

Dogus Otomotiv

DOAS - Automotives: Marketing and trade

Update in estimates, including vehicle inspection model...

Incorporating revised vehicle inspection model... The vehicle inspection license saga seems to be drawing to a close and we are sufficiently confident of a successful conclusion hence we revisited our valuation on that front. Our fair value estimate for the vehicle inspection business is revised upward using more up to date data. We now value TUVTURK at USD852mn, implying a USD284mn value for DOAS' 33.3% stake. In this report, we also give a more detailed description of the Company's interests in consumer finance and fleet businesses.

Revisions to our estimates: We lower fair value estimates of the automobile distribution and dealership business on the back of market share losses in 1H2007 by DOAS brands as well as company's plans to purchase some of the showrooms' properties, investing up to USD150mn through 2008 which might have very low returns.

The fleet business suffered from FX-risk related losses in 2006, but the value of stake in Dogus Holding rose more than enough to offset problems... The fleet business apparently suffered extensive losses in 2006, prompting us to reduce our fair value estimates. The value of the financial participation in the parent Dogus Holding, while hard to unlock, continues to increase rapidly, on the other hand, mainly thanks to performance of key participation Garanti Bank.

We reiterate our "Outperform" rating with 30% upside to NAV...

We had initiated our coverage on Dogus Otomotiv on January 12th 2007 with a target market cap of USD715mn. The overall impact of the aforementioned adjustments is a 16% increase in target value to USD831mn. In our view, the company is positioned to be among the leading beneficiaries in the current post-election environment. The company has exposure to both automotive and finance sectors through its participations and should benefit from the improved outlook for cyclicals with improving consumer sentiment.

DOAS NAV	Val. Method	DOAS' stake	Value for DOAS(\$mn)
Import,dist.,sales,after sales	DCF	100.0	285
Vdf Consumer Finance	2.0x P/B 2007E	48.0	37
Vdf Fleet	2.0x P/B 1H2007	38.0	15
Vehicle inspection	DCF	33.3	284
Dogus Holding	Book value	3.9	210
Sum			831
Current Mcap			640
Upside			30%

Market Multiples	2005	2006	2007E	2008E
EV/Sales*	0.2	0.3	0.4	0.3
EV/EBITDA*	2.6	10.3	10.2	9.6
P/E	4.1	37.4	21.8	19.2
P/Cash Earnings	3.7	24.3	17.0	14.2
P/BV	1.0	1.7	1.7	1.7
ROE	24%	4%	8%	9%

* note that vehicle inspection and Krone businesses are consolidated through equity-pickup, hence are non-existent at operating figures

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Outperform

Maintained

August 9, 2007

Share Data

Price Target (YTL):	9.48
Price (YTL), Close (August 2, 2007):	7.30
Upside (Downside)	30%
52-week range (YTL):	5.30 - 7.75
Bloomberg / Reuters Ticker	DOAS TI / DOAS.IS
ISE-100:	52,071
ISE-100 (US\$):	US\$ 4.15
Weight in ISE-100	0.3%
Avg. Daily Turnover (1 mo.)	US\$16.1m
# of outstanding shares (mn)	110
Reported Free Float	34%
Actual Free Float*	28%

*Reflects latest company announcements

Capitalization (US\$)

MCAP	640
Target MCAP	831
Net Debt**	-17
Minority Interest	3
Enterprise Value	625

** Adjusted for dividend payment in May 2007

Stock Performance	1-mo	3-mo	12-mo	Ytd
Absolute YTL	11%	15%	19%	29%
Absolute USD	14%	22%	38%	45%
Relative to ISE-100	10%	0%	-17%	-3%

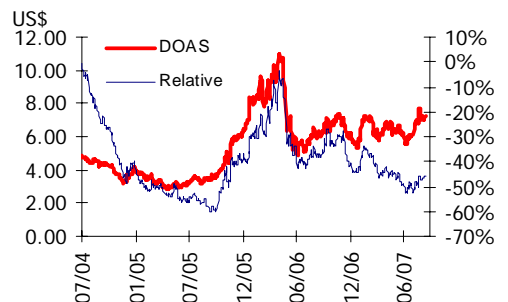
Ownership Structure

Dogus Holding	42%
Dogus Arastirma Gelistirme Musavirligi A.S	17%
Dogus Insaat	14%
Free Float	28%

Foreign Holding***

Current	61%
12 months ago	70%

***Adjusted for actual free float



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Revisions made...

We initiated our coverage on Dogus Otomotiv on January 12th 2007 with a target market cap of USD716mn. In this note, we update our distribution business model in the light of the 1H2007 market data and we reduce our fair value estimate for the fleet business after the volatility last year left a dent in its accounts. We also incorporate an updated fair value for the vehicle business inspection, since the legal process seems to be coming to an end allowing the company to reap the benefits of the auction it won in 2004. The overall impact of the adjustments is a 16% increase in target value to USD831mn.

Our revised target value is USD831mn with 16% increase...

DOAS is positioned to be among the leading beneficiaries in the current post-election environment...

In our view, the company is positioned to be among the leading beneficiaries in the current post-election environment. The company has exposure to both automotive and finance sectors through its participations and should benefit from the improved outlook for cyclicals with improving consumer sentiment.

Shrinkage in auto demand continued in 2Q2007, but looks set to post positive y-o-y numbers in 2H07...

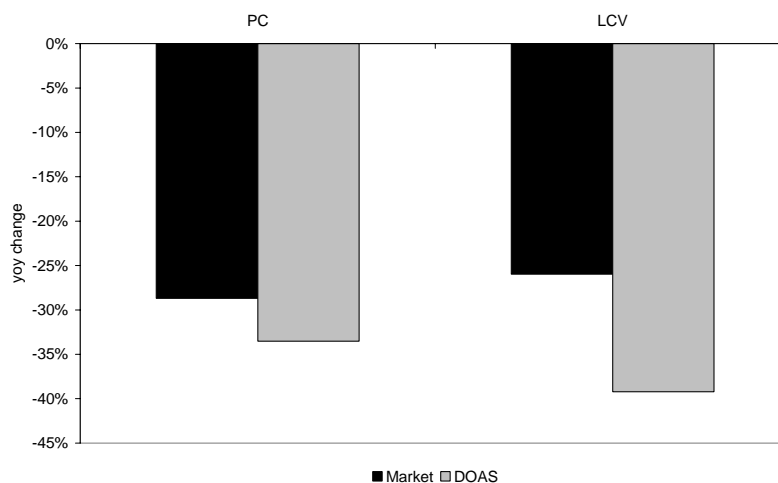
Pain in auto distribution and dealership business... In 1H2007, the company lost market shares in PC and LCV segments. DOAS brands' combined market share in PC market declined from 11.0% (1H2006) to 10.2% whereas the decline was more severe in LCV segment from 14.1% to 11.6%. However, the company did not allow the shrinkage in volumes to eat into margins and kept its gross margin quite strong at 15% in 1Q2007. After c30% yoy shrinkage in automotive market in the first half of the year, we believe revival in auto demand is likely in the remaining part of the year on the back of a pick-up in consumer sentiment. Also, there will be a favorable base effect on y/y comparisons. We expect PC and LCV markets to grow 12% and 10%, respectively, in 2H07 and July readings indicating y-o-y growth of 25% in PC and 32% growth in monthly volume indicate this is quite possible. Overall, in 2007, we expect the Turkish PC and LCV markets to shrink by 11% and 8%, respectively.

VW's small engine products would be welcomed by the consumers...

Prospect of VW brands with small engines in Turkey... DOAS could not cater to a large segment of the population as VW did not have models with small diesel engines. DOAS indicates that VW may supply such a vehicle in 2009, which would allow DOAS to be competitive in a broad segment.

Shrinkage in DOAS volumes were more severe than the markets

Chart 1: Yoy changes (1H2007) in the automotive market and DOAS sales volumes



Source: The Company

The company owns shares in its parent, which give indirect exposure to Garanti Bank

A resolution of the cross-shareholding would add value

The financial participation in the parent increases in value... The company has a 3.86% stake in its parent Dogus Holding. The cross shareholding is poor corporate governance practice and is typically not endorsed by the CMB, but the group does not give a guidance on when the situation may be rectified. The extraction of the asset by Sahenk family could provide cash to finance the investment program and sustain the dividend policy which will expire in 2009. The positive has been that the parent owns 50% of the founder shares of Garanti Bank as well as about 25% of the ordinary shares and its value has skyrocketed as Garanti Bank went from strength to strength. We use the 1Q07 audited book value in our sum of the parts valuation. As Garanti Bank's market capitalization is up by about 40% since that date, there seems to be further hidden value there.

Please find below our sum of the parts valuation for the company.

Table 1: DOAS: Sum of the parts

Business line	Valuation methods	Share held (%)	Value (\$mn)	Contribution (\$mn)	Share in target NAV
Imports, distribution, sales & after sales	DCF	100.0	285	285	34%
Consumer finance	2.0x P/B 2007E	48.0	77	37	4%
Fleet business	2.0x P/B 1H2007	38.0	40	15	2%
Tuvturk (vehicle inspection stations)	DCF	33.3	852	284	34%
Dogus Holding	Book value	3.9	5,431	210	25%
Sum				831	100%
Current MCAP				640	
Upside potential				30%	

Source: DU Estimates

Our dcf value represents the company's import and distribution and sales and after sales business value. The value comprises 35% of our NAV estimate. Our explicit estimation period runs through 2016. Based on our conservative forecasts that are outlined below, our DCF analysis implies a fair value of USD285mn. In our DCF model we have employed a risk free rate of 7.25%, an equity risk premium of 4.5%, and a terminal growth rate of 1%.

Table 2: DCF for DOAS' imports, distribution, sales and after sales business

US\$	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	Term.
Sales	1,756.7	1,966.9	2,085.3	2,173.2	2,262.2	2,346.1	2,458.1	2,574.6	2,676.6	2,776.3	
EBITDA	61.5	64.9	62.6	63.0	54.3	44.6	36.9	38.6	40.1	41.6	
EBITDA margin	3.5	3.3	3.0	2.9	2.4	1.9	1.5	1.5	1.5	1.5	
(-) Taxes	-9.7	-10.0	-9.6	-9.7	-7.9	-5.9	-4.3	-4.8	-6.1	-6.3	
Working Capital Requirement	-4.8	2.7	7.3	-16.1	-1.2	-1.8	-1.6	-1.1	-1.6	1.5	
Capex	-40.3	-85.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	
Free Cash Flow	10.2	-24.0	53.3	30.1	37.6	28.8	22.4	24.2	23.9	28.3	275.1
Discount index	1.01	0.92	0.84	0.76	0.69	0.62	0.56	0.50	0.45	0.41	0.36
PV of FCF	10.3	-22.1	44.7	22.9	25.9	17.9	12.6	12.2	10.8	11.5	100.4
PV of total FCF	247										
Net cash	38										
Equity value	285										

Source: DU Estimates

DOAS has stakes in companies that are active in consumer finance and fleet business...

Mixed picture in participations... Dogus Otomotiv holds stakes in financial sector subsidiaries active in consumer finance and fleet business. This makes the stock a quasi-financial sector stock, as the most important non-strategic holding Dogus Holding also gives exposure to the banking sector through its stake in Garanti Bank.

Fleet business is now a JV with Leaseplan...

Fleet business: Now a JV with Leaseplan

The group has a 38% stake in this business through VDF Holding. There will be share swaps that won't change the company's effective ownership as part of the deal to now partner with Leaseplan, a 50% VW owned company that is a leading participant in the global fleet business. The company expects the new partner will give further momentum to the business, which is already high in its league with about 5,600 contracts and an estimated market position of 4th. The fleet business in Turkey is a very high growth sector, where some sector participants expect annual growth rates in excess of 30% pa over the next 3 to 5 years. No official sector data are available, although it is believed the market size is currently 75,000 contracts and could double in about 3 years.

Fleet business is very high growth in Turkey

Table 3: Ups and downs in the high potential fleet business

YTLmn	FY04	FY05	FY06	6M07
Assets	112	177	226	244
Contracts outstanding (#)	2,480	4,232	5,422	5,611
Borrowings	96	144	196	209
Equity	8.2	26.8	11.6	26.4
Earnings	3.2	18.2	-15.1	14.8

Source: Company, DU Research

The fleet company operates with high short FX position

In terms of financial performance, the company operates with a high short FX position and this apparently translated into a substantial loss in 2006. Details on the financial performance of this company are not available, however our understanding is that much of these losses were reversed during 2007 with revaluation of the TL and the company currently has a balance sheet of about EUR139mn and equity of EUR15mn. The remainder of the balance sheet is funded by VW.

We revise down our fair value estimate to reflect the dent in equity relative to our estimates and the high risk profile of the business

We revise down our fair value for this business from USD90mn to USD40mn to incorporate the sharp fall in equity relative to our estimates, although sustained performance may trigger upgrades here down the line. The valuation in the VW – Leaseplan transaction have not been disclosed, so we do not have the benefit of the guidance of an existing (semi arm's length) transaction. We prefer to use 2x trailing BV as earnings visibility is still limited in this business.

Novel products and pricing mechanism will be introduced with new partner

The company will introduce novel pricing mechanisms and will try to reach out to dealers, making them effectively agents for its business. The company remains arm's length with VW and the share of VW brands in its fleet could decline from the current 70% levels. Although inorganic growth could be an option, the management deems the current prices in the M&A market excessive. In terms of capital management, the parent is regulated as a bank and does not work with very low capital ratios, so the level of leverage in this business looks set to continue at current levels.

Regulatory issues present opportunities and risks, but nothing imminent

Besides company specific developments, the prospects for the sector include local or central government starting to rent fleets, introduction of a legal framework for operational leasing (the business is still regulated by the Ministry of Transport), and introduction of VAT benefits. We believe a risk could have been the start of imports of 2nd hand cars from abroad. Both the opportunities and risks are unlikely to materialize in the near future. Mainly, fiscal concerns would stand on the way of tax

benefits and allowing of imports from abroad. Leasing by the Government would help in finances actually, however it seems quite far from the agenda.

The consumer finance business

Equity in consumer finance business rose nearly 5-fold in 2 years

On a roll, but there are risks... The consumer business has been generating very strong levels of earnings over the past 3 years and equity rose nearly 5x between end-04 and end-06. The company is a very pure consumer finance company, with consumer loans constituting approximately 99% of assets.

Turkish regulations are much more friendly to leverage in specialised financial companies

Efficient use of capital: Turkish banking regulator allows non-bank finance companies to leverage equity 30x, with an additional 15x, allowed through the use of subordinated loans. This compares very favourably with 12.5x banks (assuming 12% BRSA-imposed CAR minimum and full supplementary subordinated loans, but not 1st tier subordinated loans) and therefore makes these specialized financial companies more capital efficient. The company had breached this limit as of end-06 at 40.7x, however it has been extended EUR10mn as a subordinated loan. Therefore the capital adequacy concerns have now been addressed, with earnings further supporting capital base and 2007 being a stagnant year anyway with virtually no growth to fund.

Sources of funding could be diversified further away from VW

Too reliant on VW for funding... While the company diversified the instruments through which it finances itself, mainly through the bonds issued since early 2005, Volkswagen Financial Services N.V. remains the main fund-provider, with 65% of all leverage extended by the group at end-06. The VW group apparently has substantial appetite for TL risk or hedges itself elsewhere, as 83% of all financial loans are denominated in TL. However, the company could instill further confidence in its value as a stand-alone company by diversifying the sources of its funding and it would be more convincing that it could fund further growth if VW's appetite suffers from any setbacks.

Table 4: High profitability in consumer finance business

YTLmn	FY04	FY05	FY06	6M07
Loans	722	1,243	1,553	1,457
Assets	737	1,258	1,571	1,478
Contracts outstanding (#)	47,900	80,452	99,051	96,535
New contracts (#)	37,729	56,330	50,961	16,273
Borrowings	699	1,194	1,480	1,384
Equity	8.0	22.0	38.1	44.6
Earnings	7.9	14.1	16.1	6.2

Source: Company, DU Research

The business carries maturity mismatch

No FX risk, but maturity mismatch can be problematic... As of end-year, the company did use some derivatives to hedge an on-balance sheet short-USD, long-TRY position, but otherwise was square and does not appear intent to run a short position to fund itself. However, there is substantial maturity mismatch, with liabilities coming due in 2007 exceeding such assets by YTL716mn. The strength of the shareholders of course soothe concerns of problems in the event of a financial shock, however the company appear to be taking a bet in the direction of declining interest rates in the current outlook.

Leverage and maturity mismatch justify a cautious stance: Valuing the company at 2x end-07 equity... The company targets 1.2% ROA, which should be achievable, in fact this represents just a 10% increase over 2006 for 2007. The juicy part is, because of leverage, this translates into ROE of about 38% (after 94% and 54% in 2005 and 2006, respectively). While there has been no growth this year, we

The company is entering the business of financing its dealers. We expect negligible impact from this business in the near term

believe there is significant room to grow in this business in the future, as the current loan portfolio consists of fewer than 100k contracts. Against this backdrop, we still adopt a cautious stance due to the very high leverage and the maturity mismatch and value the company at 2x end-07 expected BV, at about USD77mn.

Factoring subsidiary in the process of being established... The company decided to diversify into financing of dealers and is in the process of getting approvals for its factoring business. The risk of receivables from dealers will be transferred from Dogus Otomotiv to this subsidiary. The move should make Dogus dealership more attractive while it internalizes some risks with regard to dealers. The dealer networks are prized assets in Turkey, sometimes unjustifiably so, but the move seems small enough to be considered negligible.

Legal problems in vehicle inspection license seem to have been overcome. Vehicle inspection business (TUVTURK) is likely to diminish the high volatility associated with the stock...

Vehicle inspection stations: Better late than never...

Finally, approval of the vehicle inspection deal? The saga surrounding the vehicle inspection business (TUVTURK) in which DOAS has a 33% stake seems to be coming to a close. Privatization Administration (PA) invited the group comprising of DOAS, Hamdi Akin's Akfen and German TUV to finalize the contracts until August 22nd 2007.

DOAS will consolidate TUVTURK via equity pick-up ...

Vehicle inspection business as important as core business... Vehicle inspection business represents 35% of our final, sum of the parts value. However, note that the company will consolidate the business by equity pick-up method hence there will be no contribution to DOAS' financials at the operating level. We expect it to create dividend flows as soon as 2011, maintaining a high level of indebtedness. Also importantly, the business represents a less variable and growing incremental income for DOAS, which will likely reduce the beta of the stock.

Some of the investments will be undertaken by franchisees

Investments... The number of stations in Turkey is currently 80. The new consortium will build 189 fixed and 38 mobile stations that will meet EU standards. Franchises are expected to be granted, with DOAS wishing to concentrate their efforts in the bigger cities. Initial set-up costs are expected to be around USD170mn.

The enforcement is the key issue in this business...

Pricing and enforcement... Inspection fees are set by law and increased annually by the "revaluation" index, which is in effect an average inflation rate. Vehicle owners will be penalised for skipped inspections, however our understanding is that the inspection company is not going to benefit from these penalties. The enforcement is therefore quite important for the profitability of the business. We have used fairly modest compliance, although the mechanisms envisioned by the system (computerised system, visible stickers etc to highlight violations) could help the inspection companies.

DOAS will get access to car park info all around Turkey...

Passenger cars are to be inspected three years after their purchase and then will be checked every two years. Commercial vehicles will be inspected two years after the purchase and every year thereafter. Given the commercial vehicles' increasing importance in Turkey, their contribution to revenues is expected to increase in the coming years.

This business line will give the company access to car park info all around Turkey and a platform to carry out minor servicing and retail operations near the site of the inspections. However, the inspection facility should be a separate physical building housing no other commercial activity. Therefore, we have only modest expectations from these angles incorporated in our model.

In the light of guidance given by the company and the news in the media after the invitation granted by PA, we made some adjustments to our model. Our new DCF

We value DOAS' stake in the company at USD284mn...

for this line of business yields a value of USD852mn after deducting the lump-sum concession fee in the amount of USD552mn. Accordingly, DOAS' 33.3% stake in the consortium is valued at USD284mn versus our old estimate of USD138mn. We used a fixed inspection fee in USD terms that is about 15% below the current prices, reflecting the risks that the TL may depreciate. 2007 fees set by the Ministry of Finance for cars, buses and tractors are TRY104, TRY138 and TRY54, respectively.

Devaluation is a risk to our valuation...

In general, devaluation is a risk to our valuation, as the company is only guaranteed price increases in tandem with inflation.

Table 5: DCF for vehicle inspection business (TUVTURK)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Car park estimate	6.4	6.8	7.1	7.4	7.7	8.1	8.4	8.7	9.1	9.3	9.6
Number of cars expected to visit	1.8	2.0	2.1	2.2	2.3	2.4	2.6	2.7	2.8	2.9	3.0
Price inspection (TRY)/ unit	104	107	112	116	121	126	131	137	142	148	155
Revenues cars	189	219	237	256	282	308	335	365	396	430	470
LCV park estimate	1.9	2.1	2.3	2.6	2.8	3.1	3.3	3.6	3.9	4.2	4.6
Number of LCV's expected to visit	1.2	1.3	1.4	1.6	1.8	1.9	2.1	2.3	2.5	2.7	3.0
Price inspection (TRY)/ unit	104	107	112	116	121	126	131	137	142	148	155
Revenues LCV's	120	138	161	186	215	246	280	318	360	406	462
Number of truck and buses expected to visit	0.4	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6
Price inspection (TRY)/ unit	138	144	150	156	163	169	176	184	191	199	209
Revenues trucks busses	51	50	55	61	67	74	81	89	97	105	115
Number of motorcycles and tractors expected	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Price inspection (TRY)/ unit	54	56	59	61	63	66	69	71	74	77	81
Revenues motorcycles and tractors	32	31	34	38	42	46	50	55	60	65	71
Number of vehicles to visit	3.9	4.2	4.5	4.8	5.2	5.5	5.9	6.2	6.6	7.0	7.4
REVENUES (TRY)	392	438	488	540	605	673	746	826	913	1,007	1,118
REVENUES (\$)	268	274	292	312	334	357	381	405	430	456	482
TUVTURK Revenues (\$)	0	183	196	209	191	204	217	231	245	260	275
Gross profit	-8	149	160	172	151	162	174	186	198	210	223
Depreciation	1	6	9	9	9	9	10	10	11	11	11
After tax	-6	125	136	146	130	139	149	159	169	179	190
Capex	-20	-100	-50	-5	-5	-5	-5	-5	-5	-5	-5
Free cash flow	-26	25	86	141	125	134	144	154	164	174	185
COE	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Cost of debt	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Cost of debt, after-tax	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Weight of debt	90.0%	89.1%	82.5%	75.1%	77.5%	77.8%	78.0%	78.0%	77.7%	77.1%	76.0%
Wacc	6.6%	6.7%	7.1%	7.5%	7.4%	7.3%	7.3%	7.3%	7.3%	7.4%	7.4%
Discount factor	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.9	2.0	2.1
Discounted cash flow	-24.1	22.1	71.0	107.9	89.0	89.1	88.9	88.5	87.9	87.0	85.9
NPV	1404										
Net debt	552										
Value for DOAS	284										

Source: DU Estimates

Provided that upfront concession payment is tax deductible, NPV of the tax break would be USD11mn...

The lump sum payment and investments are to be financed by long term debt which increases our value. On the revenues side, we have incorporated a minor retail business with mediocre margins into our model. We used very rough estimates for that operation and would revisit our valuation once further details becomes available. The figures below show our expectations for the first ten years of the project as a part of our DCF. Our target value of USD284mn takes into account the full 20-year period of the project where we assume the license will not be renewed. The remote possibility that the term of the concession expires in 20 years from the auction (2024) rather than the date of the contract (2027) would reduce our fair value, but it seems clear that the contract will be good for 20 years after signing. In our vehicle inspection model, we assumed that the upfront concession payment in the amount of USD552mn will not be tax deductible. The company did not yet provide any guidance on this; hence to stay on the safe side we did not pencil in any

We assumed the lumpsum payment and investments are to be financed by long term debt ...

tax break. Assuming it would be amortized in a linear fashion over the 20-year term of the concession, the NPV of the tax break would be USD11mn, a direct addition to our fair value estimates. We also did not incorporate any income from cars that skip inspections, such as a share in penalties that are collected by the Government. If TUVTURK has a share in such related receipts, our valuation would increase significantly.

What is next?

Imports and distribution of VW LCV's in Egypt

DOAS will carry out sales and after-sales services for Caddy, Transporter and VOLT models in Egypt. The operations are expected to be commencing in August 2007 and DOAS will fully consolidate this business into its accounts. Investment is expected to be around €3mn. The company guidance for VW LCV sales in Egypt are 520 and 1500 units in 2007 and 2008, respectively. Even though we lack data on pricing and margins, we believe Egypt is likely to mimic Turkey in terms of high speed of LCV market growth. Thus 5,000 units are within reach in five years. Success in this operation can translate into a deal for PC distribution in Egypt or similar deals in Northern Africa or Eastern Europe for DOAS. However, regional expansion seems to be particularly challenging in a business that requires so much local knowledge.

Krone production

In 2006 Krone, Europe's leading trailer producer, chose Turkey as a base for production. Dogus Otomotiv and Bernard Krone Holding GmbH have agreed to join forces to manufacture Krone brand trailers and agricultural machinery equipment in Turkey, probably through a company owned 51% by Krone and 49% by DOAS. Production is expected to commence in 2009 and 5,000 trailers is targeted in the first full year of operations. The annual figure is expected to reach 10,000 units in three years time. 90% of the production is targeted for exports and the expected investment amount is €35-40mn, starting in September 2007.

Organisational changes... There have been various changes in different management levels in June 2007. Mr. Acar, ex-CEO is replaced by Mr. Bilaloglu, who has been serving as the General Manager of the brands Audi and Porsche under Dogus Otomotiv since 2004. Mr. Acar will remain as the Chairman. There have been changes in General Managers of the various brands as well.

Investments and possibility of corporate action

The company wants to anchor its retail business in the big cities in Turkey through direct ownership of key retail spots. One such step was the purchase of a building in the affluent Etiler district for the Porsche dealership. While we cannot dismiss the rationale of the strategy, there are two important catches. One is that the amount of investments envisioned until end-08 is rather large given the size of the company, ranging between USD100 to 150mn. This can raise possibility that cash equity increases will be called for, as well as a discontinuation of the dividend policy after its expiration in 2009, particularly given the investment schedules in other business lines as well. Second problem with investor sentiment would be if the real estate transactions were with the parent group, which could raise questions of transfer pricing. The company could circumvent this problem by letting Dogus GE REIT acquire the physical premises. The company is already a tenant of Dogus GE REIT in several of its locations. If capital is raised via sale of Dogus Holding stake at market prices, there would not be too much of a backlash, but otherwise investor sentiment may sour.

DOAS' operations in Egypt are expected to commence in this month...

The deal may bring about further deals in PC distribution in Egypt or others in the region...

Krone production is expected to commence in 2009...

DOAS is to consolidate trailer business via equity pick-up...

CEO change took place in June 2007...

Direct ownership of the key retail stops may be costly indeed ...

Financials and Estimates, *IFRS Consolidated*

Income Statements, US\$m	2005	2006	2007E	2008E	2009E
Net Sales	1,826.8	1,765.6	1,756.7	1,966.9	2,085.3
Cost Of Sales	(1,562.7)	(1,563.4)	(1,522.5)	(1,730.9)	(1,848.4)
Gross Profit	264.1	202.2	234.2	236.0	237.0
Operating Expenses	(150.9)	(160.1)	(183.2)	(183.6)	(186.4)
Operating Profit	111.0	42.0	48.5	49.9	48.0
EBITDA	121.5	50.4	61.5	64.9	62.6
<i>EBITDA Margin (%)</i>	6.7%	2.9%	3.5%	3.3%	3.0%
Net Income/ Loss from Other Operations	16.9	5.3	7.0	40.5	33.4
Financial Expenses	(10.3)	(30.6)	(21.2)	(51.4)	(36.1)
Income Before Min. Int. and Taxes	117.6	16.8	34.3	39.0	45.3
Minority Interests	0.8	2.1	1.9	2.2	2.3
Income Before Taxes	118.5	18.8	36.2	41.2	47.6
Taxation on Income	(35.4)	(3.5)	(6.9)	(7.8)	(9.1)
Net Income	83.1	15.4	29.4	33.4	38.5

Balance Sheets, US\$m	2005	2006	2007E	2008E	2009E
Current Assets	498.0	514.4	490.7	526.2	574.1
Cash and Equivalents	93.9	86.1	74.6	76.9	81.8
Trade Receivables	102.0	101.7	95.4	103.2	112.0
Inventories	273.3	300.3	289.2	327.3	359.8
Other	28.8	26.3	31.5	18.7	20.4
Long Term Assets	257.5	287.7	382.9	460.4	486.4
Long Term Financial Assets	176.5	200.1	270.8	292.4	327.3
Tangible Fixed Assets	72.6	77.3	101.7	158.5	149.3
Intangible Fixed Assets	5.0	4.0	4.6	4.1	3.9
Other	3.3	6.3	5.8	5.4	5.9
Total Assets	755.5	802.1	873.6	986.6	1,060.5
Short Term Liabilities	408.5	430.8	448.5	552.3	615.6
Financial Loans	15.6	21.5	42.3	131.8	154.6
Trade Payable	288.8	344.3	331.7	375.0	408.9
Provisions for Taxes, Div. and Other Payables	82.1	11.4	17.5	21.0	25.1
Other	22.0	53.6	57.0	24.5	27.0
Long Term Liabilities	25.9	28.0	40.8	46.3	21.4
Financial Loans	21.3	21.9	30.9	36.7	11.8
Other	4.5	6.1	9.9	9.5	9.6
Minority Interests	5.5	3.1	3.4	3.1	2.9
Shareholders' Equity	315.6	340.2	380.8	385.0	420.6
Total Liabilities & SHE	755.4	802.1	873.6	986.6	1,060.5