

4 February, 2011

**Moderator:**

Ladies and gentlemen good morning and welcome to the Q3FY11 post results conference call of JK Tyre & Industries Limited hosted by Emkay Global Financial Services. We have with us today Mr. A. Kinra, Finance Director and Mr. K. Manik, General Manager Finance of JK Tyre. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing \* and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Chirag Shah at Emkay Global. Thank you and over to you Mr. Shah.

**Chirag Shah:**

Thank you. Good morning everyone. Thank you for joining us today. On behalf of Emkay global I would like to welcome Mr. Kinra and Mr. Manik and thank them for giving us the opportunity to host this call. I would now like to hand over this call to Mr. Kinra for a brief and then we can start the Q&A. Over to you sir.

**A. Kinra:**

Thank you. Good morning everybody. The quarter that we have just closed in December, the gross turnover was plus including the other income was 1284 crores. The operating profit was 62 crores and the profit before tax was 15 crores. I think during this quarter we on a daily tonnage basis we now have a capacity of 738 tonnes per day and the production during this quarter was 686 tonnes per day. I think the highlight of the quarter was that price of natural rubber which saw an average price of about Rs.194 per kg up from 176. That means an increase of almost about 9.7%. Other raw material, there was not much increase. Primarily it has been the natural rubber which have been going up. This is one but I think the silver lining is that in the prices as of between 15<sup>th</sup> January and 20<sup>th</sup> January have moved up between 3 and a half to 4% with an average of about 3.75%. I think this shall help us in partly recovering the increase cost which have taken place. No doubt the natural rubber prices remain a major cause of worry. The second I think the way when u see the long term, the way you have to see is, currently as I said, our capacity is 738 to 739 tonnes of tyres per day. And now if one has to put up this kind of a capacity today, the CapEx involved will be between Rs 5000 crores to 5500 crores. That means in our case, the number has been much-much smaller. So you will remain competitive in the long term. Secondly our major projects which is one at Chennai and the one at Vikrant Tyre Plant one for radials are going as per schedule. The Vikrant Tyre Plant expansion which takes the capacity from 8 lakh tyres to 10 lakh per radials will be operating by the end of this second quarter itself. The second quarter of the calendar that means May/June the capacity will become operative. And I think within 3 to 6 months thereafter we should be able to achieve 100%. For Chennai, as I said, earlier what we were planning was 25 lakh car tyres and 2 lakh truck-bus radials that the project mix has now been a little change in the sense now be able to produce 25 lakh car tyre and 4 lakh cross radials. Now that project is also going as per schedule. As everything goes on well, I think by January/February we should be able to complete the project and we should start the commercial production and in about 4 and 6 months time, we should be able to achieve the full capacity utilization. Third on the demand side, the demand has been good. For the passenger car tyres as well as for the truck tyres, more particularly for the truck radials, the quarter was ok. In the case of truck radialization, in the quarter was 17.8%. Now it is picking up. That means it has moved up from 17.4 to 17.8. I think every quarter it is going up. If you ask me except for natural rubber otherwise things looks to be reasonably okay. Now I think I will invite questions, if anybody has.

**Moderator:**

Thank you very much sir. Our first question is from the line of Disha Shah of Annual. Please go ahead.

**Disha Shah:**

Can I know the utilization rate of this, in this quarter.

**A. Kinra:**

Utilization capacity?

**Disha Shah:**

Yeah Capacity utilization.

**A. Kinra:**

The Capacity utilization in the quarter has been almost 90% and

**Disha Shah:**

Pardon, I cant hear.

**A. Kinra:**

90%.

**Disha Shah:**

Okay.

**A. Kinra:**

Total utilization has been 90% . I mean increased capacity utilization at about between 93 to 95%.

**Disha Shah:**

Alright. Thank you.

**Moderator:**

Thank you Ms. Shah. Our next question is from the line of Karthik Mehta of Susheel Finance. Please go ahead.

**Karthik Mehta:**

It's my pleasure to have a word with you. Just wanted to understand on the natural rubber side, like where do you see the pricing settling down. As you have mentioned that it is one of the key concerns and since the prices are already risen from 176 to 194 which is supposed to be the high level and as a commodity if we understand usually the high prices are not sustainable beyond a point. And having a good experience in the business, what's your take on the prices form here on.

**A. Kinra:**

Personally I think that current prices of natural rubber at about Rs 225 a kg is not sustainable at these levels I think the price will certainly settle down. What the level will be whether it will be 175 or 195 which you have just said, I am not able to guesstimate at this stage. but I am not of a the view that for the benefit of all the stake holders in the natural industry, I think prices to achieve a reasonable level, may be I think, I don't know, I mean it might settle somewhere between 175 and 200. Now when it happens, whether it happens in next three months time or four months time, I am not able to project at this stage. But I think prices have to settle down at a lower level. That is very is very unreasonable level which prices have achieved and I think it is primarily because prices have moved up because of the very huge floods in Thailand and the there is a lot of pressure of demand from Chinese tyre manufacturers and I think it will ease out. I personally feel in due course of time, .

**Karthik Mehta:**

And any inventory we are carrying?

**A. Kinra:**

We are always a very normal inventory we are carrying. We are not carrying any extra ordinary inventory. As usual we carry the inventory of natural rubber of between 30 to 40 days, that's the normal inventory we, we are not carrying any extra ordinary at the moment. It is because we can carry extra ordinary capacity to the way the truck rates are rates are going up, that means it is going to cost you also almost about 1% per month. So that's a very makes a sense. We are not carrying any unusual inventory.

**Karthik Mehta:**

So you basically procure on rolling, on rolling basis?

**A. Kinra:**

You are right, quite.

**Karthik Mehta:**

Okay. Okay. Thank you. I'll come back to you if any further queries. Thank you.

**Moderator:**

Thank you Mr. Mehta. Our next question is from the line of Nikhil Deshpande of Pinc Research. Please go ahead.

**Nikhil Deshpande:**

I just wanted to confirm the price hike you have taken in this month. It's about 3.5%

**A. Kinra:**

Yeah.

**Nikhil Deshpande:**

Sir, and how is the competitor's reacted?

**A. Kinra:**

Yeah as you know the competition is also taking almost the same kind of a price increase at 3.5% to 4.5% depending upon the various categories of tyres and different markets. And we are almost aligned with the competition.

**Nikhil Deshpande:**

After that probably natural rubber prices have again shot up to about Rs.230 now, current price. So any further price hike would be warranted?

**A. Kinra:**

You cant be increasing the tyre prices every second day. One should look at long term view, But if you look at the past in the month or so it's a different product altogether. As of now, other than this hike there is nothing is in the offering

**Nikhil Deshpande:**

Okay. But the demand situation is still strong after taking this price increase?

**A. Kinra:**

I don't think it has impacted the demand because of the price increase of 3.75%.

**Nikhil Deshpande:**

Sir could you give the production sales volume in tonnes for the quarter?

**A. Kinra:**

You see last one quarter, where we had a production of 686 tonnes per day. The total production in the last quarter almost like 63500 MT and the total sale was about 64500 MT

**Nikhil Deshpande:**

And sir what could be the figure?

**A. Kinra:**

We had of about 686 tonnes per day.

**Nikhil Deshpande:**

Okay. Sir last year could you give a similar figure?

**A. Kinra:**

Last year may be, the total production was for a year as a whole 216000.

**Nikhil Deshpande:**

Okay. That it sir. Thank you.

**A. Kinra:**

2,16,300 tonnes.

**Nikhil Deshpande:**

Thank you sir. That's all from me.

**Moderator:**

Thank you Mr. Deshpande. Our next question is from the line of Ajay Sethia of Sunshine Broking. Please go ahead.

**Ajay Sethia:**

Sir just wanted to know what is the CapEx incurred so far in this quarter and the fiscal year. And what is the expected CapEx for FY12 and 13?

**A. Kinra:**

The CapEx you know, we are really not keeping a track for this quarter. But let me tell you we have an expansion of plan of 1130 crores going on. And it has three components. An expansion at Vikrant, the truck plant which is in about 155 crores and the Chennai will be balance it. You know we had an entire expenditure of 1130 crores in the last six months time, we have almost spent about close to 170 crores. Now in the last six months, you can almost think that during the nine month period, we had a total average expenditure of about 175crores or so. Now 11 &12, the entire balance expenditure is totaling up to 1130 crores will get completed. As you may have heard in my earlier remark that this Vikrant plant expansion will get completed by the middle of the current calendar and the Chennai plant will get completed by the early 2012 calendar. So then one can take it by assuming that you know by10-12 we will that expansion.

**Ajay Sethia:**

And sir, what would be the current cash position?

**A. Kinra:**

The current cash position is like one we have to providers I have said 1130 crores is being spent to the extent of 300 crores by internal accruals, I am happy to say that even by spending 175 crores on this project, we have not still not borrowed, we have not drawn, we have been drawing our own funds and we will first deploy our own funds and then only we will start taking the withdraws form the loans which have already been sanctioned for this projects. And so if cash is concerned.

**Ajay Sethia:**

Okay. Thank you sir.

**Moderator:**

Thank you Mr. Sethia. Our next question is from the line of Bhagesh Kagalkar of HDFC. Please go ahead.

**Bhagesh Kagalkar:**

Yeah. Sir can you tell us according to your estimates, what is the truck and bus radial tyre capacity in India beginning January 2012. And can you name the companies roughly because you have business plan in department which does this.

**A. Kinra:**

You mean truck radial capacity?

**Bhagesh Kagalkar:**

Truck and bus radial tyres capacity.

**A. Kinra:**

Truck radial capacity we do a little differently. See today Apollo is producing say about close to 3 lakh tyres per annum. As Birla is also producing though a much lesser quantity. We are producing about 8 lakh. I think by January 12, when our increased production would have come up, total of 14 lakhs today, it will move to somewhere about you know 18-19 lakh tyres.

**Bhagesh Kagalkar:**

Okay. And you will account for how much of that?

**A. Kinra:**

Out of that 18-19 we are 8 today, we will be 10 by middle of this current year and we will be fourteen by early next year.

**Bhagesh Kagalkar:**

Okay. So you will remain the dominant player continued...

**A. Kinra:**

Yes.

**Bhagesh Kagalkar:**

Okay. Thank you sir.

**Moderator:**

Thank you Mr. Kagalkar. Our next question is from the line of Ameen Pirani of Deutsche Bank. Please go ahead

**Ameen Pirani:**

Just I missed one thing in terms of your CapEx. You have done around 170 cores of CapEx in the first 9 months, is that right sir?

**A. Kinra:**

Right.

**Ameen Pirani:**

And what is your number for the full year like in the next three months?

**A. Kinra:**

Next three months out of 1130 crores we will be spending around 500 crores.

**Ameen Pirani:**

500 crores in the next three months?

**A. Kinra:**

Yes because machineries are arriving now to India. Why is that so, reason being because we have said that Vikrant Tyre plant has now come to most of the equipment has started arriving and the commission is going to start. So whole lot of payments will happen, whole lot of CapEx will happen. In the case of Chennai plant the construction is now in full swing. The all the major equipments have already been ordered and in the next four months to five months time the equipment will start arriving. So that's why, all this CapEx we come about now.

**Ameen Pirani:**

So 500 crores approximately and next year another 500 crores.

**A. Kinra:**

Correct. Total 1130. Absolutely. Next year it will be around 600 crores.

**Ameen Pirani:**

Total 1130 it is. Sir just one thing, on your replacement side, can you just tell me, what kind of a growth have you seen on the truck tyres and on the car tyres in this quarter?

**A. Kinra:**

Currently the industry is moving at about 8% or so this is total they replacement plus the OEM. With regard to only the replacement, I think currently it is again moving at about you know between 8 to 9%.

**Moderator:**

Can you repeat your question sir.

**Ameen Pirani:**

Yeah Okay. I just want to know what is the replacement demand growth for truck tyres and car tyres in this quarter?

**A. Kinra:**

What I am saying this, with total truck tyres demand growth is now moving at around 8% and even for the replacement truck tyre demand is going up and the rate of about close to between 8 to 9%.

**Ameen Pirani:**

Okay. Sir and on the car side?

**A. Kinra:**

Car side, it is going currently at about 15%

**Ameen Pirani:**

15%. Okay sir. Thank you.

**A. Kinra:**

Car tyre is really very good at the moment because despite all the slowing down still the car manufactures are giving their numbers every month, their outputs are up by almost 25 to 30% even last month also.

**Ameen Pirani:**

Okay. Thank you sir.

**Moderator:**

Thank you Mr. Pirani. Our next question is from the line of Aditya Makharia of JP Morgan Chase. Please go ahead.

**Aditya Makharia:**

I was just wondering on the replacement side are you seeing a shift towards radial tyres on the replacement demand as well.

**A. Kinra:**

Yeah correct. Absolutely.

**Aditya Makharia:**

Is it a cross-ply is degrowing and radial is growing or you are seeing growth in both segments on the replacement side for trucks?

**Management 22.54:**

It is like on the replacement side there are two types of markets, one is a fleet owner plus fleet owner another is a small time one truck owner. If you see the fleet, fleet means owner of 200 to 500 plus or even more, we see a clear shift towards radial. Whereas one truck owner, they are mostly do not buy such tyre and we are not pursuing them either. Here trucks are mostly applying within the city only so there radial shift is not suggested and we are not perusing it, they are on bias only. Whereas long run trucks, trucks which are running are on the long routes they are mainly shifted to the radials.

**Aditya Makharia:**

And are these trucks which originally had come factory fitted with cost ply and now you know they are finding radial beneficial or these are the new generation trucks which are come with the radial anyways?

**K. Manik:**

Those are the trucks which were earlier on bias are now shifting to radial because they are on the long routes.

**Aditya Makharia:**

Okay. So what would be roughly the market share of radial tyres in the replacement segment, would it be like 30 – 40%, would it be that high?

**K. Manik:**

It's even higher than that. The difference is clearly more than 66% from the radial tyres.

**Aditya Makharia:**

You mean as compared to cross ply, radial is 66 of the replacement market today.

**K. Manik:**

Even on the normal bias side the replacement is around 60%. On the radial segment it is a little higher.

**Aditya Makharia:**

Okay fine, thanks.

**Moderator:**

Thank you. Our next question is from the line of Arjun Khanna of Principal Mutual fund. Please go ahead.

**Arjun Khanna:**

My first question was in terms of the recipe cost, could you give us a sense of the current recipe cost per kg for both radial and non-radial for cross ply.

**A. Kinra:**

Only for the radial?

**Arjun Khanna:**

Yeah for the radials.

**A. Kinra:**

I don't have it immediately. I will ask Kamal to email it. You will get it, no problem. I will not be able to give you the break up, I will give you the total

**Arjun Khanna:**

Sure, just to understand probably from that question how margins are, a bit margins behave as radial versus cross band in sense of price increases, have these EBITDA margins moved differentially for these two segments?

**K. Manik:**

Correct. They move differently because markets are different. In mix both are different. These are linked to the market demand. In the radial segment definitely we are seeing a very high demand, margins are much better in the radials than the cross ply.

**Arjun Khanna:**

Have these increased with changes in rubber prices, you did mention is close to Rs.230 per kg now. At what rate would this have changed, just trying to get a sense on that.

**K. Manik:**

Yes. You can take it for the last one, one and a half year. If the price increases have happened more in the radial segment, which have taken radial higher margin and bias are lower margin. That shift has taken place. We have been able to pass the radial price increase at a higher rate I can only say that.

**Arjun Khanna:**

Okay sir. Thank you. Thank you for that.

**A. Kinra:**

One last question please.

**Moderator:**

Sure sir. Thank you. Our next question is from the line of Vasudev Bannerjee of Quant Broking. Please go ahead.

**Vasudev Bannerjee:**

I have a couple of questions. What was the average cost of rubber acquisition in this quarter?

**A. Kinra:**

We have just given it around Rs.194 per kg.

**Vasudev Bannerjee:**

Sir how is the demand increment for the OEM truck clients for tyre as such on a forward looking basis.

**K. Manik:**

They have been demanding tyres on a continuous basis and they will be demanding more tyres.

**Vasudev Bannerjee:**

So you don't see any weakening in demand as such?



**K. Manik:**

Yeah they are demanding more tyres but we are seeing a good number from the replacement side. So we are little cautious in signing long term increase in quantity with them. We want to increase their quantity.

**Vasudev Bannerjee:**

Okay. And one question sir that u said that your CapEx plan of 1130 crore on a cumulative basis and in 9 months 170 crore CapEx we have done. Going by the current margin scenario, and whatever operating cash flow one can expect, so a major part of debt should be on the card very soon. So any change in lending rates you have see across as in last couple of months so many rate hikes have been happening, so your cost of borrowing, any idea how much it has increased? Say you are planning to borrow say 2 months before and now, so what is the difference in cost of borrowing?

**K. Manik:**

See we have tied up this lump-sum borrowing already and we are tied up at around 9%. So we are not worried about our rate of interest because our rates are more or less frozen six months back. We have just to take the books of account.

**Vasudev Bannerjee:**

And how much did u borrow sir?

**K. Manik:**

We have not yet taken disbursement.

**A. Kinra:**

We tied up this loan some eight months back at a rate of interest of 9% fixed for one year and 9.5% fixed for the year two and then there was a floating thereafter. Fortunately the banks are holding these rates of interest even today. As I said in the morning also we met some banks and the rates are being held. As of now, as Kamal has said, we have not taken any disbursement because we wanted to spend our own money which we are doing it, we have almost spent about 175 crores and I think as soon as we are ready to take disbursement, which we will probably it will start acting from April onwards we would start disburse from these loan. So this is what the scenario is. So we are not extremely worried about the rates of interest going up because fortunately for us, we contacted the rates at fixed rates and these are being held both as of now.

**Vasudev Bannerjee:**

And sir what's the scenario in Tornel as such with the rising rubber prices?

**A. Kinra:**

Tornel again we are also in the same kind of wave length as we are not so impacted by the rubber, they are buying at the international rates. So I am not able to give you exactly the rubber rates and all that but we have been also buying in international prices only.

**Vasudev Bannerjee:**

Okay. Thank you.

**Moderator:**

Thank you Mr. Bannerjee. Gentlemen at the management with your permission, may we take the last two questions

**A. Kinra:**

Okay. We have no problems.

**Moderator:**

Our next question is from the line of Aniket Mhatre of STCI. Please go ahead.

**Aniket Mhatre:**

Sir just wanted to understand how much more price hike would you need to get to the normalized margin levels?

**A. Kinra:**

You see now, Again it very you know like risk, the last price increase as I said earlier of about 3.75% have been taken in the week between 15<sup>th</sup> January to 20<sup>th</sup> January. So price increase has settled. I think too early for us to think of another price increase and secondly as I said earlier, prices of tyres do not move on a day to day basis. Nor can it move business that way. It has to move when one has settled down for a month or two before one can think of a price increase but the way that natural rubber price is behaving, if it continues to behave in the same manner one will again have to think how do be move the tyre prices and I personally feel it is too early to think on those lines. I think let the price to be settled down and then will take a call on that.

**Aniket Mhatre:**

Sir could you give us any headline numbers on Tornel for the quarter?

**A. Kinra:**

The Tornel numbers let me tell you broadly I can say the sales during the year 2010 has been of the order of about close to \$250 million and the profit before tax has been of the order of \$2 to \$2.5.

**Aniket Mhatre:**

For the year?

**A. Kinra :**

For the year because we say January to December.

**Moderator:**

Mr. Mhatre, you have any further questions?

**Aniket Mhatre:**

Yeah, I am done with my questions, thanks.

**Moderator:**

Thank you. Our last question is from the line of Kunal Bhatia of Dalal & Broacha. Please go ahead.

**Kunal Bhatia:**

Yes, thanks for my question. Sir, just wanted to understand sir what would be the current average life cycle of a radial tyre in case of a bus or truck.

**A. Kinra:**

See normally, we know life cycle of a radial tyre compared to the cross ply nylon tyre is about 50% extra.

**Kunal Bhatia:**

Okay. Sir what would be the current for cross ply tyres?

**K. Manik:**

See the cross ply tyres come to around 40,000 to 50,000.kilometers.

**Kunal Bhatia:**

And that will be around 40000 to 50000 kms?

**A. Kinra:**

For the bias side and around 70 to 80000 kms for the radial tyres.

**Kunal Bhatia:**

Okay. And sir, for our business how much will be catering to the replacement market?

**K. Manik:**

See in the truck segment?

**Kunal Bhatia:**

Yeah.

**A. Kinra:**

In the truck segment the replacement market is a little lower at 60% and 20% is the exported and balance 20% is shared between OEMs, STUs and.....so the OEMs are basically nearly 10 to 12% only.

**Kunal Bhatia:**

Okay. And Sir if you could give us a broadly what kind of margins, or just estimations of how the margins different in case of an OEM and the replacement for JK tyres?

**A. Kinra:**

Margins are quite different between OEM and replacement., very different.

**Kunal Bhatia:**

So what would be the range?

**A. Kinra:**

Margins will always be higher in the replacement market and they will be low in the OEM market. And there will be somewhere at between for the government accounts and all that so it is a one has to go by a total margin during the given the market mix which Kamal has already talked about.

**Kunal Bhatia:**

Okay. Sir how easy it is for you to go for a price increases in case of the replacement market or taking into account that you do have pressure even from.....

**A. Kinra:**

Certainly the price hike has settled much earlier as compared to OEM. Let me also tell you at the same time, that those earlier days are gone when the OEMs would do a whole lot of arm twisting and the price increase would not be given for months together. They are all a different market now. The OEM do also realize that when the cost go up the input cost have to go up. So I think you know the situation is now is the moment the replacement price increase, we also move to the OEM for the price increase. Okay it might not happen as quickly as a replacement market but it does happen much quicker than what it was earlier.

**Kunal Bhatia:**

Alright sir. Yes sir. Thank you so much.

**Moderator:**

Thank you Mr. Bhatia. Ladies and Gentleman due to time constraints that was the last question. I now hand the conference over to Mr. Chirag Shah to add closing comments. Please go ahead.

**Chirag Shah:**

Thank you. On behalf of Emkay I would once again like to thank all of you for joining the call today. Thanks a lot to Mr. Kinra and Mr. Manik for finding some time for the call. Thank you.

**Moderator:**

Thank you members of the management team and Mr. Shah. Ladies and gentlemen on behalf of Emkay Global Finance Services that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines.

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- Note:**
- 1.This document has been edited to improve readability.
  2. Blanks in this transcript represent inaudible or incomprehensible words.

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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