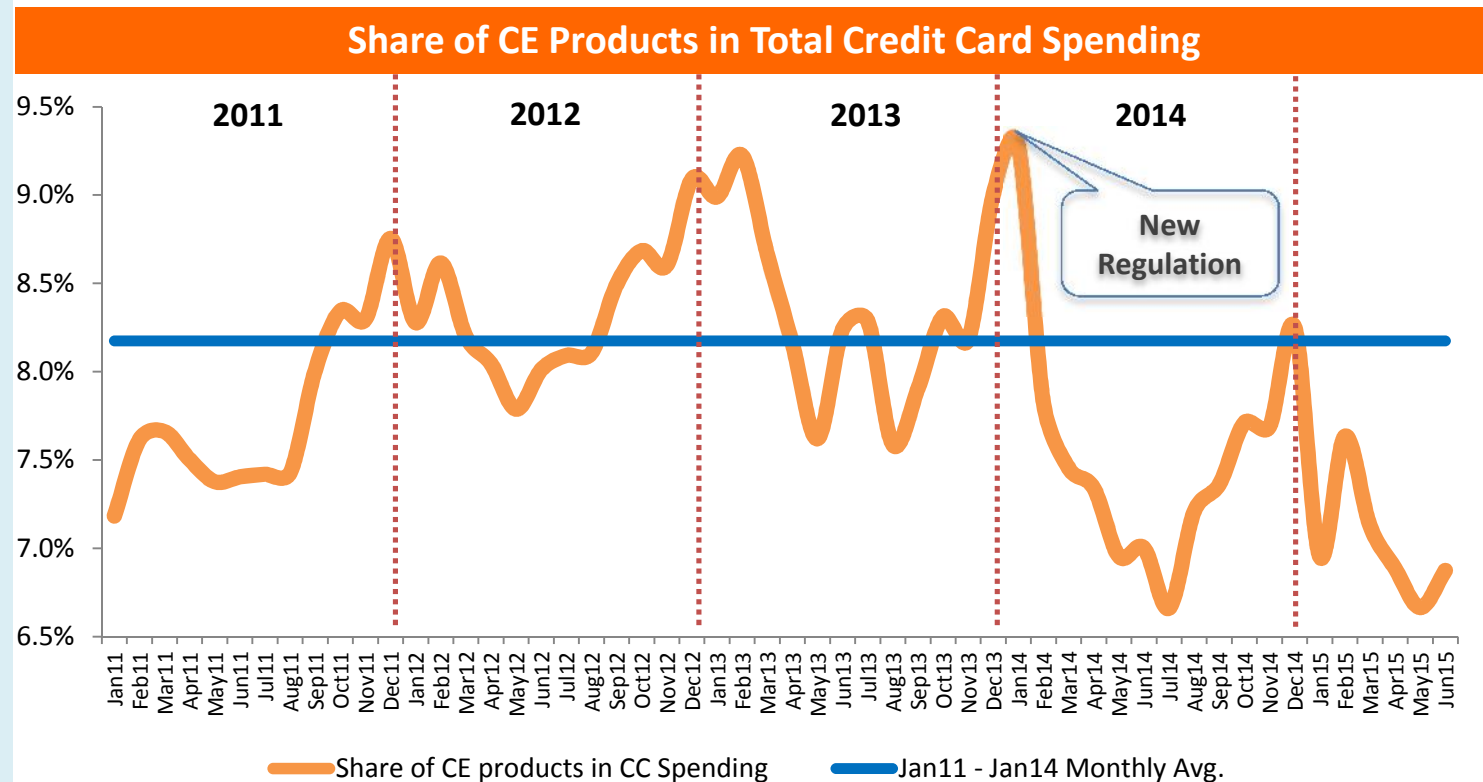
**2014:**  
CC: +11% YoY  
CE: +1% YoY

**1H15:**  
CC: +14% YoY  
CE: +5% YoY

■ Total Credit Cards  
■ CE Sector

Yet, the wallet share of CE products in CC spending is declining...

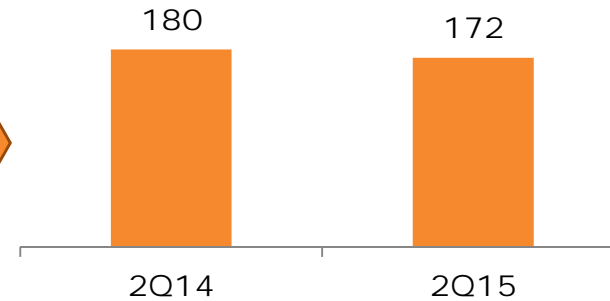
- The share of CE spending via credit cards deteriorated after the credit card law until Jul14 then improved towards pre-law average until Dec14
- The weakness since the beginning of 2015 seems to stem from low consumer confidence due to political & macro economic uncertainties and weak TL making a negative impact on retail prices



Source: Interbank Card Center

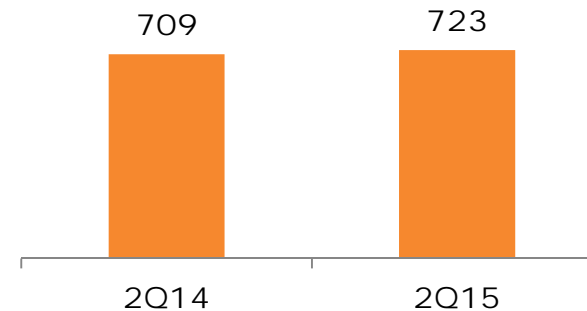
## 2Q15 Results

### Net Sales Area (‘000 m2)



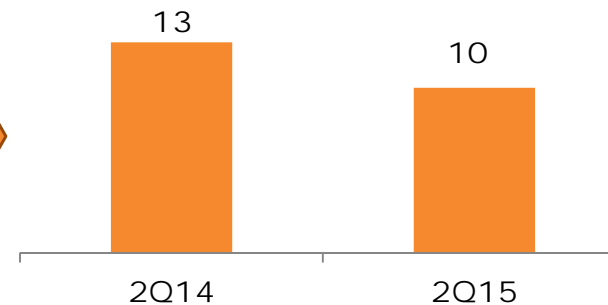
- 8 stores opened while 7 stores closed in 2Q15

### Net Sales (TL mn)



- Revenue growth despite:
  - Lowest CCI in the last 6 years,
  - Negative FX impact on retail prices

### EBITDA (TL mn)



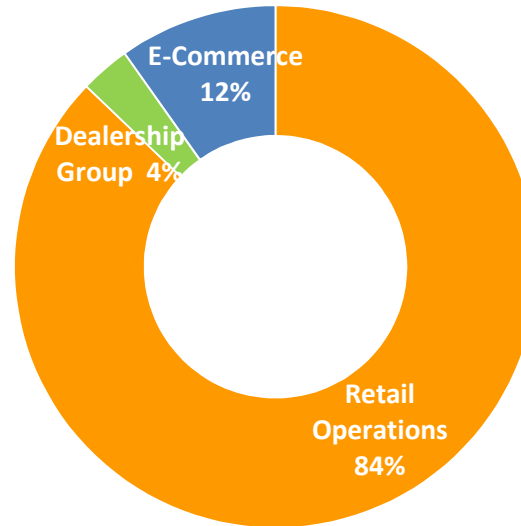
- EBITDA margin from 1.8% to 1.4%:
  - Marketing expenses of Teknosa Mobil



## Revenues by activity

Teknosa operations are composed of Retail, Dealership and e-commerce activities

Revenue Breakdown as of 1H15



### E-trade Operations

**KLİKSA**.com

- Separate legal entity **fully owned by Teknosa**
- Started operations in **March 2012**

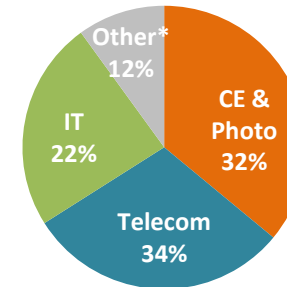
**TEKNOSA**.com

- Started operations in **2005**

### Retail Operations

**TEKNOSA**

Revenue Breakdown by Product Groups as of 1H15



\* Consists of major and small domestic appliances and warranty sales

### Dealership Group

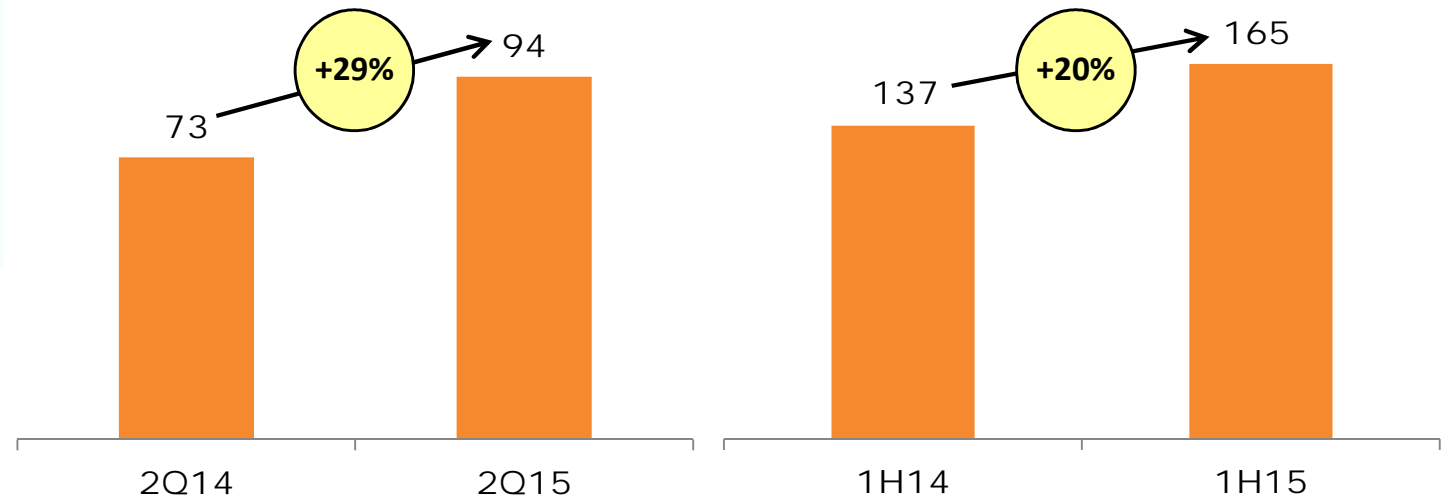
**iklimSA**  
Türkiye'nin İklimlendirme Merkezi

Revenue Breakdown by Product Groups as of 1H15

- Air Conditioners: 97%**
- Refrigerators: 3%**

Strong growth  
in e-commerce  
revenues...

E-Commerce (teknosa.com + kliksa.com) Revenues (TLmn)



- Growth in e-commerce is expected to maintain the high pace
- E-commerce revenues are anticipated to exceed TL 400mn in 2015
- The share of e-commerce is to reach 25% of revenues over the next 5 years
- Further investments in order to improve omni-channel model for teknosa.com and implement a marketplace model for kliksa.com
- «Click & Collect» is fully integrated into teknosa.com (reached over 10% of sales)
- 700k customers are directed to stores via online site or mobile (per month)
- Mobile applications are used by ~1mn users, constituting ~15% of internet sales

## Our Platforms on E-commerce: kliksa.com & teknosa.com



**Two legged strategy in e-commerce which aimed to gain share in both electronics retail market and fast developing e-commerce business:**

**Reached 13% of total retail sales in 2Q15**

Kliksa.com	Teknosa.com
<ul style="list-style-type: none"> <li>➤ Aims to gain share in fast growing e-commerce business</li> <li>➤ Combining Sabancı brand with the modern online shopping experience</li> <li>➤ Targets to become a leading player in B2C e-commerce</li> <li>➤ # of visits/month reached ~5 million</li> <li>➤ Kliksa.com will soon become an important part of total Teknosa sales</li> </ul>	<ul style="list-style-type: none"> <li>➤ Teknosa.com is the critical component of Teknosa's multi channel strategy</li> <li>➤ Sets the web to store link</li> <li>➤ Considered as a 4th store format which enables;               <ul style="list-style-type: none"> <li>▪ Customers in provinces with smaller store assortment to reach the whole product range</li> <li>▪ To prevent stock-outs</li> </ul> </li> <li>➤ # of visits/month reached ~9 million</li> </ul>

## E-commerce Market in Turkey (2014)

- **Ratio of household with internet access** increased from 20% to **60%** in 2007-2014 period (2013: 49%).
- Number of **internet users** increased to **54 million** (2013: 49 million).
- Ratio of **online shoppers among internet users** is **31%** (2013: 24%). The category breakdown of online purchase is as follows:
  - 52% apparel and sport equipment; 27% house goods; 25% electronics; 26% travelling & 16% books
  - 3G users in TR reached 58 million in 2014 from 49 million in 2013
- Broadband penetration is 57% (OECD average: 78%)
- The main factors stimulating the growth are;
  - Increasing share of internet users who made a purchase online
  - Secure e-trade (3D secure) application,
  - Various incentive/discount campaigns
  - High credit card penetration (~75% )
  - Internet banking active users: +10 million

## E-Commerce Global Comparison (2014)

Country	Online Retail / Total Retail	Internet Penetration	Mobile Broadband Penetration	Online Shoppers	Mobile Shoppers	Per Capita Income (PPP - '000 US\$)	Population (mn)
UK	12.2%	89%	86%	64%	18%	39.5	64.5
USA	8.4%	87%	87%	56%	17%	54.6	319.0
Germany	7.5%	89%	87%	63%	20%	45.9	81.1
France	6.2%	84%	67%	49%	12%	40.4	63.9
Japan	6.2%	86%	118%	40%	6%	37.4	127.1
Spain	3.1%	77%	70%	44%	17%	33.7	46.5
Italy	2.2%	60%	91%	39%	16%	35.5	60.0
	6.5%						
China	8.5%	47%	44%	37%	27%	12.9	1,367.8
Poland	5.8%	67%	84%	44%	14%	25.1	38.0
Brazil	3.5%	54%	76%	36%	15%	16.1	202.7
Russia	3.3%	60%	55%	30%	8%	24.8	143.7
India	1.5%	19%	8%	14%	9%	5.9	1,259.1
	4.5%						
<b>TURKEY</b>	<b>1.6%</b>	<b>54%</b>	<b>76%</b>	<b>33%</b>	<b>19%</b>	<b>19.6</b>	<b>76.9</b>

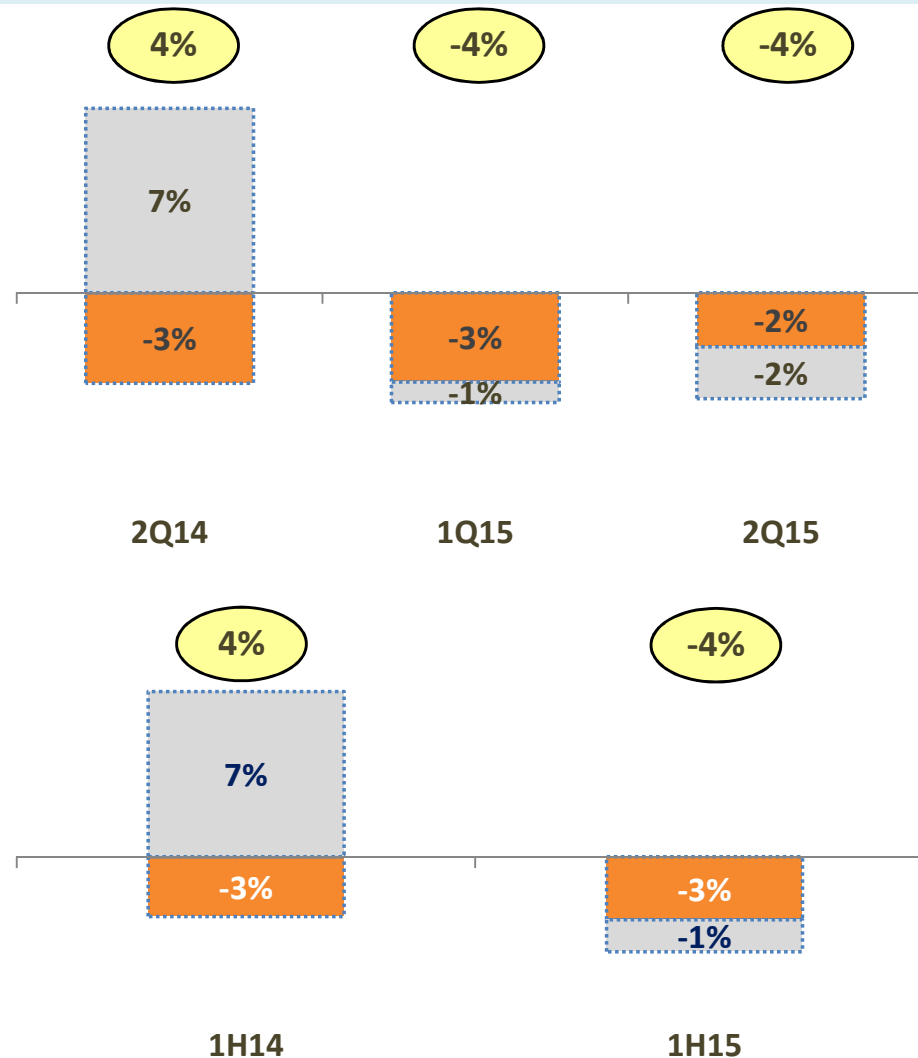
Source: TUBISAD (Informatics Industry Association)

## Key Performance Indicators (Retail Operations)

Teknosa Key Performance Indicators (Retail Operations)								
	2Q14	1Q15	2Q15	YoY (%)	QoQ (%)	1H14	1H15	YoY (%)
Number of Provinces	78	81	81	4%	0%	78	81	4%
Net Sales Area ('000 sqm )	180	167	172	-4%	3%	180	172	-4%
Number of Stores	306	287	288	-6%	0%	306	288	-6%
Number of Visitors (mn)	23	23	21	-9%	-9%	50	45	-11%
Number of Customers (mn)	1.8	1.7	1.6	-11%	-9%	3.7	3.3	-9%
Conversion Rate	7.6%	7.4%	7.5%	-0.1pp	0.1pp	7.3%	7.4%	0.2pp
Average Basket Size (TL)	348	334	369	6%	10%	333	351	5%

- Teknosa has the highest penetration among Technical Super Stores with **288 stores in all 81 provinces of Turkey and 172K m2 net sales area** as of 2Q15
- Teknosa stores were visited by 45 million people in 1H15
- 17bps YoY improvement in conversion rate in 1H15

# Retail Operations Revenue Growth Analysis



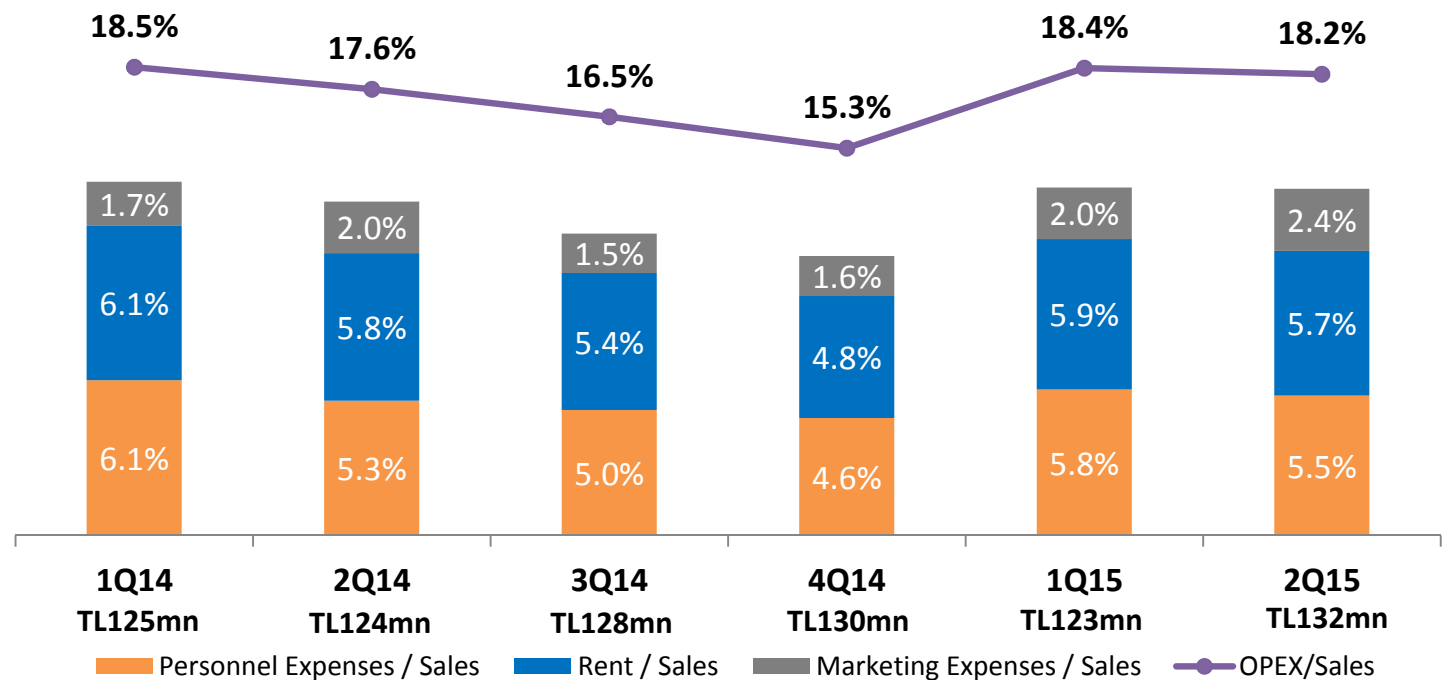
- Low consumer confidence continued to pressurize sales in 2Q15
- High single digit LfL growth in May switched back to negative during the election period in June

■ Like for Like Growth    
 ■ Net Expansion = New store openings – closings

## Quarterly OPEX Breakdown

- Despite TL depreciation, rent costs remained flat YoY in TL terms in 2Q15 thanks to contract renegotiations held since mid-2014
- Marketing expenses were up by 16% YoY in 2Q15 due to the costs related to the launch of Teknosa Mobil & web related digital marketing expenses
- Personnel costs were up by 6% YoY in 2Q15, mostly stemming from wage increases

Shares of Major OPEX Items in Net Sales





## Agenda

Results at a Glance

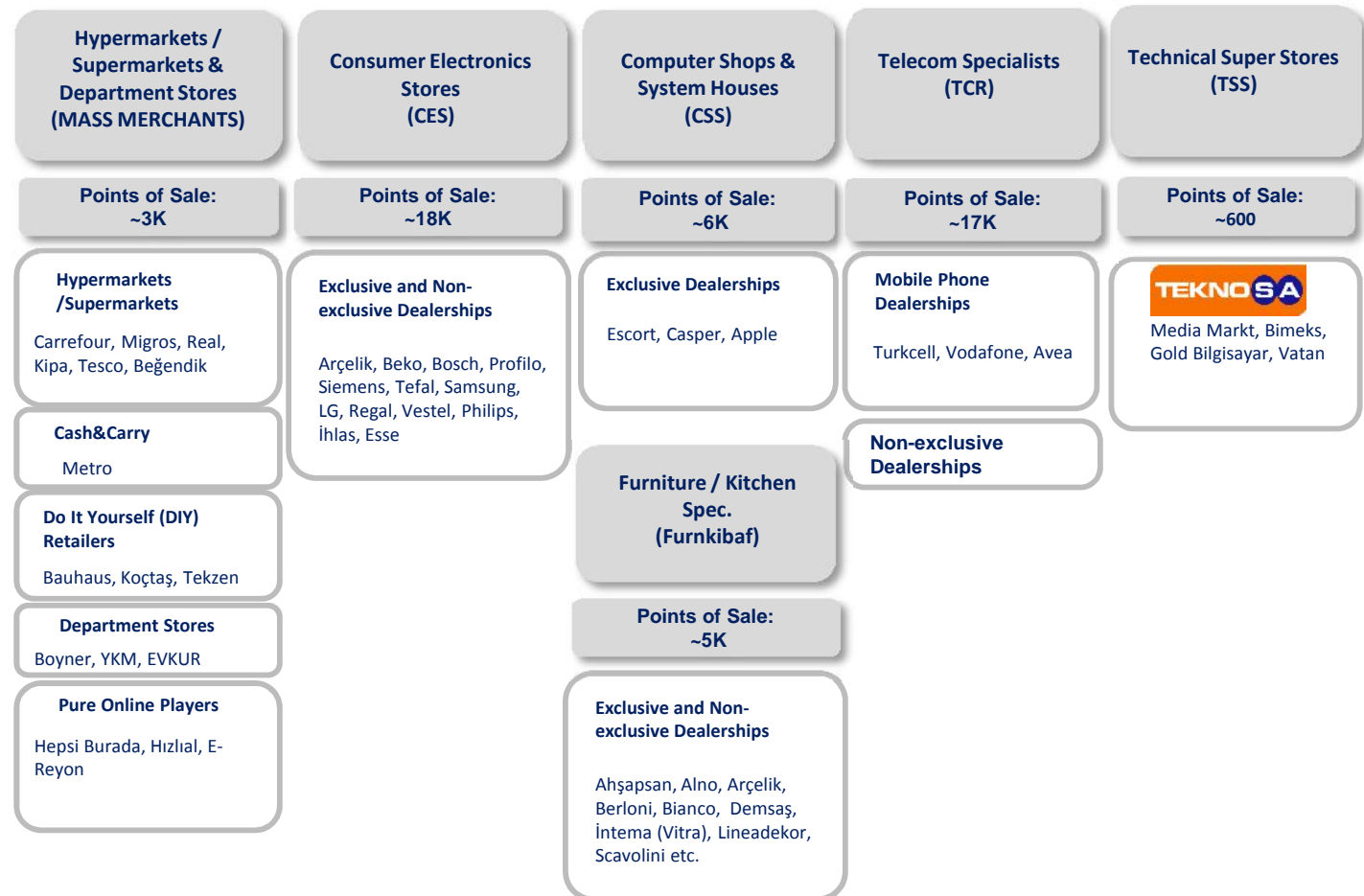
Electronics Retail Market

Financial Overview

Year-end Guidance

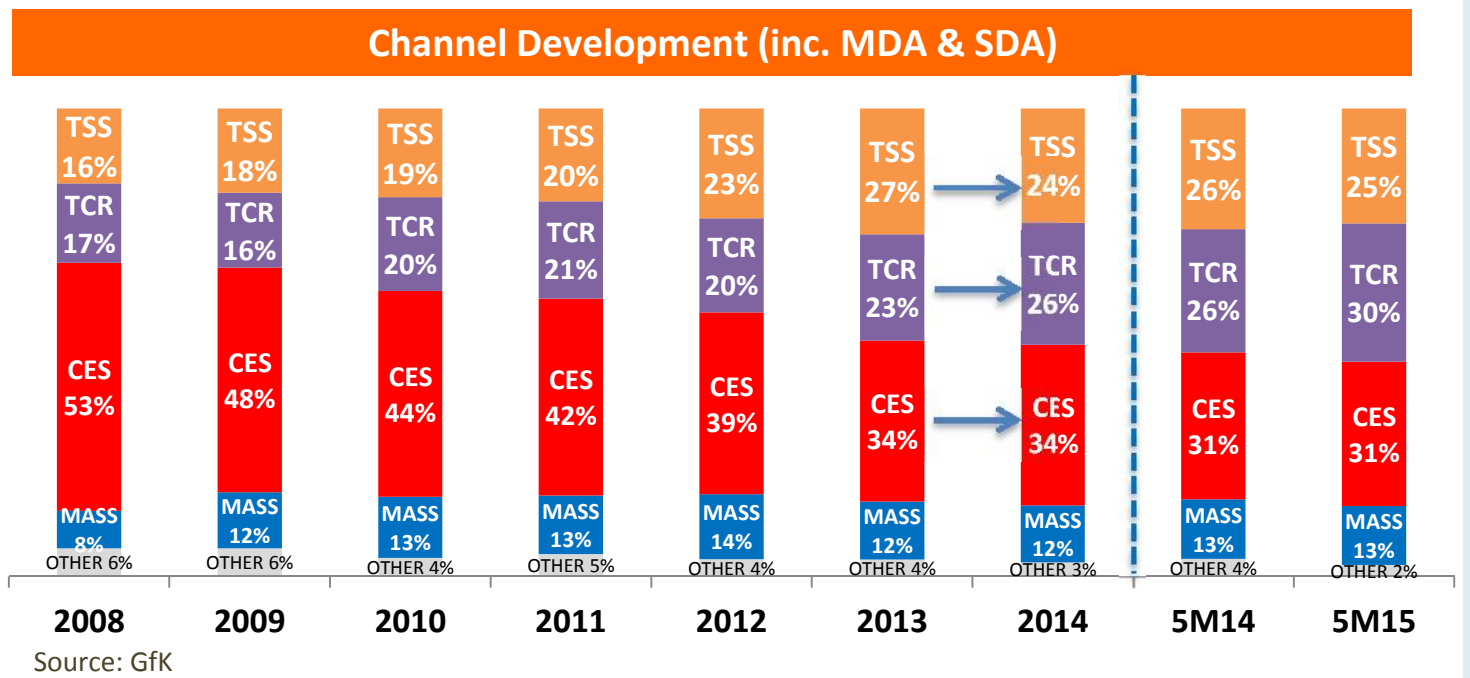
# Electronics Retail Market in Turkey

## Sales Channels of Technical Consumer Goods Market



# Channel Development

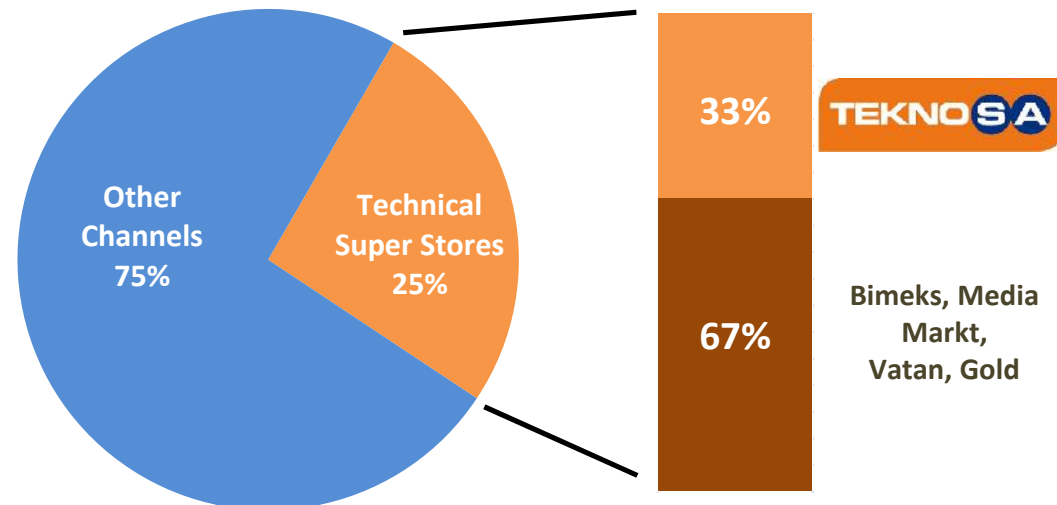
- Technical Super Stores (TSS) grew below the market for the first time in 2014 due to their disadvantage in consumer financing.
- The new law offered Telecom Retailers (TCR) an advantage, as they are able to apply up to 24 months of installments on Telecom products via contracts, helping them to raise their share by 3pps in FY14, compared to FY13. This trend continues in 2015
- Consumer Electronic Stores (CES) were also able to use IOUs in order to offer their customers installment options exceeding 9 months.



## Electronics Retail Market and Teknosa (5M15)

- As of 5M15, the market grew by 16% YoY, reaching TL 15bn
- Technical Super Stores (TSS) channel recorded 10% YoY growth in the same period to TL 3.7bn in the 5 major categories
- Teknosa retail sales were up by 5% YoY in 5M15
- TSS channel accounts for 25% of the total market
- Teknosa has 33% market share in the TSS channel as of 5M15
- Teknosa spearheaded in reflecting FX increases to its prices, resulting in market share loss in 1Q15

### Electronics Retail Market (CE, IT, Telecom, MDA, SDA) – 5M15



## TSS Consolidation Trend

- 3 players have exited the market since 2010
- Regardless, the existing 5 TSS players are still too many to operate efficiently and profitably in the Turkish electronics market
- Given the recent demand and channel trends outlook, we expect further decline in the number of players

2010	
COMPANY	Sales Index (TSA=100)
TEKNOSA	100
Competitor 1	54
Competitor 2	35
Competitor 3	19
Competitor 4	19
Competitor 5	15
Competitor 6	15
Competitor 7	4



2014	
COMPANY	Sales Index (TSA=100)
TEKNOSA	100
Competitor 1	73
Competitor 2	50
Competitor 3	42
Competitor 4	12

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## Income Statement Summary

### Teknosa Summary Financials - Income Statement

(TL mn )	2Q14	1Q15	2Q15	YoY (%)	QoQ (%)	1H14	1H15	YoY (%)
Net Sales	709	666	723	2%	9%	1,391	1,389	0%
Gross Profit	128	123	131	2%	6%	259	254	-2%
<i>Gross Profit Margin</i>	<i>18.1%</i>	<i>18.5%</i>	<i>18.1%</i>	<i>0.0pp</i>	<i>-0.4pp</i>	<i>18.6%</i>	<i>18.3%</i>	<i>-0.3pp</i>
EBITDAR	54	51	52	-5%	2%	110	102	-7%
<i>EBITDAR Margin</i>	<i>7.6%</i>	<i>7.6%</i>	<i>7.1%</i>	<i>-0.5pp</i>	<i>-0.5pp</i>	<i>7.9%</i>	<i>7.4%</i>	<i>-0.5pp</i>
EBITDA	13	11	10	-22%	-8%	27	21	-21%
<i>EBITDA Margin</i>	<i>1.8%</i>	<i>1.7%</i>	<i>1.4%</i>	<i>-0.4pp</i>	<i>-0.3pp</i>	<i>1.9%</i>	<i>1.5%</i>	<i>-0.4pp</i>
Other Expenses	-11	-7	-8	31%	-1%	-15	-15	3%
Financial Expenses	-6	-5	-6	-8%	-20%	-11	-12	-12%
Profit Before Tax	-13	-13	-15	-11%	-17%	-18	-28	-53%
Tax	3	2	3	12%	21%	3	5	53%
Net Profit	-11	-10	-12	-11%	-17%	-15	-22	-53%
<i>Net Profit Margin</i>	<i>-1.5%</i>	<i>-1.5%</i>	<i>-1.7%</i>	<i>-0.1pp</i>	<i>-0.1pp</i>	<i>-1.1%</i>	<i>-1.6%</i>	<i>-0.6pp</i>

Source: Independent Auditor's report

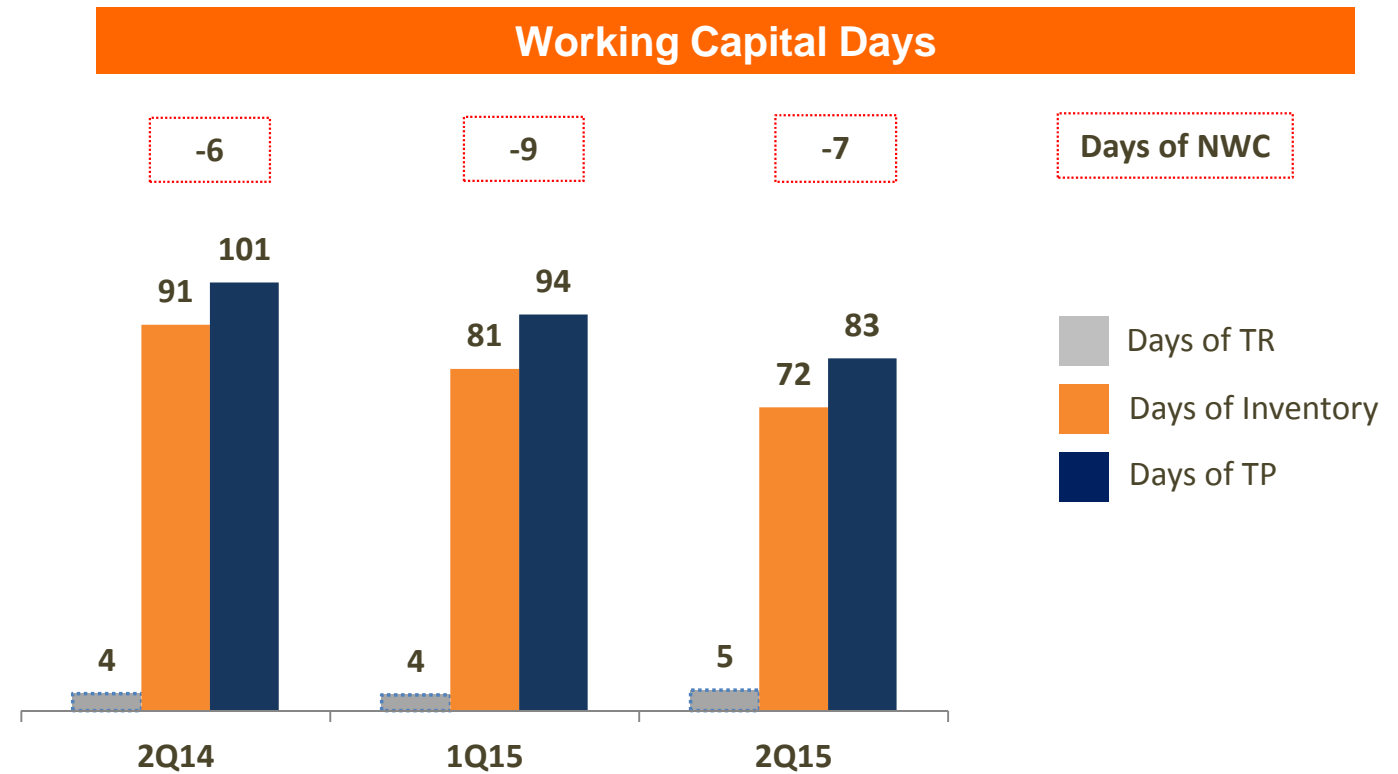
## Balance Sheet Summary

Assets (in TL mn)	Jun.14	Mar.15	Jun.15
<b>Current Assets</b>	<b>807</b>	<b>496</b>	<b>639</b>
Cash and Cash Equivalents	124	8	111
Due From Related Parties	2	2	7
Trade Receivables	32	26	40
Inventories	626	443	454
Other Current Assets	22	17	26
<b>Non-current Assets</b>	<b>167</b>	<b>190</b>	<b>198</b>
Investment Property	11	11	11
Property, Plant and Equipment	118	116	119
Intangible Assets	18	28	30
Deferred Income Tax Assets	12	19	21
Other Non-current Assets	8	16	17
<b>Total Assets</b>	<b>974</b>	<b>686</b>	<b>836</b>

Liabilities (in TL mn)	Jun.14	Mar.15	Jun.15
<b>Current Liabilities</b>	<b>777</b>	<b>521</b>	<b>683</b>
Financial Liabilities	0	24	0
Due to Related Parties	1	2	2
Trade Payables	727	435	611
Other Current Liabilities	49	60	70
<b>Non-current Liabilities</b>	<b>4</b>	<b>3</b>	<b>3</b>
<b>Total Equity</b>	<b>193</b>	<b>162</b>	<b>150</b>
<b>Total Liabilities</b>	<b>974</b>	<b>686</b>	<b>836</b>

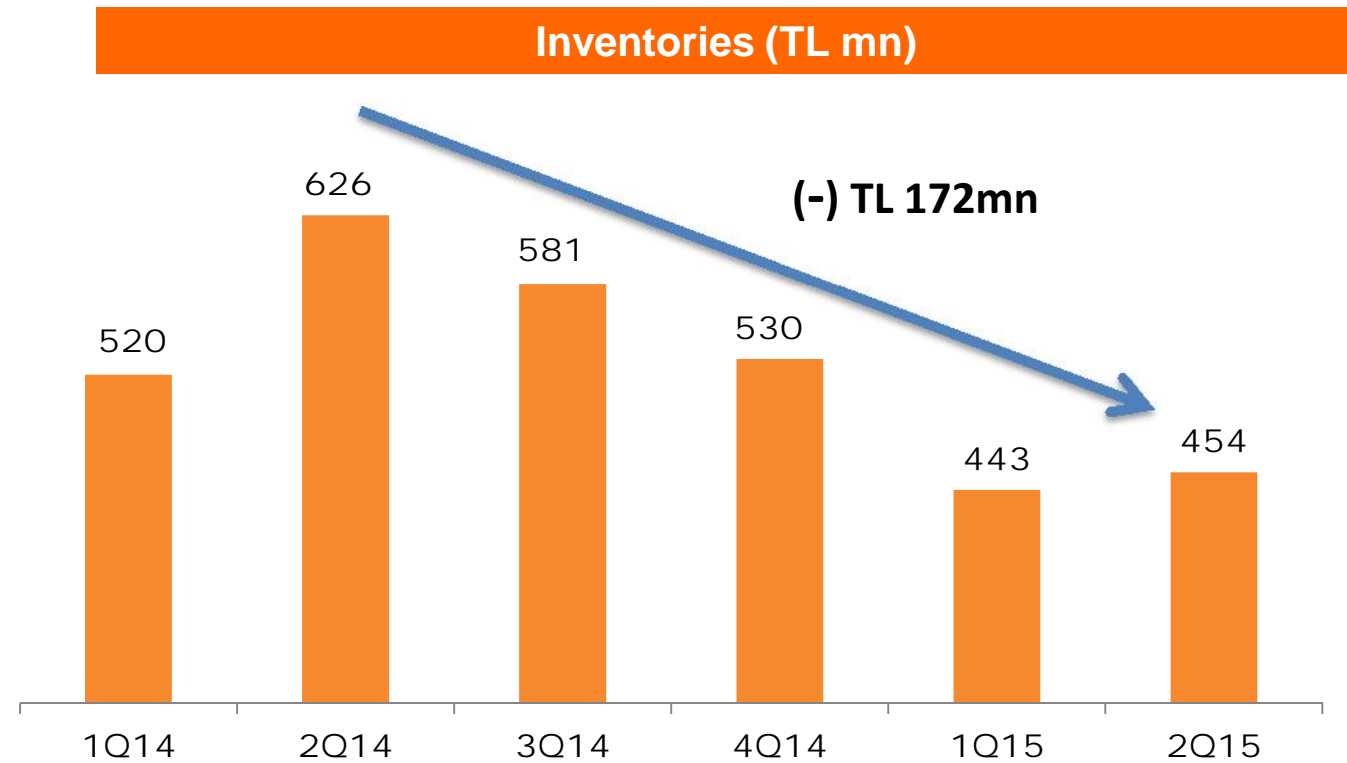


## Working Capital



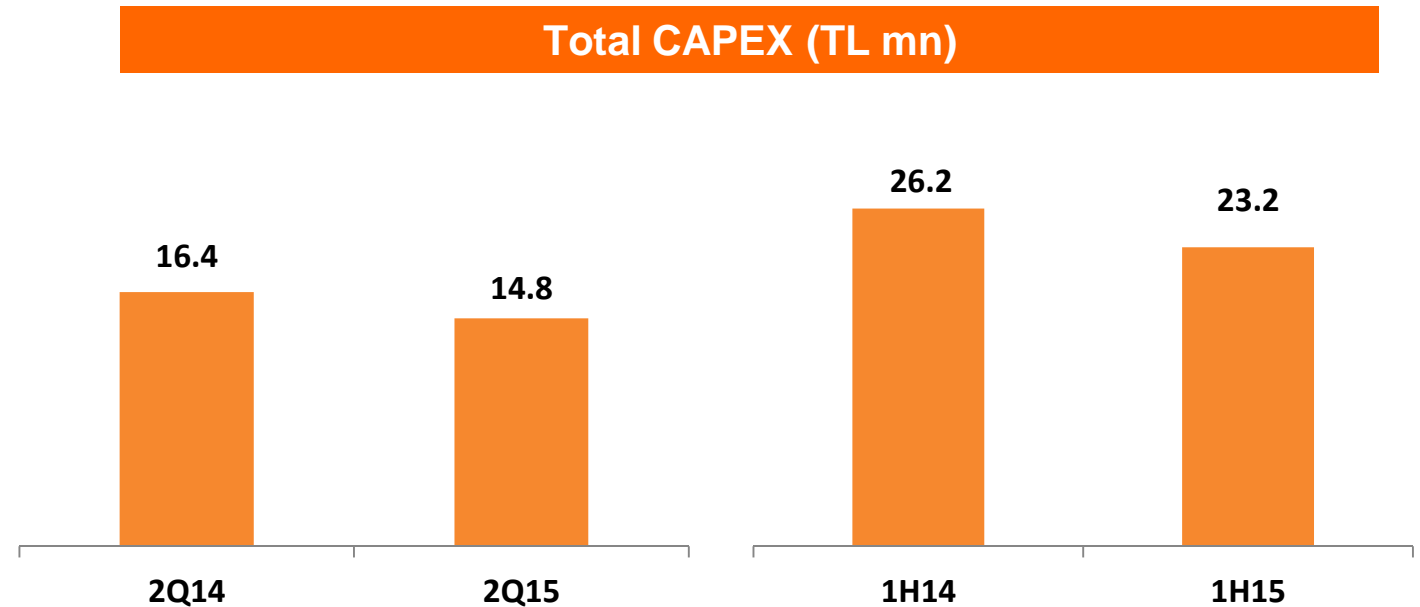
- Negative working capital allows Teknosa to generate positive cash flow in tandem with growth
- Working Capital Requirement is down by TL 140mn to TL -111mn in 2Q15 from TL 35mn in 1Q15

## Working Capital



- Thanks to strict management and focus, inventory levels deflated by ~30% from the peak level of 2Q14 to TL 454mn in the quarter

## Capital Expenditures



- We continue to invest in our operations even in challenging times with a focus on profitability.
- New store openings and store renovations account for a major part of the Company's capital expenditures.
- Capital expenditures are financed with cash generated from operations.

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## Macroeconomic Indicators

Indicator	2013	2014	2015E
GDP growth	4.1%	2.9%	3.0%
Private Consumption	5.1%	1.3%	2.5%
CPI Inflation	7.4%	8.2%	8.0%
USD/TL rate (avg.)	1.90	2.19	2.66
EUR/TL rate (avg.)	2.53	2.90	2.95

## Teknosa's Targets in 2015

### **Return to double digit growth rates at the top-line**

- Stores; new openings and LfL
- Maintain strong growth in e-commerce

### **Utilize Teknosa Mobil for a higher market share**

- Increase share in telecom category
- Cross-selling opportunities
- Higher traffic in stores

### **Further develop TeknoFinans**

- 10% of sales through TeknoFinans
- Improved customer communication through monthly payment size

### **Maintain strict cost control & increase efficiency**

- Finalize the closure program of loss making stores initiated in 2H14
- Identify & focus on successful shopping malls in over-supplied areas
- Further improve NWC days through more effective inventory management
- Minimize costs via enhancing efficiency

### **Aftersales services**

- Develop new products & further increase the attachment rate

## Pilot projects to revive LfL

With the appointment of our new CEO, Mr. Gurcan, we initiated several pilot projects to increase store traffic and conversion, therefore revive topline LfL.

Action	Store Traffic	Conversion Rate	Basket Size
New product groups	✓		✓
New promotional campaigns	✓	✓	✓
Increasing the effectiveness of communication	✓		
New bonus schemes for personnel	✓	✓	
Additional & optimized store employees		✓	

### Projects realized so far:

- New bonus scheme for personnel is effective as of August 01
- Promotional campaigns in selected cities, resulting in 50% increase in visitors on a weekly basis
- Shifting the weight of communication to TV & digital media
- **More to follow in 2H15...**

## 2015 Full Year Financial Guidance

	2014 ACTUAL	2015 OLD	2015 NEW
<b>YE Net Sales Area (km2)</b>	171	180	175
<b>Net Sales (TL mn)</b>	3,016	3,300	3,200 – 3,300
<b>Growth (%)</b>	2%	10%	5% - 10%
<b>LFL Growth (%)</b>	-4%	5%	0% - 5%
<b>EBITDA (%)</b>	2.7%	3.0% - 3.5%	2.5% - 3.0%
<b>CAPEX(TL mn)</b>	62	40 - 45	40

Note: EBITDA excludes Other Income/Expenses



## Our 5 year growth plan...

- **Benefitting from the «Economic Darwinism» as the strongest player...**
  - Control costs in order to adopt to lower annual market growth
  - Utilize debt-free strong balance sheet
  - Strengthen our foothold in the sector via market share gains
  
- **E-commerce is the new frontier...**
  - Further benefit from the low penetrated e-commerce market of Turkey
  - Carry on perfecting our omni-channel business model with teknosa.com
  - Position kliksa.com as the leading pure-player in Turkey
  - Derive ~25% of our revenues from our e-commerce over the next 5 years
  
- **Evolving our business model into a service provider...**
  - Evolve into a «service provider» from a «classical box mover»
  - Improve our CRM capabilities,
  - Offer new & enhanced after sales products
  - Further differentiate Teknosa from the competition

## Our 5 year growth plan...

- **Laying the foundations for new services to our clients...**
  - Consumer financing options under TeknoFinans brand
  - Telecom contract sales via Teknosa Mobil in order to provide a complete service and boost market share in telecom products
- **Private label products in order to gain additional market share...**
  - Teknosa Preo smartphone, smart watch and phone case launched in July
  - New private label categories such as accessories, complimentary products and tablets are being analyzed

Thank You

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