

Automotive

Will You Handle the Curve?

Global Automotive Perspectives 2008*



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About the PricewaterhouseCoopers Global Automotive Perspectives

When PricewaterhouseCoopers introduced the Global Financial Automotive Review a decade ago, we intended to provide our readers with a global overview of the automotive marketplace using the financial statements as a cornerstone. Today, PwC's Global Automotive Practice has diversified and expanded its sources of information and leveraged its in-depth industry knowledge acquired by our 1,500 professionals in audit, tax, and advisory services. Because our unique expertise extends well beyond the financial sphere, we have decided to rename this publication *Global Automotive Perspectives*, in which you will find our vision for and expectations of key industry challenges that are shaping the ever-changing global automotive landscape.

2008 is poised to be a year marked by profound industrial shifts and strong headwinds for the automotive industry, as global players respond to a fast growing array of financial and regulatory pressures. Such constraints include increasing fuel economy and/or drastic CO₂ emissions mandates, rising commodity prices, a weakened US dollar, changing consumer preferences, liquidity concerns. Nonetheless, tremendous opportunities exist for automakers and suppliers who are prepared to deliver swift and viable solutions to the industry's current transformation.

The ability of Western automakers to strategically position themselves between mature and emerging markets represents a clear challenge in today's global automotive environment. Achieving a balanced global footprint is particularly critical for the Detroit 3, which must undertake massive domestic market realignment efforts as consumers abandon traditional truck-based vehicles and begin favoring more fuel-efficient car-based autos. In addition to satisfying changing domestic demand, the Detroit automakers' rationalisation measures must be completed in a period of reduced credit availability and fragile financial outlooks.

Automakers operating in the Western European market are also working to meet new requirements like reducing CO₂ emissions and reaching the 120g/km target by 2012, which was introduced by the EU and has resulted in a growing number of countries using CO₂ related taxation—Germany is likely to join them by year

end—ultimately driving demand for more economical cars and efficient engines. Manufacturers and suppliers developing fuel-saving technologies that improve efficiency without sacrificing performance will continue to benefit in a highly competitive sector.

In 2007, Russian new car sales skyrocketed 66% over the previous year as the country attempts to surpass Germany to become the largest car market in Europe. While many automakers are quickly establishing a presence in Russia, some may experience difficulties in improving margins as the percentage of automotive components manufactured in Russia is extremely low. Additionally, Russia is still an emerging market, with a GDP three times lower than the US, elevated levels of inflation, and a rapidly declining competitive manufacturing advantage. Automotive infrastructure as well as car maintenance and repair facilities are attempting to cope with rapidly increasing automotive sector growth.

As the industry undergoes structural changes, a significant number of transaction deals may be observed despite the global credit crunch and macroeconomic turmoil. Nevertheless, the pace of the deal market has slowed in the first half of 2008. With limited access to credit and recessionary risks, deal prices have declined, making the auto industry more attractive to trade buyers. However, financial buyers remain interested in the industry as it still offers a host of opportunities.

The appreciation of the Euro has significantly influenced the financial performance of non-US manufacturers with operations in the US; primarily German automakers as imports from European locales still represent a significant portion of sales in North America. This foreign exchange rate scenario also benefits non-domestic automakers by making US built vehicles more price competitive for export.

Few automotive companies, if any, have been unaffected by the current US economic conditions, reduced volumes and shifting consumer demand. At such uncertain times, the quality, transparency and comparability of financial information become critical to assessing performance of each company and across

industry participants. Over the past few years, International Financial Reporting Standards (IFRS) has become the accounting framework most widely used globally. After the recent US SEC announcement, it is clear that the US is moving from a path of convergence with IFRS to a path of conversion to IFRS. This change in the underlying accounting framework will have considerable impact on US automotive companies and their constituents, and will be felt throughout an organisation's key performance indicators, benchmarks, covenants, compensation agreements, contracts, taxes, and systems. There are several opportunities, challenges, and compensating factors for US automotive management to consider as they assess and later communicate the impact of IFRS on their financial position and results.

This first edition of our new Global Automotive Perspectives highlights some of the major obstacles on the road to profitability and sustainability. Automotive companies must be well-equipped to maneuver around these road hazards that lie just ahead and around the curve.

Members of the PricewaterhouseCoopers Global Automotive Practice are ready to assist as you lead your business through current challenges and toward new successes. For your convenience, a list of contacts can be found at the end of this publication.

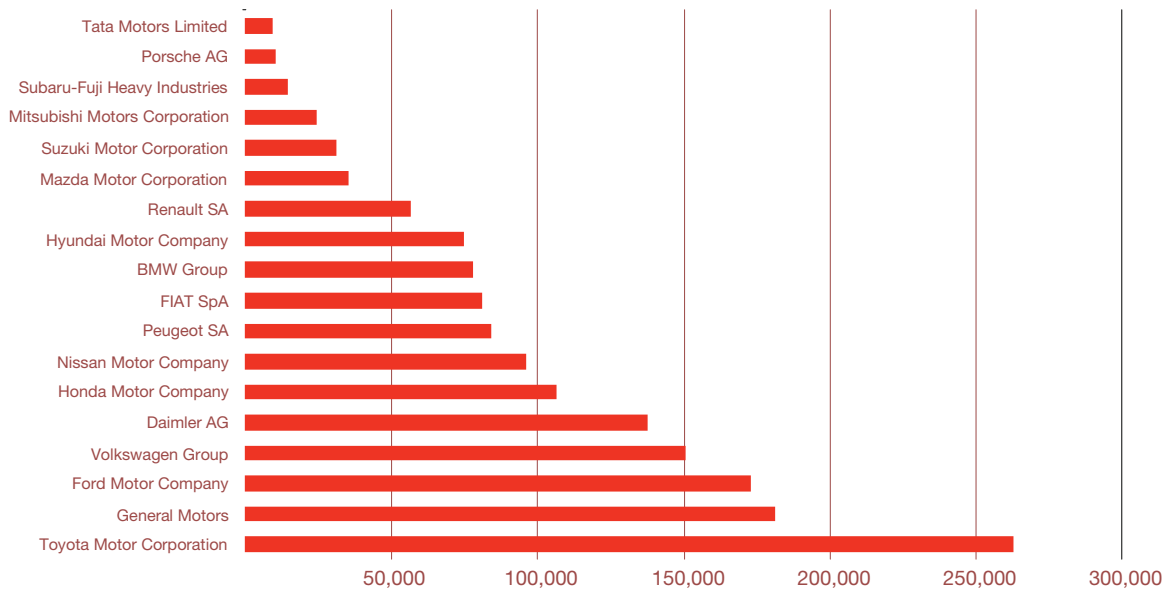


Stephen D'Arcy
Global Automotive Leader



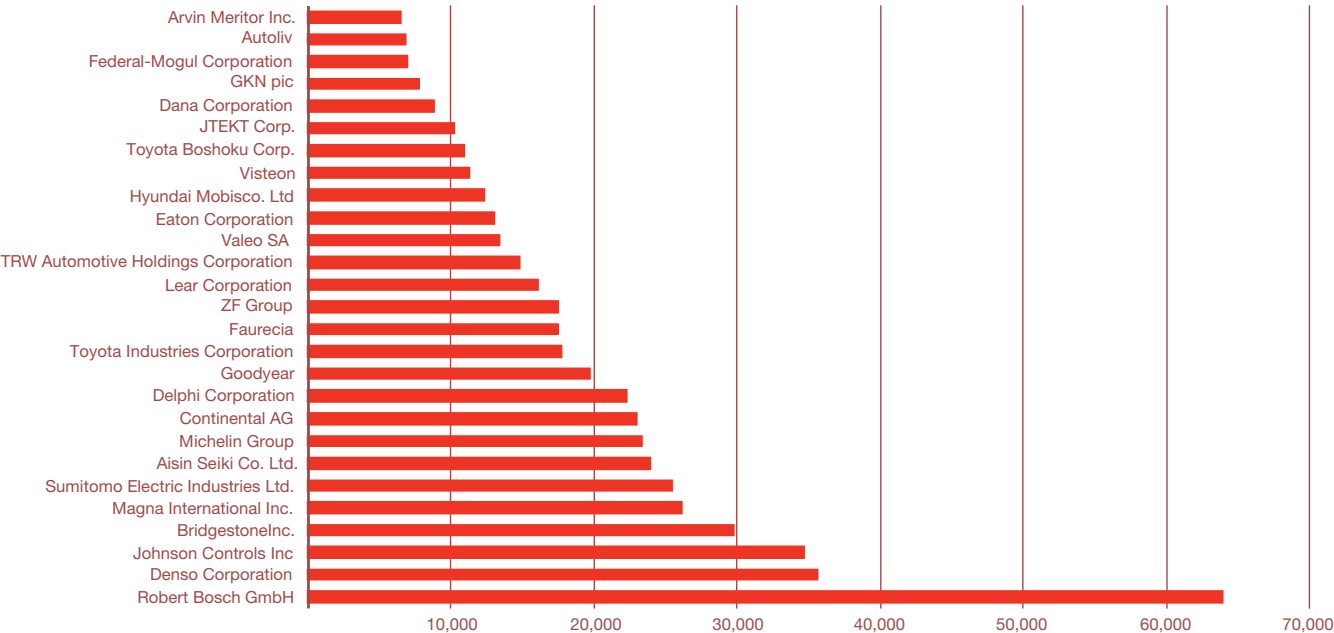
Philippe Vincent
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Vehicle manufacturers by revenue (\$ millions)*



*Revenues are based on a year-end conversion factor.

Vehicle suppliers by revenue (\$ millions)* **



*Revenues are based on a year-end conversion factor.
**Represents consolidated revenues of all business units.



Global Automotive Sector Outlook

The automotive industry is global in name only.

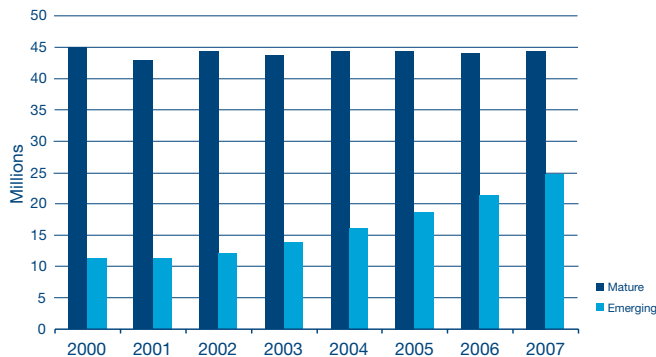
A clear dichotomy exists between the established, mature markets and emerging markets.

An examination of the comparative growth rates in light vehicle sales between mature markets and emerging markets illustrates this disparity. The EU15 markets, for example, had a meagre compound annual growth rate (CAGR) of 0.93 percent for passenger car sales from 2000 to 2007, while the 10 new EU member markets had a CAGR of 8.56 percent for the same period. A similar pattern is evident in a comparison during the same period of the established markets of Japan (-1.59 percent CAGR) and the United States (-0.84 percent) with the emerging Mexican market (2.97 percent). This dichotomy is further borne out when considering global light vehicle assembly during the same period—collectively, emerging countries posted a CAGR of 15.38 percent, while mature countries' aggregate CAGR was a scant 0.39 percent.

Mature market assembly stagnates Global light vehicle assembly 2000-2007 CAGRs 00-07

Mature: -0.56%

Emerging: 12.40%



Source: PwC Automotive Institute 2008 Q3 Data Release

Given this dichotomy, automakers tend to pursue diametrically opposed strategies. In mature markets, it is about managing what goes on beneath a static surface; in emerging markets' dynamic environments, companies must strategically position themselves to benefit from growth opportunities. However, without the right strategy and execution in mature markets, it is clear that traditional OEMs cannot profit from emerging markets—the persistence of structural issues in mature market operations eventually will rob all but the most resilient competitors of the opportunity to compete in emerging markets.

This reality has meant a strong focus on restructuring in mature markets in recent years, through either cutting capacity or moving to lower-cost locations. In North America, this is characterised by the shift south as the Detroit 3 restructure and new capacity finds its way to south eastern US states and Mexico. Between 2000 and 2007, US light vehicle capacity declined a net 1.4 million; however, closer inspection of the data shows that the Detroit 3 shuttered 2.85 million units of capacity. Furthermore, the groundbreaking UAW agreement is as fundamental a part of the restructuring as are any footprint changes.

In Europe, the restructuring process is characterised by the shift east with the new EU member states in Central and East Europe (CEE) acting as the Western's pressure valve against a background of stagnating sales, rising raw material costs, increased competition from Asian automakers and falling new car prices. CEE gives automakers access to less costly labour and new customers, and it allows new entrants, such as Hyundai and Kia, to compete without legacy costs. The net effect has been a rebalancing of automaker footprints in the region with Western Europe losing 1.5 million in capacity since 2000, while CEE countries will have added 1.8 million units of capacity by 2009.

In Japan, much of the pain of right-sizing businesses was carried out in the 1990s as Japanese OEMs expanded overseas in the face of stagnating domestic market sales. This meant that light vehicle capacity peaked at 13.9 million units in 1995, 2.7 million units more than was available in 2007, with the resulting capacity almost matching total light vehicle output. To accommodate export volumes that are once again on the increase, Japanese OEMs are adding not just capacity, but capacity that is more adaptable to the highly fragmented and transient peak demand in Japan and to the needs of export markets.

While mature market OEMs gradually come to grips with the market-specific challenges presented to them, multifarious strategic challenges weigh just as heavily before emerging market investments are considered. Strategic challenges emanate from two sources—legislation or competition—and both add costs to competing in markets where better performance will originate only by increasing market share or reducing costs. Such constraints include increasing fuel economy or CO2 objectives, recycling initiatives (e.g., the EU’s End of Life Vehicle Directive), changing consumer tastes, vehicle content escalation, premium brand growth, rising commodity prices and globalised supply chain management, among others.

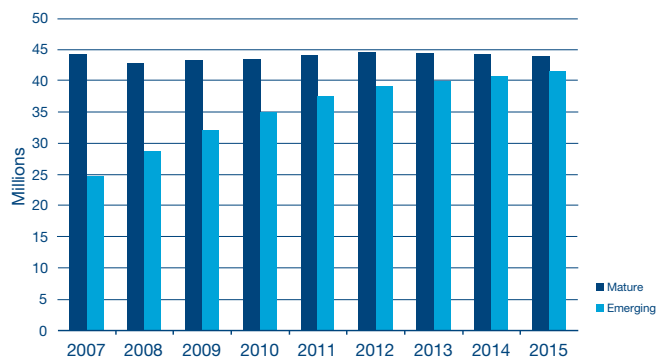
Global outlook

Growth is an emerging market phenomenon

CAGRs 00-07

Mature: -0.10%

Emerging: 6.74%



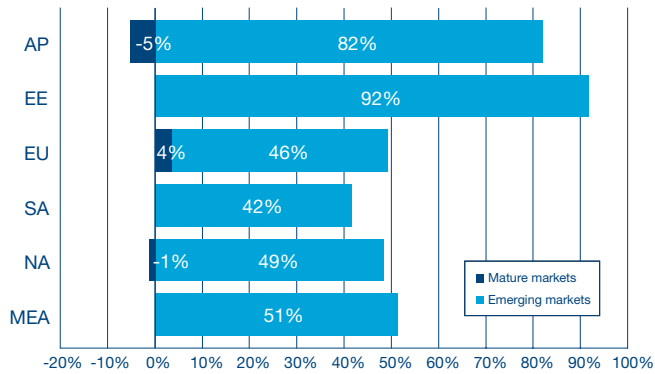
Source: PwC Automotive Institute 2008 Q3 Data Release

Once automakers meet these mature market challenges, the next stage is to compete effectively in the world’s growth markets. From 2007 to 2015, emerging markets are expected to represent 18 times the estimated growth in light vehicle assembly as mature markets in the same period. To put it another way, PwC forecasts that 95 percent of light vehicle growth will originate from emerging markets. Among these markets, the BRIC (Brazil, Russia, India and China) countries are most eminent in the growth stakes, with more than 58 percent of forecasted growth from 2007 to 2015 stemming from them. Of the BRIC countries, PwC expects China and India to lead the growth in light vehicle output as OEMs look to sate the demands of a combined population of more than 2 billion people, with the less populous—but still strategically important—Russia and Brazil expected to grow less rapidly.

With these divergent focuses of OEMs’ strategies, those competitors that best execute emerging and mature market strategies will be the winners. Those managing location issues with the concomitant capacity, together with a product portfolio that addresses anomalous market needs at the most attractive cost, will profit from the challenging global environment. Of the various competitors, it would seem that Toyota, despite a recent slowing of its growth in North America and Europe, is executing the most balanced global strategy. By 2015, PwC forecasts Toyota to remain the leading global alliance group with a forecast light vehicle output of 11.3 million. Behind Toyota lies the growth forecast for GM, thanks to its strong emerging market presence, and the dynamic Renault-Nissan alliance, which is expected to move from fifth in the rankings to third, thanks to the large stake in AvtoVAZ and the continuing success of its Logan line of low-cost vehicles.

While the emerging market or low-cost car was once an important differentiator for Renault-Nissan, many of its competitors are looking to launch competing vehicles—e.g., Toyota with its EFC program and VW with its NCC program. Low-cost vehicles will take on increasing importance for global automakers as they seek to accelerate the development of emerging markets and thus reduce the pressure to perform in the world’s highly competitive and challenging established markets.

**Contribution to growth by region and market type
2007-2015**



Source: PwC Automotive Institute 2008 Q3 Data Release

The following sections further examine the automotive industry's key trends and drivers in North America, the European Union and Japan.



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North America Outlook

Demand situation

Beginning in 2007, there were signs the North American market was preparing to undergo a shift, one that would prove to be structural, not cyclical as the industry had experienced during previous economic cycles. Consumers were living in a period of elevated oil prices and had begun to adapt their purchases accordingly. The effect of deteriorating housing and credit markets were beginning to blemish monthly sales in the second half of 2007, and the acquisition of Chrysler by private equity player Cerberus marked an inflection point in the North American automotive industry.

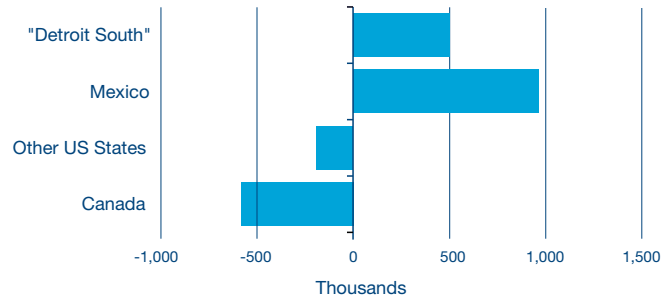
Light vehicle sales for the region were off 2 percent in 2007, led by a decline of more than 400,000 units in the United States. In other regional markets, a modest gain of 40,000 units in Canada was offset by a sales decline in Mexico, where the local economy began to waver in the wake of the economic pressures of its largest trading partner, the United States. In 2007, assembly in North America declined by only 1.5 percent from 2006, to 15.1 million units due to significant gains in New Domestic assembly, which was up 350,000 units. This assembly growth counterbalanced regional growth as the Detroit 3 declined by 550,000 units and consumers continued to migrate away from SUVs and full-size pickups. Additionally, volume declines can be attributed to the conscious decision to use greater discipline in incentive spending, diverging from the previous economic downturn in 2001, when heavy incentive spending helped the industry avoid a full-fledged correction. Assembly in 2008 is expected to fall below 14 million units for the first time since 1993, with nearly all market participants facing declines as consumers sideline major purchases. However, the market is expected to recover and expand to 15.9 million units by 2012 as automakers rush to realign their local assembly footprints to assemble more fuel-efficient crossovers and small cars.

Supply situation

As the various auto shows across North America proved in early 2008, automakers are straining to meet the industry's changing dynamics. However, what is being delivered today is different from what is promised tomorrow as the industry copes with the shift in consumer demand and resulting product mix implications. The fastest growing segment in North America during 2007 was the

crossover segment, which experienced an increase in assembly of a half-million units, or 34 percent more than 2006 volume. The CUV presents the natural evolution of the traditional SUV, providing a vehicle with similar utility, greater fuel efficiency and superior driving dynamics. However, despite momentum at the end of 2007, sales growth in the segment has stalled, posting a 2 percent decline through the first half of 2008 as fuel prices rose above \$4 a gallon. During the first six months of 2008, the only segment to post gains compared with 2007 was small cars. Currently, New Domestics are best positioned to service this increased demand; however, by 2010, all automakers are expected to have capable offerings in the segment.

North America growth by region/country 2007-2015 (Light Vehicle Assembly)



Source: PwC Automotive Institute 2008 Q3 Data Release

Although fuel prices have been rising moderately for the past several years (up 35 percent in 2007 alone), consumers had only mildly adjusted their buying habits until recently. In a world of \$4-per-gallon gasoline, the coalescence of political, social and economic factors are driving dramatic change through the industry. Though rising fuel prices have catalyzed a significant shift in product mix, recently passed increased fuel economy standards will sustain this shift. Under the new CAFE regulations, automakers must achieve a fleet average fuel economy of 35 mpg by 2020, up from 22.2 mpg in 2007. To reach this aggressive target, automakers are proactively reducing vehicle and engine size, and they likely will require the assistance of suppliers to deliver fuel-saving technologies to reach the proposed targets. Additionally, socially

responsible and environmentally conscious goods will be thrust into the mainstream as social ideals align with economic interests. For example, the time to recoup the hybrid price premium before realizing true savings declines as fuel prices rise.

Capacity utilisation

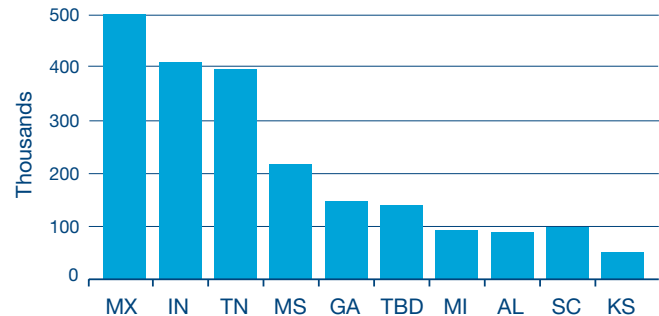
The inauspicious headwinds that came to the fore in the fourth quarter of 2007 are likely to continue through 2008 and into 2009. Although 2007 brought about a dynamic downshift in the industry, it wasn't until mid-2008 that a renewed sense of urgency ignited another round of capacity rationalisation plans as entrenched Detroit 3 players realigned to market realities and New Domestics entered a cautious stage of capacity localisation. From 2007 to 2012, the Detroit 3 are expected to remove at least 1 million units of excess capacity, while New Domestics, including Chinese investment, are expected to add 1.9 million units of additional capacity.

It likely will take until 2010 for the benefits of the 2007 UAW labour contract with the Detroit automakers to be fully realised. This contract negotiation, though tumultuous and disruptive, will be remembered as a revolutionary step towards increasing the competitiveness of domestic automakers by addressing their fundamental labour cost disadvantages. Following product commitments to US-based assembly facilities by the Detroit 3, the union agreed to assume the health-care liabilities of its members through the establishment of a voluntary employee beneficiary association (VEBA). Additionally, the UAW agreed to the establishment of a two-tier wage system for new hires. After the several rounds of buyout and retirement offers conclude in 2008, there is an expectation that the disparity in total compensation between the Detroit 3 and New Domestics workers will close significantly.

Across the United States, the intensification of the housing correction in 2008 will weigh negatively as the economic impact of the downturn ripples from the financial sectors to the consumer. Through the first six months of 2008, consumer sentiment fell to a 28-year low, and although housing sales are beginning to stabilise, housing prices are likely to decline 15 percent nationwide in 2008. This, combined with a negative savings rate and rising credit card debt, is putting consumers on the verge of collapse. Consumer spending accounts for roughly 70 percent of the US economy, and it is mainly debt-fuelled consumption that has kept

the economy buoyant during the current economic cycle. The more consumers stretch themselves, the greater risk they represent to potential lenders. During the height of the mortgage refinancing boom, potential auto buyers were able to utilise the equity in their homes as a blank check to increase their loan down payments and decrease the monthly expense.

North America growth by jurisdictions 2007-2015 (Light Vehicle Assembly)



Source: PwC Automotive Institute 2008 Q3 Data Release

However, adjustable rates and falling home values have eroded this consumer-resiliency tool. Alarming, demand in the auto sector has stalled in spite of the fact that lenders are increasingly financing vehicles with loan maturities greater than 60 months. An estimated 85 percent of new loans in the last three months of 2007 were financed up to 95 percent of the overall loan value. To cope with softer vehicles sales, many dealers relaxed lending standards to “move the metal.” However, the effects of more flexible practices are being felt as delinquencies rise. With job and overall economic growth continuing to slow, this trend is poised to accelerate through 2008.

In an industry encumbered by fragile finances, the absence of significant economic momentum for the remainder of 2008 and into 2009—in combination with consumer uncertainty—is expected to pose a stiff challenge for the sector. However, just as rapidly rising fuel prices and the consumer preference shift towards fuel-efficient vehicles challenge industry players in the near term, tremendous opportunities exist for automakers and suppliers able to deliver solutions to this structural industry transformation.

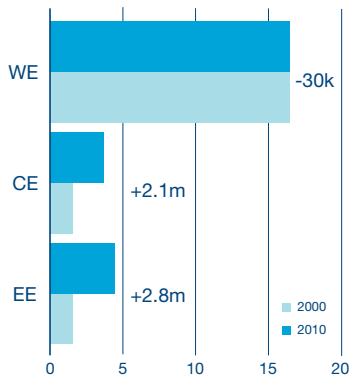
European Union Outlook

Demand situation

Despite a short period of contraction from 2000 to 2003, Western Europe has enjoyed considerable stability since the late 1990s, with sales hovering around the 14.5 million mark in the mid-2000s. A lack of dynamic growth is a feature of a mostly mature market such as Western Europe, where replacement cycles and the prevailing economic situation drive demand. In 2004, the EU accepted 10 new members, mostly in Central Europe, which changed the growth prospects for the EU. In the 1990s, analysts and the industry highlighted these countries as sources of significant future sales growth—growth that is only now being realised.

A major reason for the comparative underperformance of the EU accession states was the huge market for used cars, mostly imported from Western Europe, which stymied growth in new car sales. However, economic growth in countries such as Poland, the Czech Republic, Hungary and Slovakia, as well as Romania (joined 2007), has spurred a boom in sales volumes. The star performer has been Romania, where sales rose more than 25 percent in 2007-08, thanks to the improving economic situation and the rollout of the Dacia Logan—exactly the type of low-cost car designed to boost sales in emerging markets. Poland also seems to be reaching its potential, with sales increasing almost 23 percent year-on-year and totalling 293,000 in 2007.

European assembly by region 2000 vs. 2010 (millions of units)



Source: PwC Automotive Institute 2008 Q3 Data Release

In Western Europe, a mosaic of factors influences the new car market. In Germany, the impact of the 3 percent increase in VAT continues to hold the German market back, so that despite a high average vehicle parc age and increasingly positive economic news, sales in 2007 were down almost 10 percent from 2006. Of the other big-five markets, Spain also has moved into the negative, as the country's construction-driven economic boom ended and consumer confidence declined. Italy, France and the UK posted above-average year-on-year growth for 2007, with Italy, in particular, performing well (up 7 percent), thanks in part to a raft of new vehicle introductions from domestic OEM Fiat. The UK (up 2.5 percent) and France (up 3.2 percent) also posted positive figures; however, increasing disquiet about the general economic situation—stubbornly high unemployment figures in France, the increased cost of credit in the UK, and the rising cost of living in almost all markets (mature and emerging)—suggests the picture for 2008 will not be so rosy.

Supply situation

Due to the stable demand noted above, EU light vehicle output also has remained steady. Light vehicle assembly output rose to 18.830 million units in 2007, a significant increase above the previous peak of 18.065 million units in 2000. Following several years of near-flat growth, output increased almost 1 million units in 2007. Looking ahead, light vehicle assembly output should continue to grow, at least until 2013. Then it is projected to reach 20.749 million units, almost 2 million units more than 2007's output. After this, volume likely will stabilise around 20.7 million units.

The source of this growth will be twofold. First, a combination of market recovery and, more importantly, new model programme investment will see increased output from traditional Western European automotive assembly countries Germany, France and Italy. Collectively, these three will see an increase in excess of 800,000 units between 2007 and 2015. Second, the countries of Central Europe, specifically those that acceded to the European Union in 2004 and 2007, also will see significant volume gains. Growth of their export industries and burgeoning domestic demand will drive this increase. The key assembly locations in Central Europe will be the Czech Republic, Poland, Slovakia and Romania.

Collectively, they will account for more than 1 million units of extra assembly volume between 2007 and 2015.

Investment activity by specific alliance groups naturally will have a significant effect on volume growth. The top five contributors to growth during the 2007-2015 period will be Hyundai Group, VW-Porsche, Fiat Group, Renault-Nissan and Ford Group. Hyundai Group's two new 300,000-unit facilities (one in Slovakia, the other in the Czech Republic) will establish the group as a major player in the EU region. VW will experience significant growth due to investment in new model programmes for its Škoda subsidiary and its other brands filling out their product "whitespace." Fiat's Polish operations, the focus of the group's successful small car strategy, will continue to post positive volume figures. Renault-Nissan and Ford will enjoy volume growth, thanks to investments in Romania. In all these cases, automakers will rely on both domestic sales (in mature and emerging European markets) and, increasingly, exports to underpin these growth strategies.

Capacity utilisation

After a concerted effort by European OEMs to improve capacity utilisation, the numbers have improved significantly, increasing from a low of 64.7 percent in 1993 to a respectable 83.1 percent in 2007. This trend will continue, with a combination of excess capacity elimination (potentially including plant closures) and increasing investment in new products leading to a projected utilisation rate of 85.7 percent in 2015. Between 2007 and 2015 there will be a net capacity increase of 1.425 million units. A significant portion of this (around 400,000 units) will be in Germany, where VW Group (in particular Audi) is investing heavily in new models to be built at its traditional German assembly bases, while GM reorganises its European assembly footprint—to Germany's advantage.

In the important Central European markets of Poland, Romania, Czech Republic and Slovakia, OEMs will add more capacity to take advantage of the lower-cost location and potential for domestic sales growth. Hence the model mix in these plants will be a combination of low-cost, emerging market products and higher-end vehicles for export to developed markets in Europe and around the globe. Romania, in particular, has become the new focus for investment. Between 2007 and 2015, its new capacity will expand by a projected 330,000 units. Some of this will be continuing expansion of the Dacia business by owner Renault, but the recent acquisition of a plant (with guarantees of capacity expansion)

by Ford also is a major driver. Thanks to accession, Romania is increasingly on the agenda of other OEMs looking to adjust their European footprints.

Regarding capacity reductions, Western Europe will continue to experience a downsizing trend. Between 2007 and 2015, PwC forecasts that about 460,000 units will be eliminated from Western European plants, although this may not take the form of plant closures but reduced shift patterns and partial capacity eliminations. Much of this eliminated capacity is likely to come from "peripheral" facilities in countries without domestic manufacturers that represent smaller sales markets. These types of facilities have rapidly lost their cost advantage to the new EU member states of Central Europe.

Japan Outlook

Summary

In 2007, Japan was the largest manufacturing country for cars and trucks in the world. However, its total assembly volumes and share of global assembly volumes declined significantly to 15 percent; in 1990, Japan accounted for more than 25 percent of global light vehicle assembly volumes. This decline reflects the stagnation in domestic demand and the strategy of most Japanese automakers to pursue aggressive “build-where-you-sell” policies, particularly in North America and Europe, with emerging markets beginning to take on increased significance. Despite this overriding strategy, Japan recently has posted assembly volume increases—2007 was 1.1 percent higher than 2006 at 10.96 million. The improvement was driven by intensified global demand for Japanese luxury brands, hybrid vehicles and smaller, fuel-efficient vehicles. Thus, the increasing overseas appetite for Japanese vehicles has offset its declining domestic market condition.

The major challenges to Japanese automakers will be to maintain Japan’s competitiveness as a major export hub—the yen’s general weakness helps in this respect—and balance domestic capacity expansion with meeting export demand. Two things appear inevitable: Japan will witness more local assembly pressure in overseas markets, and it will experience further domestic market decline.

Environmentally conscious and technologically savvy Japanese consumers embrace quickly evolving hybrid technology and new clean diesels that are scheduled to be launched in Japan in late 2008. Though no drastic drop in demand is expected, the Japanese vehicle assembly topline faces a myriad of negative factors that will put pressure on Japanese automakers. Despite numerous new vehicle introductions in 2007, demand has continued to slide downward as the negative economic outlook continues to erode consumer confidence. In addition, the financial health of Japanese automakers that heavily rely on American consumers has been significantly shaken by the precarious combination of a struggling US market and a stronger yen versus the dollar. In the mid to long term, Japanese consumers tend to keep their vehicles much longer than before. Lastly, Japan’s overall population is declining as well as aging, which will limit demand.

Triad countries stagnate

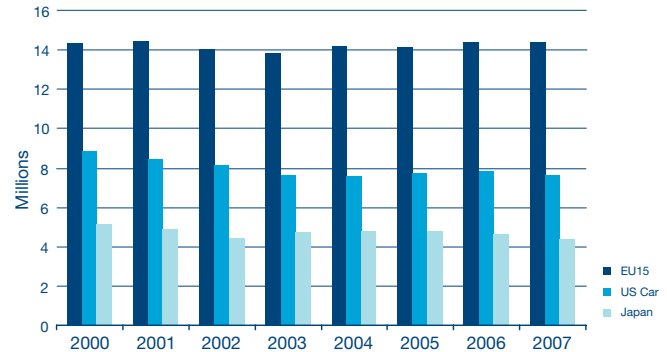
EU15, US and Japan Car Sales 2000-2007

CAGRs 00-07

EU: +0.04%

Japan: -2.09%

US: -2.11%



Source: PwC Automotive Institute 2008 Q3 Data Release

Sales

Like other mature markets, Japan’s domestic sales have stagnated for the past 10 years. Overall, passenger vehicle sales during that period oscillated between 4.1 million and 4.8 million, declining slightly during the past three years. In 2007, the 4.4 million in passenger sales in Japan was the lowest total since 2002, and it was far below the country’s peak sales of 5.1 million in 1990. Besides the volume, the popular segments have shifted from larger and more expensive vehicles to smaller and more affordable ones, such as mini-vehicles. This shift affects automakers’ bottom lines. Among the top 10 best-selling passenger vehicles in Japan in 2007, seven models were mini-vehicles, one was a compact car and another was a minivan.

Export

Nearly 60 percent of vehicles assembled in Japan are exported. To minimise the risk of exposure to unfavourable yen exchange-rate fluctuations, especially to the dollar, Japanese automakers aggressively transformed assembly overseas from the mid-1990s. However, export volume projections from Japan for the next several years are robust, even though localisation of assembly will continue to be a priority. One of the major reasons for this is that, compared

with 1995, Japanese automakers have established a more balanced export market portfolio. In contrast with the past, export destinations now include rapidly growing emerging markets such as the BRIC countries and the Middle East.

Two major challenges remain for Japanese automakers: 1) to increase overseas assembly volumes without hollowing out their Japanese assembly operations; and 2) to mitigate yen exchange-rate fluctuation risks to ensure that Japan continues to function as a viable major export hub while servicing the domestic markets. Recently, to accommodate highly fragmented and transient peak demand at home and in export markets, Japanese automakers began updating and replacing existing capacity with more flexible and efficient plants in Japan. Japanese automakers are expected to keep high-margin products, such as hybrid vehicles and luxury vehicles, in Japan due to technological complexities and the real and perceived demand for product quality. Among technologies, better batteries for hybrid and electric vehicles are one of the most important issues automakers now face.



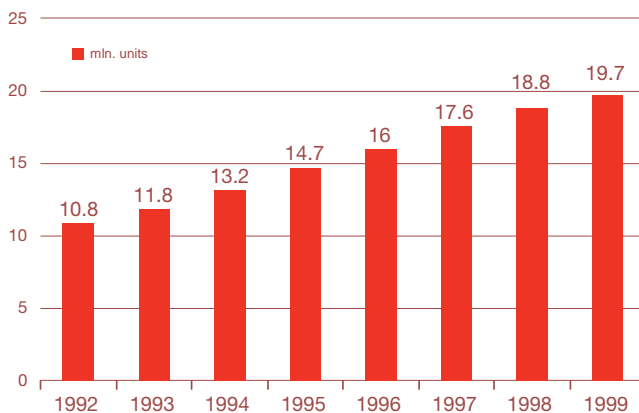
Automotive Industry Prospects in Russia

Introduction: An industry transformed in 10 years

In May 2008, Prime Minister Putin visited the Elabuga Free Economic Zone in Tatarstan, recently established to attract investment, particularly in the automotive sector. He toured the production line at Sollers' new factory, capable of producing 50,000 Fiat Doblos. In his speech, he indicated the Russian automotive market could become the biggest in Europe within the foreseeable future. He emphasised the importance of the industry for the future of the Russian economy as a whole and confirmed the Russian government's intention to support its development.

As an example of these sentiments, Prime Minister Putin discussed a small amendment to the law on value added tax (VAT): to charge it on the dealer's margin and not on the entire sales value. These words could arguably be the most important announcement for the benefit of the Russian automotive industry since the introduction in 2005 of Decree 166, which was intended to attract foreign manufacturers to set up production in Russia. A transparent second-hand car sector does not exist in Russia mainly because of excessive VAT charges. There is no Russian equivalent of Glass' guide Kelly Blue Book to second-hand car prices, and no industry dependent on accurate calculation of residual values. If the law is changed as Prime Minister Putin has indicated, it will revolutionise the retail sector and contribute greatly to underpinning the stability and sustainability of the Russian auto sector.

Car Parc Development in Russia



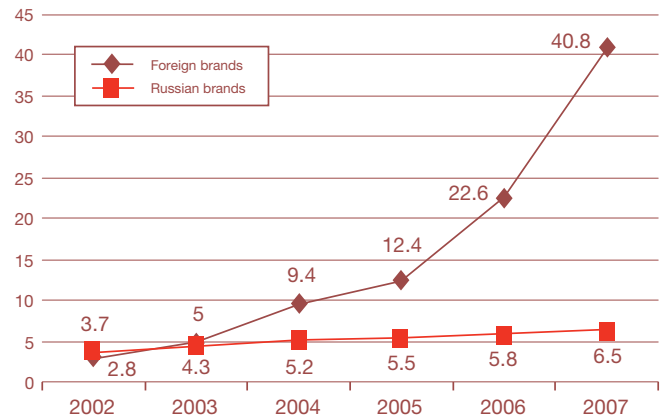
Source: Russia State Traffic Inspection data

The chart of the car parc development in Russia during the past decade looks at first glance to be rather unimpressive: a modest car parc growing slowly and steadily from 10 million units to 22 million units. On closer inspection, however, these data emphasize three extraordinary features. 1) The annual growth in the car parc almost equalled annual sales. The car scrappage rate was negligible during that period, indicating that Russians were determined to own a car, no matter how old. 2) Sales grew regularly during the period, but at the same time, there were dramatic fluctuations in GDP, including a large overall decline for most of the period. This indicates that Russians were determined to buy a car no matter how bad the economic situation. 3) A large, and largely grey, market arose during the period for import of second-hand cars—what was being produced by the industry in Russia was not enough to satisfy local demand, even during the hardship times of economic crisis. This is the pent-up demand that was about to be unlocked by the sustained period of economic growth from 2002 to present.

Sales: Explosive growth - but is it sustainable?

The period from 2002 to present as illustrated in the diagram below demonstrates the remarkable transformation in the car market that took place once the pent-up demand discussed above was released and ordinary Russians had the money and the freedom to buy the car of their choice.

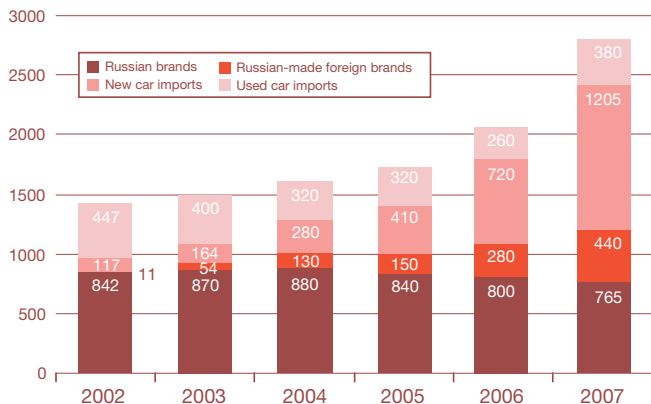
Sales of new cars, billions \$



Source: PwC Estimates

The following chart illustrates how quickly the Russian automobile market is on its way to becoming one of the largest car markets in Europe when the total market is considered.

Sales, thousand units



Source: PwC Estimates

Sales competition: intense and intensifying

One of the more remarkable aspects of the automotive market in Russia is the diversity of brands and intensity of competition. On the streets of Moscow, you can see a wider variety of brands than in most any other major city of the world. The following table shows how dozens of vehicle manufacturers are vying with one another for a leading role in the car market in Russia.

Top brands showing growth year on year 2007/2006

Brands	2007	2006	%
Chevrolet (incl. GM-AVTOVAZ JV)	190553	111458	71%
Ford	175793	115985	52%
Hyundai	147843	100685	47%
Toyota	145478	98589	52%
Nissan	116498	75514	54%
Renault	101166	72484	40%
Mitsubishi	100609	68845	46%
Daewoo	91302	66717	37%
Kia	78616	59993	31%
Opel	66329	19983	232%
Mazda	50592	32290	57%
Honda	38631	15723	146%
Chery	37120	10768	245%
Volkswagen	32002	19186	67%
Suzuki	28597	16121	77%
Skoda	27535	14835	86%
Peugeot	24951	15287	63%
Volvo	21077	10843	94%
Subaru	15553	7604	105%
Mercedes-Benz	15330	9316	65%
Audi	15313	10050	52%
Fiat	15310	1382	1008%
BMW	14008	9031	55%

Source: Association of European Business

While these developments are great news for the Russian consumer, they present the significant challenge to market participants of managing decreasing rates of profitability amidst rapid growth.

Production: Major vehicle manufacturers arrive in force

The sustained surge in car sales combined with the incentive of Decree 166 mentioned above was the key motivation for more than 15 major vehicle manufacturers to announce new investment in car production in Russia just in the past three years. The chart below illustrates 2007 local production by the major vehicle manufacturers, as well as those who have yet to enter the market.

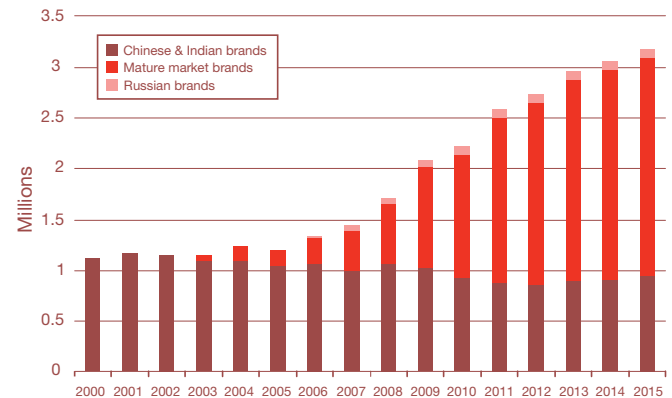
Vehicle assemblers in Russia, 2007 production figures

Avtotor (KIA, BMW, GM, Chery)	107,300
“Ford” (Ford Focus)	69,088
Avtoframos, (Renault)	69,241
“Tagaz” (Hyundai)	71,050
GM-AvtoVAZ	55,052
IzhAvto (KIA)	49,490
Sollers (SsangYong, Fiat)	21,678
GM (Opel, Chevrolet)	5,679
AMU (Geely)	3,500
Derveys (Lifan, other Chinese brands)	1,775
VW	1,198
Toyota	0
Suzuki	0
Nissan	0
Peugeot/Citroen	0
Hyundai	0
Mitsubishi	0
Great Wall	0

Source: ASM Holding

The Russian market is unusual in having so many foreign players with such initially low forecast production plans. Most vehicle manufacturers appear to be hedging their bets wisely and planning a balanced strategy of local production and continued import.

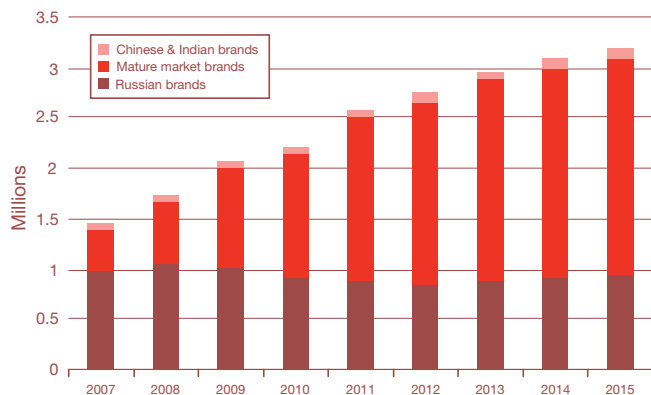
Depending on how investment conditions in Russia develop, vehicle manufacturers have the opportunity to increase or decrease the balance between import and local production. The tables below illustrate the latest Automotive Institute estimates of planned local production levels by brand origin over different time horizons.

Russian manufacturing outlook 2000-2015

Source: PwC Automotive Institute

The next table indicates that production of foreign automotive brands in Russia could rise from about 450,000 in 2007 to a sustainable level of around 3 million units within seven years. Nearly all of this growth will be foreign OEM brands or new Russian brands developed in collaboration with foreign strategic investors, such as between AvtoVAZ and Renault. What does this imply for the future of the automotive component industry in Russia?

Russian manufacturing outlook 2007-2015



Source: PwC Automotive Institute

To grasp the scale of the impending transformation of the auto components industry, some broad estimates are helpful. The dollar value of the 450,000 cars produced last year was about \$7 billion, and the value of almost 3 million cars in seven years' time at current prices is likely to be about \$60 billion. However, the percentage of OEM auto components manufactured in Russia for these cars is less than 10 percent. Most of the parts are imported. (This is not surprising, as most of the component production facilities are only starting production at this time.) Under the terms of Decree 166, manufacturers are encouraged over a period of seven years to localise 30 percent by value of component supply.

Out of general economic necessity, most vehicle manufacturers will be trying to localise even more of their component supply to reduce customs duties and transport costs, and to benefit from local wage and raw material costs. If this trend is successful, the percentage of OEM components locally manufactured should increase from 10 percent to more than 50 percent over the next ten years, assuming that component cost is about 60 percent of the price of the car. This development could see the market for primary auto components for vehicle brands increase from \$ 0.36 billion today to about \$ 18 billion in seven years' time. At the same time, we could see a similar, if not larger, scale of increase in the secondary market for components. In short, an entire component industry waits to be developed in the wake of the current wave of foreign car manufacturing investment in Russia.

Final assessment: Risks and rewards across the entire value chain

No article on the future of the Russian automotive market should conclude before emphasising the significant risks surrounding the astonishing potential growth. At the time this article was written, the price of oil was \$137 a barrel—up from \$67 a barrel one year ago. The revenue impact of that price increase was three times the value of the total car market in Russia in 2007. Just as oil prices sustain demand for expensive foreign cars; a sudden price drop could stymie demand.

Inflation and the strength of the rouble are impacting the automotive market. During the seven-year period of the current car boom, the cumulative inflation index has reached around 78%, compared with around 21% in the US. At the same time, the rouble has strengthened in relation to the dollar by around 20%, from 29 roubles to 23.5 roubles to \$1. Taken together, this has resulted in the relative competitiveness of production in Russia as compared with the US falling by around 50%. Ironically, in the middle of the largest wave of investment in the Russian automotive manufacturing industry of recent times, the competitive manufacturing advantage of Russia is declining rapidly.

Russia has an urgent need for investment in the road and logistics infrastructure. The automotive industry will not be able to continue to grow strongly in Russia without significant investment in its road infrastructure. Traffic clogs most major cities at all times of the day. Existing traffic management systems are outdated. There are few off-road car parks in cities. As a result, parked cars choke the narrow streets, bringing traffic to a standstill. Road connections between cities in Russia are few and poorly maintained. Highways are narrow, with potholes, and barriers separating oncoming traffic are rare. These dangerous conditions generate traffic fatality rates among the highest of any developed country.

The logistical infrastructure such as container ports, and terminals and road/rail links required to bring cars and their components to the cities of Russia was not designed to meet the current demand and is severely overloaded.

Car insurance is expensive and bureaucratic. Cars that collide with each other on the streets have to stay put in the middle of the road while traffic police arrive to conduct an accident investigation and complete the necessary documentation. Meanwhile, the surrounding traffic slows from a crawl to a standstill.

Car maintenance and repair facilities are struggling to cope with rapidly increasing demand. It can take weeks after an accident to get a new car repaired. On top of it all, few insurance companies offer replacement vehicles during the repair period, which adds to the frustration of car ownership.

There is currently no effective system in place to support and encourage the environmentally safe scrapping of cars, and environmental legislation to keep polluting and unsafe cars off the road is largely ineffective.

The retail market is inefficient. Retailers are struggling to finance and build outlets to meet the growing demand. There is no transparent second-hand car market, no significant fleet leasing market, and no Internet auction market.

Bureaucracy and corruption are major threats to the development of Russia's automotive industry. Setting up and running a medium-sized business traditionally has been difficult. The automotive component industry poses a unique challenge for Russia. Worldwide, it is an industry that has its roots in an extensive, complex and energetic network of small- to medium-sized businesses. There is no better example of this than in Germany, where engineering skills flourish as a result.

The automotive components industry is a litmus test for Russia. Its success or failure could influence the Russian economy and its ability to reduce its dependency on commodity prices.

The day after Prime Minister Putin spoke in Elabuga, a delegation of 25 German automotive component suppliers visited Russia to look at the prospects for business and seek out partners for their investment, technology, and know-how. The success of the Russian automotive industry depends largely on the investments of hundreds of global automotive component producers currently studying the Russian market.



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PricewaterhouseCoopers automotive practice in Russia

PricewaterhouseCoopers first appeared in Russia in 1913 and re-established its presence here in 1989. Since then, PricewaterhouseCoopers has grown to become the largest professional services provider in Russia.

PricewaterhouseCoopers is Russia's largest auditor and tax and legal adviser, according to the annual rating prepared by independent rating agency Expert RA, and published in Expert Magazine.

Since 2004, our automotive team have organised twice-yearly press briefings to present the latest Russian automotive industry developments and trends, and our industry forecast.

Our automotive team in Russia consists of over 120 specialists, who provide assurance, tax, legal, advisory and training services to car and component producers as well as auto dealers.

We deliver specialised solutions for our automotive clients:

Market entry

- Analysing market potential
- Defining market entry strategy
- New market organisational and operational strategy development
- Defining sourcing strategy
- Advice on corporate structure, labour and migration issues
- Advice on Russian legislation
- Drafting corporate documents

Tax and customs issues

- Accounting treatment of transactions for car dealers and manufacturers
- Regional tax concessions
- Financing and profit repatriation techniques
- Deductibility issues, including start-up costs
- International taxation; double tax treaty benefits
- Transfer pricing issues
- General VAT advice: VAT recovery, exemptions, imports and exports
- Advice and assistance on setting up the customs clearance process

Systems and process solutions

- Managing systems risks due to introduction of new accounting or ERP systems:
 - System compliance with Russian accounting regulations
 - Access, security and authorisation controls
 - Data migration reviews
- Managing process and controls risks from a business or compliance perspective

- Reviews of compliance with specific reporting requirements
- Internal controls reviews and optimisation
- SOX, J-SOX and other compliance reviews and preparation

Supply chain management

- Assessing existing supply chain and procurement processes
- Vendor selection process development
- Assistance in locating production locations and logistics hubs
- Advice on stock level optimisation
- Assistance with implementing tailored supply chain information solutions

Fraud detection and prevention

- Fraud risk management programme
- Anti-corruption/bribery programme
- Internal corporate investigations

Due diligence

- Financial assumptions deal analysis
- Purchase price and agreement past trading experience reviews
- Commercial due diligence

Human resources

- Recruitment and retainment strategy development
- Trade union negotiation assistance
- Expatriate management
- KPI development to realize enterprise business objectives
- Compensation system design assistance
- Compensation benchmarking

Professional development

- IFRS/US GAAP: from basic theory seminars to training using actual company data
- Strategy, finance and management tool training and support



Latest update on green car taxation in Europe

Record temperatures during the past few years, along with natural catastrophes, have drawn media attention and have made the general public more aware of global warming and its potential consequences. Although conclusive scientific proof has yet to be provided, there is a general assumption that global warming is caused by the increase in anthropogenic greenhouse gas (GHG) concentrations, with carbon dioxide—or CO₂—playing a significant role in this respect. As passenger car use accounts for about 12 percent of emissions of CO₂, the automotive sector often is seen as the primary suspect. Therefore, reducing CO₂ emissions in the car industry is a top priority.

In many parts of the world, measures are being developed to reduce the greenhouse gas emissions from passenger cars. The United States, Canada, Japan, Korea, China and Australia have measures in place, some of which are being reviewed with the aim of delivering further improvements in fuel efficiency and reductions in CO₂ emissions.

The European Union (EU), a heavy supporter of the Kyoto Protocol, is about to impose a standard of 120 grams of CO₂ per kilometre by 2012 for the car industry, which in absolute terms is the most ambitious standard in the world.

Varying standards present a challenge for the automotive industry, which is already suffering from high competition and low margins. However, according to the EU Commission, meeting the EU targets set would enable the European car producers to be early adopters, securing a competitive advantage among car producers. Further, to the EU Commission, the adoption of EU targets for new passenger cars is necessary to prevent fragmentation in the internal market resulting from the adoption of different measures at Member State level. A common target should provide manufacturers with more planning certainty and more flexibility to meet the CO₂ reduction requirements than they would have with varying national targets.

To have a common target, a strong desire shared in the auto industry, is noble. However, when it comes to car taxation, it seems impossible to have an agreement on a common set of rules at EU level.

Technology push

With regard to reducing CO₂ emissions, the strategy of the EU Commission is focused on technology and aims to encourage voluntary commitments of the automobile industry to decrease the CO₂ emission rate of their vehicles. However, because these voluntary actions by the automotive industry have proved unsatisfactory, the commission has decided to impose a legislative framework. A proposal for regulation of the European Parliament and of the Council was published by the Commission in December 2007. The proposal's focus is on mandatory reductions of the emissions of CO₂ with an objective of 120 grams of CO₂ per kilometre, diversified by the weight of the car, by 2012, by improving motor technology.

Thus, the pressure is clearly on technology.

Consumers influencing

Some of the most critical factors to consider are the willingness of consumers to adjust their preferences and the extra amount they would be willing to pay for the use of new and costly environmentally friendly technology.

A market survey conducted by PricewaterhouseCoopers amongst consumers in Germany (summer 2007, The Automotive Industry and Climate Change), shows a perceived link between driver behaviour and CO₂ emissions. Most consumers acknowledge CO₂ is a problem but are not willing to change their personal behaviour or pay extra for vehicles with new environmental technologies. Although we feel the awareness has increased since the survey was completed, the willingness to pay extra is not yet seen in practice, unless there where the price premium would be neutralised by subsidies (i.e., a price reduction or a reduction in registration taxes).

In addition to the price premium, the complexity of CO₂ issues and the unclear legislative situations have created tremendous uncertainty amongst customers. This uncertainty has manifested itself in showroom resistance. Discussion in the industry about CO₂ includes various points of view that enable all car manufacturers to present themselves as being “green(ish)”.

Considering consumer preferences, the automotive industry will need to find ways to “go green” but still appeal to consumers to avoid producing environmental friendly vehicles that consumers do not want to buy.

Incorporating new technology into vehicles to make them less harmful to the environment will increase the cost of production. If car manufacturers want to pass on some of that additional cost to the consumer, they will need to educate car shoppers on the technological advancements and tout the positive effects on the environment. This will require some clever methods, but marketing tactics will go only so far.

To persuade consumers, manufacturers will need the support of policy makers. One strategy that can be deployed is to promote fuel-efficient cars through tax measures, a potentially powerful influence. The focus will be on mandatory reductions of CO₂ emissions to meet the 120 gram of CO₂ per kilometre objective.

In spite of a common objective, many countries have initiated a variety of regulatory measures and have adopted “green” incentives and taxation measures at the national level. These efforts have, to a certain extent, made a difference at a local level but not yet on an international scale. An integrated policy on car taxation, even if limited to a set of best practices, would reduce the complexity created by a number of different measures.

Actual CO₂ measures

As the number of measures continues to grow, we are detecting some trends and leading practices. Most West European countries have introduced measures that try to encourage “green” vehicles by subsidising purchases of new environmentally friendly cars and setting apart an unfavourable treatment for those purchasing or using cars that are less climate-friendly.

We provide you below with our updated overview of some actions, as well as plans in the pipeline for countries that are taking the lead (mainly the West European countries).

- A considerable number of countries seem to find it useful to reduce registration tax for low CO₂ emission vehicles, in comparison with high emission vehicles (e.g., France has introduced an exemption from registration tax for certain nonpolluting vehicles and an “écopastille” supplemental tax

for vehicles with CO₂ emission higher than 160 grams per kilometre).

- Some countries regard company cars as a means to implement CO₂ emission measures, as they sometimes take up a large portion of a country’s car fleet (e.g. the UK, where the tax on benefit in kind is linked to the CO₂ emission, or Belgium, where the level of corporate income tax deduction is linked to CO₂ emission).
- Other countries have linked road taxes and road charges to the CO₂ emission rate of the vehicle (e.g., In Ireland, the motor tax is calculated based on CO₂ emission, in London and Stockholm congestion charges are being levied with exceptions for low emission cars).
- Another incentive some countries are using to reduce the CO₂ emission rate of vehicles is a discount or refund on the purchase of a new environmentally friendly car (e.g., In Belgium, a discount of 3 percent to 15 percent is granted on the purchase price of cars with a CO₂ emission below 115 grams per kilometre).
- Many countries differentiate the duty imposed on fuel, but it is not always related to fuel efficiency or environmental awareness. Most countries impose relatively low levels of duty on biofuels to compensate for increased production costs. Nevertheless, excise duties on fuel can be one of the most efficient methods to encourage environmental awareness. It is easy to implement, by charging per kilometre, and it taxes the use of the car rather than the possession.

For more details on the different CO₂-related taxes and other car taxation systems in West Europe, we kindly refer to The International Fleet Guide 2008, the content of which was supplied by the Automotive Network of PricewaterhouseCoopers.

The variety and complexity of these measures are remarkable. Furthermore, some measures were taken with a clear aim at filling budgetary gaps (i.e., a government imposing (temporarily) extra charges on the use of cars).

Some measures taken have heavily influenced competition, and a few have put some models almost out of the market. Therefore, it is crucial for governments to consider the possible effects of CO₂ measures on the automotive sector.

The upside of this evolution is that although measures vary and are complex, most of them are based on CO₂ emissions, giving a clear factor on which objectives car producers should be focused.

Leading practices

We have analysed a number of measures taken in Europe and their effects. We have started with a requirement that measures should be taken with an environmental objective and not only to levy more taxes on cars. The measure taken should respect the less fortunate and should not make driving a car a privilege for the happy few. Because the CO₂ friendly technology is improving every day, stimulating new car sales, or at least not slowing them down, is detrimental to a successful measure.

Based on the analysis of the different CO₂ measures taken in Europe, we analysed the effect of the potential introduction of these leading practices in Belgium using the current car taxation system in Belgium as a starting point. We believe, however, that our findings could be valid for any other Member State, as long as the specific characteristics of its current car taxation system are taken into account.

Most of the West European countries have a registration tax. This tax generally decreases with the age of the car; therefore, it is not in line with the environmental objective. A registration tax could discourage consumers from buying new(er) cars and linking the registration taxes to CO₂ emissions would be socially unacceptable (registering an old cheap car would be very costly due to high registration taxes). Our general conclusion is that registration taxes should be abolished.

Annual circulation taxes today are mostly linked to horsepower, weight, and cubic centimetres of the engine, which indirectly correlate with fuel consumption. Linking taxes to CO₂ emissions would support the environmental objective but would be seen as a harsh penalty for owners of older EURO 0 and 1 cars. Therefore, a temporary transition measure should be taken for those cars.

Italy and France have shown that a premium for scrapping EURO 0 and 1 cars combined with the purchase of new(er) environmentally friendly cars is an efficient temporary measure to increase the speed at which new technology replaces the oldest and most-polluting cars.

Other incentives, such as price reductions or significant discounts in registration and/or annual circulation taxes, produce results, especially for 'smaller' cars with higher price elasticity. Attention needs to be given to the effect it may have on the supply of certain successful models falling into the scope of such incentives.

Last but not least, company cars could be used as a tool to bring environmental technology on the market and, in a few years, on the second-hand market. Employers are generally stimulated by the effect of CO₂ measures on the total cost of ownership of the car fleet. Employees seem to be best motivated if the benefit in kind for the private use of the company car is linked to CO₂. To be product-neutral, it is advisable to link the car allowances for the business use of private cars to CO₂ emissions as well.

Driving behaviour is a significant factor in fuel consumption and, consequently, CO₂ emissions. Factoring driving behaviour into taxes seems ambitious, unless excises on fuel are increased significantly. The complexity of this mechanism is high, however, and the potential effects on the economy should be carefully considered.

Based on the different systems the EU member states have in place regarding car taxation, it is our belief that a uniform approach would be an ambitious goal. To protect the market from adverse effects from any non assessed measure, the European Commission could come up with a list of best practices, including the potential effects they would have. Each state's current system would factor into deciding which best practice fits its objectives.

Future outlook

To be successful, a holistic approach is needed. Car manufacturers should accept it is their responsibility to offer environmentally friendly technology (at a price that consumers are willing to pay) and persuade customers to change their buying behaviour (and agree to pay a premium for this technology). Policy makers should take responsibility to help stimulate the demand for such new environmentally friendly technology. From the above overview, we can see that more and more countries are subsidising the sale of cars with low CO₂ emissions, and others are levying higher taxes on the use of cars with higher CO₂ emissions. Governments also could invest in improved infrastructure, but there are no signs indicating major changes will occur (yet). Last but not least, drivers should take responsibility through initiatives such as "ecodriving,"

optimised use of the car, etc. Surveys have shown, however, that there is still a long way to go.

Another difficulty lies with the policy makers and their responsibility to stimulate demand for environmentally friendly technology without distorting competition but keeping (tax) revenue at its current level and respecting the social environment in which these measures will be taken.

As this overview shows, we will see CO₂ emissions become a bigger factor in the price of a car. Therefore, major challenges lie ahead for the automotive industry



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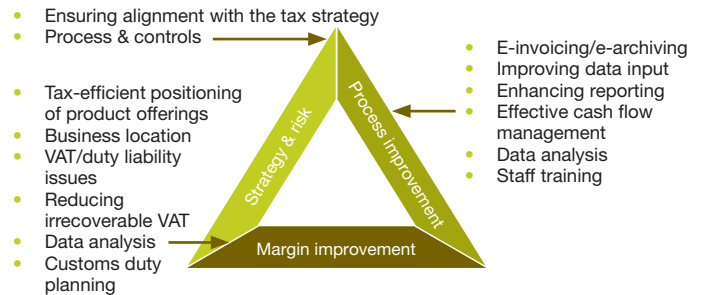
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About the PricewaterhouseCoopers Indirect Tax Practice

PricewaterhouseCoopers can help you formulate, implement and manage your global indirect tax strategy. We have a network of more than 1,800 indirect tax experts in 118 countries, ready to work with you and your local teams.

We have strong relationships with policymakers and tax authorities. We understand the issues and have much experience of advising clients on these. We will work with you to find the right solution for your business.

Our indirect tax services focus around three main areas: strategy & risk, margin improvement and process improvement.



Margin improvement

We advise businesses on the most effective ways to reduce VAT/GST costs and the tax payable on business-to-consumer transactions. For exempt bodies, where tax is irrecoverable, we can help identify ways to improve or influence VAT/GST management to reduce costs.

Process improvement

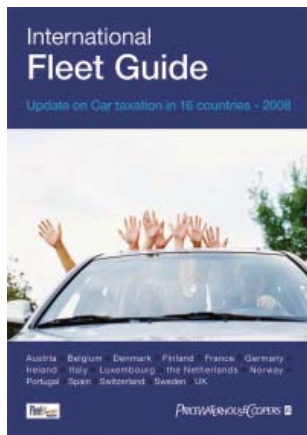
The process of declaring and paying over VAT/GST to the authorities involves various steps from determining the tax treatment of the transaction, and the raising of sales invoices and processing of purchase invoices, right through to the collation and submission of returns. Each element of this process can be optimised in order to increase efficiency and reduce costs. Within the field of Customs, applying simplified procedures and economic customs procedures will, besides duty saving opportunities, also lead to a higher efficiency and cost savings.

Strategy & risk

We help businesses to formulate their indirect tax strategies and to ensure they have the right processes and controls in place, aligned to these strategies, to ensure compliance.

For further reading:

International Fleet Guide: Car Taxation in 16 Countries





Sustainable development: Opportunity or threat for the auto industry?

Automakers feel the heat on the environment

Growing concern about the environment is creating serious challenges for industries across the business spectrum. The auto industry, already under fire for its perceived role in harming the environment, is being held increasingly responsible, especially in light of the not only high but, also increasing number of cars on the roads.

There are about 600 million vehicles on the world's roads, with the International Monetary Fund estimating a figure close to 3 billion by 2050, representing an incredible 60-fold increase within a hundred years. Cars emitted approximately 2.6 billion tonnes of carbon dioxide (CO₂) in 2000, or about 6.1 percent of overall emissions. This figure could reach 6.8 billion tonnes (8.1 percent of overall emissions) by 2050.

For the maligned auto industry, sustainable development cannot be discussed without considering restrictions. Massive commitment is needed from the entire sector if current technical and technological standards are to be met.

However, environmental challenges mean more than just pressure for automakers. They also open the door to broader horizons. Opportunities for new profit sources and competitive advantages are available, and changes may produce safe, comfortable, simple vehicles. In a sector that already has seen a radically altered competitive climate due to the ramp up of inexpensive and eco-friendly brands such as India's Tata, the balance of competition may continue to change. Automakers' environmental initiatives are sure to win investors' attention, and this article sets out to shed light on the opportunities and threats that sustainable development poses for the auto industry.

Regulatory restrictions

Increasing unease about air quality—both an environmental and a public health issue—has prompted governments and international bodies to introduce regulations concerning emissions by new vehicles. Most of the world's major auto markets are subject to various standards, with a gradual move towards zero emissions.

Since 2003, European standards have limited carbon monoxide (CO), hydrocarbon (HC), nitrogen oxide (NO_x) and particulate (PM) emissions within the European Union. The next stage—set out in the Euro 5 directive, will apply to most new cars sold in the European Union from September 2009 and should lead to a more widespread use of particulate filters on diesel engines. Similar legislation has been adopted by Japan and the United States, and emerging nations in Africa, South America and Asia are working towards integrating emissions standards and fuel regulations as well. The Chinese government, for example, is aiming to catch up with Europe through the implementation of China IV standards in 2008.

Other standards address vehicle design. Europe's REACH (Registration, Evaluation and Authorisation of Chemicals) regulation is aimed at a wholesale crackdown on the use of chemical substances. REACH has a downward effect on the auto industry, ensuring transparency by suppliers and substance importers. Burgeoning and ever-more restrictive regulatory constraints pose the first hurdle for the auto industry, with players required to constantly anticipate future standards to adapt and meet market demand.

Willing commitment

Current standards do not lay down any restrictions regarding CO₂ emissions by vehicles. Nevertheless, in accordance with objectives set by governments, several automobile associations have taken the initiative to reduce average emissions. In 1998, the members of ACEA (European Automobile Manufacturers' Association) signed a voluntary agreement with the European Commission under which it committed to reduce CO₂ emissions to an average of 140 grams per kilometre by 2008 for new cars (a 25 percent reduction from 1995). Japanese and Korean automaker associations (JAMA and KAMA) have committed to the same reduction by 2009.

Despite considerable progress, ACEA may not meet the 2008 deadline. Therefore, the commission has proposed introducing new and even tighter legislation, with an emission target of 120 grams of CO₂ per kilometre. This proposal has been ill-received by automakers, who complain of overly restrictive objectives and believe that the auto industry is being made to bear the brunt of

emission reductions. They also bemoan the failure by European powers to implement a labelling system and tax incentives to encourage consumers to purchase cleaner vehicles.

Thus, CO₂ restrictions pose the second major hurdle, with the problem of how to divide responsibility among the various industry players. Automakers are taking a progressively more integrated approach to the problem by looking for more ways to lower emissions.

At vehicle production level, improvements are expected through technological progress. Automakers should be able to share this burden with automotive suppliers. The latter are being strongly encouraged to develop ways to reduce CO₂ emissions through measures such as new air-conditioning systems; new ways to monitor tire pressure; and enhanced safety.

In terms of the number of cars on the road, CO₂ could be decreased through a changeover from petrol to diesel, the use of biofuels, a change in driver behaviour, and a move towards smaller, less gas-guzzling vehicles.

Automakers will, therefore, share the burden of reducing CO₂ emissions with their partners, governments, and consumers.

Lower purchasing power and sky-high oil prices change consumer demand

Automakers also need to take the demands of the consumer into account when addressing environmental issues. Drivers expect safety and comfort, as well as state-of-the-art equipment, resulting in heavier and consequently more energy-hungry vehicles. The increased scarcity of petrol and the spike in oil prices are other significant factors, gradually inducing consumers to demand smaller, more cost-efficient vehicles.

If the success of discount outlets is an indicator, price is becoming an increasingly important criterion in the current economic climate. One salient example of this is the unexpected success of the Renault Logan. Initially aimed at the eastern European market, the Logan has proved extremely popular in Western Europe, with more than 60,000 models sold in 2007. European and US manufacturers are also under threat from new market entrants in the form of Chinese and Korean brands at ultra-competitive prices. The Chinese Landwind, for example, offers an SUV for just 17,000 euro.

Taxes are one way of enhancing a turnaround in consumer demand. In France, a special eco-tax (écopastille) was introduced at the end of 2007, financially penalising owners of polluting cars and rewarding those who purchase cleaner vehicles. Since the tax was implemented, sales of vehicles eligible for the reward (or at least ineligible for penalisation) have jumped 45 percent, while sales of cars that would be penalised have dropped by 40 percent.

Cross-dimensional challenges

The automobile industry is a mature sector, in which innovation is a sure way of gaining a competitive lead. For an automaker, incorporating sustainable development concerns within its innovation strategy comprises a whole host of technical and technological challenges.

From a technical point of view, the entire vehicle design needs to be revamped, with a focus on eco-design. A pre-eminent way to approach this would be to carry out a Life Cycle Analysis (LCA), enabling an objective assessment of a vehicle's effects on the environment at each stage of its life cycle. An LCA can help a company measure the environmental and economic cost of measures such as implementing a responsible procurement policy, using new materials, reducing the weight of vehicles, or recycling end-of-life vehicles (ELVs). Targets have been set in Europe regarding the recycling of ELVs and should lead to the creation of an economically viable industry.

As well as offering an opportunity to review and optimise production costs, an LCA may provide transparency, allowing the consumer access to more accurate, comparative and easy-to-understand information. By incorporating eco-design, automakers are embracing the possibility of creating innovative and enhanced vehicles.

Sustainable development also is spurring production and use of new technologies. Potential means of reducing CO₂ emissions, as yet in the research and development (R&D) stage, include new and improved diesel engines, biofuels, hybrid technology, and fuel cells. Each new technology has its limits regarding the amount of potential CO₂ reduction, and time will be needed to carry out the necessary fine-tuning.

- The key challenge, in the short term, is to minimise the cost of bringing future models into compliance with current standards,

through incremental technology or a gradual changeover from petrol to diesel.

Incremental technology is a primary solution available to automakers, notably through the optimisation of engines and transmission systems. Although widespread and well understood, it is unlikely that this solution would grant competitive advantage in the long term.

Diesel technology is also widespread in Europe, with significant quantities of diesel imported each year. Uncertainty still surrounds its introduction to the US market, but it may be profitable if consumers, who are used to petrol, can be encouraged to change their habits.

- In the long term, mastering new technology will be fundamental for automakers. Manufacturers are already feverishly developing hybrid prototypes, likely to become one of the prevailing trends in the next decade. A key strategic challenge also exists for automakers to establish a strong competitive position regarding the potentially disruptive technology of fuel cells and thus to rapidly recover R&D costs by becoming a benchmark in the field.
- Although hybrid technology appears promising as a medium-term solution, fuel cells no doubt will take over once the various technical and economic obstacles have been overcome.

It would appear that the technical and technological challenges posed by sustainable development are throwing up numerous potential strategies for automakers but that finding an approach that works is rather more difficult. This could lead to a market restructuring, resulting in losses for those that cannot adapt and a major move ahead for those that know how to seize the new development opportunities.

A new way of assessing performance

Automakers must do more than simply rethink technical and technological considerations. Factoring in sustainable development requires a whole new approach by the auto industry, with a new source of risks and opportunities. Environmental challenges could affect automakers' competitiveness and profitability by upsetting their traditional value drivers. With this in mind, traditional assessment methods need to be reviewed in line with the new demands.

Concrete issues must be tackled first. For the launch of new models, for example, consideration must be given to the price

increases to be incurred at each stage of production, from R&D, to design, to changes in the production chain. More intangible concerns will then be addressed, such as innovation capacity and brand concerns. There is already widespread controversy about dishonest advertising by major car manufacturers who feign environmental consciousness to sell cars that generate above-average pollution.

To better bear the weight of new regulations, automakers may start to join forces and divide CO₂ emission rates between them. Sustainable development implies the creation of new management challenges, with the objective of increasing or maintaining profit while producing more eco-friendly vehicles. Automakers today find themselves on various rungs of the ladder in regards to these challenges. They need to remain vigilant and perceptive to make strategic decisions that will be sustainable over time.

A new business model component

It would seem that sustainable development is the latest dynamic to be incorporated into companies' strategies. It affects both supply and demand, changing the way a company approaches its market, and it opens up new horizons and spawns new ways of generating profit.

But what if we took things further and pressed the question of deeper, more radical change? What if we pushed for change caused by a turnaround in consumer demand that would lead to a whole new vehicle concept and a new business model for automakers? In today's world, people are more interested in using rather than owning goods and services—a trend that highlights the gradual shift from an age of ownership to an age of access. This trend is causing manufacturers to reflect on the necessity to “produce what they sell” rather than “sell what they produce,” as has traditionally been the case since the 1950s. We can thus expect to see a new offering in phase with the move from a product-driven economy to a service economy, where it's no longer cars that are sold, but access to mobility. This scenario is all the more plausible when you consider that the average passenger car is stationary 92 percent of the time. This type of service is already starting to appear, with aim of offering a service that meets immediate needs. In Paris, for example, companies such as Caisse Commune and Mobizen allow consumers to hire cars by the hour.

The main objective of such a market is to develop user loyalty to win long-term customers by offering more and more services. The notion

of consumer loyalty highlights the importance of marketing. In some cases a sense of identity builds among users of the same service.

Sustainable development has a role to play not only in society but also at a corporate level, as a gauge of a company's organisation and group culture. The idea is that employees will rally around a new set of corporate values, feel a connection, and take pride in their company's philosophy. A popular initiative in this respect is the promotion of eco-driving, either on automakers' websites or through on-site training sessions .

Sustainable development: a measure of excellence and value creation

Sustainable development has brought a number of constraints—whether self-imposed or regulatory—to the auto industry. However, the new challenges it engenders may also offer enormous opportunity to redistribute the balance of competition within the sector. All that remains is for automakers to adopt a strategy that will enable them respond to drivers' new requirements.

For further reading:

The Sustainability Yearbook 2008



About the PwC Sustainability Advantage

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We take the time to listen to your situation and offer a range of smart choices to consider; choices based on independent and challenging insights, supported by facts and industry benchmarks. For more information please visit www.pwc.com/sustainability.



Global automotive M&A overview

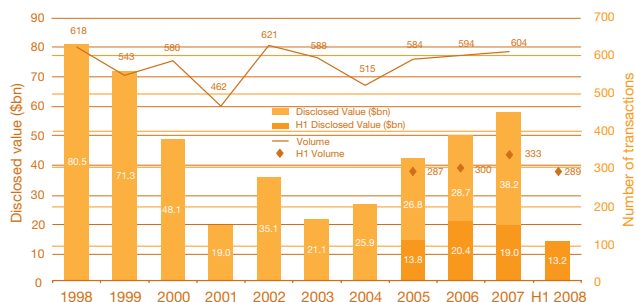
Despite the global credit crunch and some macroeconomic turmoil, automotive transaction levels remain relatively strong as 2008 appears to be on track to exceed 500 deals for the tenth year out of the past 11. However, automotive merger and acquisition activity was down for the first half of 2008, as total annual volumes likely will be lower than 2007.

For the automotive M&A market, 2007 was a banner year and the strongest since the boom of the late 1990s for deals on a value basis. Globally 604 automotive deals were closed in 2007, with a total disclosed transaction value of \$57.1 billion.

The magnitude of this active market was evidenced by the return of “mega-deals,” including Continental AG’s acquisition of Siemens VDO, Cerberus’ acquisition of Chrysler, and Carlyle and Onyx’s acquisition of Allison Transmission. The return of mega-deals coincided with the return of OEM deals, including the aforementioned Chrysler deal and Al Dar and Adeem Investments’ purchase of Aston Martin from Ford.

One driver of this tremendous deal market was the availability of low-cost financing in the first half of 2007. Access to capital led to a continued high level of activity by financial buyers. Financial buyers completed 140 deals in the automotive sector globally in 2007. Continuing the upward trend observed in the past few years, financial investors accounted for roughly half of overall disclosed deal value in 2007.

Global Automotive M&A Activity 1998 - H1 2008



Source: Thomson Financial and other publicly available sources

Much has changed in the M&A space since the deals that drove the 2007 boom were closed. These include:

- Inexpensive and widely available credit that fueled deal activity is no longer easily accessible for many potential players.
- Companies in China and India are outgrowing their emerging market status and becoming key global competitors.
- The US dollar, which once seemed reliably strong, has declined against other major currencies.

Restructuring, as a result of challenging market conditions, continues to be a significant driver of supplier deal activity. This restructuring appears to be in response to increasing competitive intensity, globalisation, raw material prices, excess capacity, regulatory demands and shifting customer preference. These catalysts combine to highlight the opportunity of M&A to fundamentally transform the automotive industry.

In the first half of 2008, preliminary data indicate that the pace of the deal market is slowing. There also has been a clear shift from financial buyers to trade buyers, though financial acquirers have not exited the segment altogether.

Trends going forward

- **Deal prices are lower.** Limited access to credit, lower financial buyer competition, and challenging market conditions have contributed to lower deal multiples. This is especially the case in the United States, where recessionary risks and market uncertainty have led to depressed deal values.
- **Current market conditions attract trade buyers.** Many trade buyers are increasingly motivated to engage in M&A activity as financial buyer competition decreases and assets across the automotive tiers decline in price.
- **Financial buyers remain interested in automotive transactions.** Although the credit crunch has not resulted in the withdrawal of financial buyers from the marketplace, the resulting market conditions have made financial buyer mega-deals less possible. Despite this inability to execute large transactions, financial buyers still retain significant capital, and the automotive sector opportunities continue to generate their interest.

- **Continued automotive sector restructuring has provided deal flow.** Restructuring throughout the component supplier tiers has contributed to deal volume, as companies strategically adjust their portfolios to achieve concentration of scale and expertise—as well as divest less competitive pieces of their portfolio.
- **Cross-region deals are up in H1 2008.** This brings a trend witnessed in 2007 to a new level. The growing international automotive deal market—driven by both strategic factors and short-term factors such as currency values—likely will remain active through 2008 and into 2009. As part of this, we are observing the early stages of an increasing trend of emerging market players acquiring major companies in established markets to achieve access to global customers, markets, and technology.

Although the automotive deal market has slowed from its torrid pace in 2007, it remains fairly active in 2008. In summary, the automotive deal market is shifting gears, not shifting into neutral.

Vehicle manufacturing sector

Trade buyer activity increases

Financial buyers dominated VM deals in 2007, but trade buyers have been most active through the first half of 2008. Fifty-seven VM deals closed in 2007, which were characterised by significant financial buyer participation and purchase of larger, controlling stakes in target companies. This compares with 81 and 78 deals in 2006 and 2005 respectively, which largely consisted of the purchase of smaller stakes in passenger VMs and the acquisition of several large truck manufacturers. Despite this dip in deal volume, 2007 total VM deal value rose to \$11.5 billion from \$7.2 billion in 2006. The increase was largely driven by Cerberus' purchase of Chrysler, which registers as the largest VM deal of this decade to date.

Through the first half of 2008, there were 37 VM deals, with a cumulative disclosed deal value of \$8.5 billion. The most notable deal was India-based Tata Motors' acquisition of Jaguar and Land Rover from Ford Motor Company for \$2.3 billion. Ford sold this asset in an effort to generate cash to help finance its current

restructuring. Tata acquired these brands in its attempt to expand its technical capabilities and its global presence in the premium light-vehicle market.

Unlike 2007, VM deals through H1 2008 were dominated by trade buyers. The decline in financial buyer activity is related to tightened global credit markets. With the exception of VW's acquisition of Scania AB, major VM activity has been limited to light-vehicle manufacturers moving into new markets and/or expanding capabilities. The VW acquisition is related to the company's desire to strengthen its position in the global commercial vehicle market.

The road ahead

Despite credit market troubles, several developing trends suggest that deal value in the VM sector likely will avoid a large decline in 2008. The first of these is the ripening of emerging markets. Fueled by growing local markets and appreciating currencies, automotive companies in developing nations may increasingly seek to acquire the technology and strong brands of their American and European counterparts. Tata's purchase of Jaguar and Land Rover from Ford stands as a strong example of this key trend.

Porsche's pursuit of Volkswagen AG (VW AG) also could contribute to sector deal value in 2008. Porsche continued to increase its stake in VW AG in 2007 for the third consecutive year, raising its ownership from 27 percent to 31 percent. The European Court of Justice cleared the path for a 2008 acquisition of a controlling stake when it declared the "Volkswagen Law" illegal. The law had capped VW AG voting rights at 20 percent, regardless of the number of shares held.

Lastly, two important developments suggest merger activity may accelerate in Europe. The first is VW AG's recent increased stake in Scania AB. This deal may act as a catalyst to the long-anticipated merger of Scania AB and MAN AG as VW (owner of a large stake in both companies) has long been a proponent of this merger. If Porsche continues to increase its stake in VW AG, it may become the head of one of the world's largest VMs. The second development is new CO₂ regulations that likely will increase manufacturing costs. In an effort to offset CO₂ costs and confront a new titan-sized competitor, other European VMs may be forced to partner or merge and validate General Motors Chairman

Rick Wagoner's 2003 prediction: "You cannot have six or seven manufacturers [in Europe], each with 8 to 10 percent of the market, and make money."

H1 2008—Largest vehicle manufacturer transactions

Rank	Value (\$m)	Target	Target Nation	Buyer	Buyer Type	Buyer Nation	% Acquired
1	7,400	Chrysler Group	USA	Cerberus Capital	Trade	USA	16.84
2	2,300	Jaguar & Land Rover	UK	Tata Motors Ltd.	Trade	IND	100
3	1,166	OAO Avtovaz	RUS	Renault SA	Trade	FRA	25
4	285	Nanjing Automobile (Grp) Corp	CHN	Shanghai Automotive Co Ltd	Trade	CHN	100
5	127	Chrysler LLC-Tritec Motors	BRA	Fiat Powertrain Tech Srl	Trade	ITA	100

Source: Thomsom Financial and other publicly available sources

2007—Largest vehicle manufacturer transactions

Rank	Value (\$m)	Target	Target Nation	Buyer	Buyer Type	Buyer Nation	% Acquired
1	7,400	Chrysler Group	USA	Cerberus Capital	Financial	USA	80
2	1,386	Volkswagen	GER	Porsche	Trade	GER	4
3	1,085	Nissan Diesel Motor	JPN	AB Volvo	Trade	SWE	76
4	847	Aston Martin	GBR	Al Dar Asset Management	Financial	KUW	92
5	470	Severstal Auto	RUS	New Deal Investments	Financial	RUS	100
6	127	Chongqing Hongyan Motor	CHN	SAIC & Iveco	Trade	CHN	67
7	52	Country Coach	USA	Riley Investment	Financial	USA	100

Source: Thomsom Financial and other publicly available sources

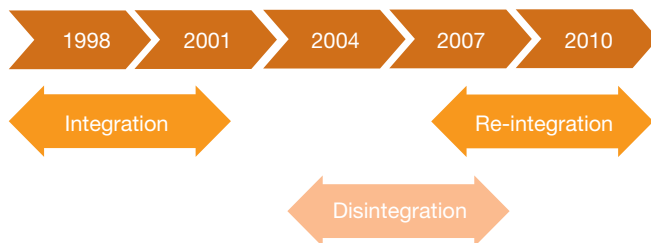
The cycle

From the late 1990s through 2000 was a period of integration as VMs looked to achieve economies of scale, expand their presence in foreign markets, and acquire new brands. This phase saw numerous mergers including Daimler's acquired interest in Chrysler and Mitsubishi; Ford's creation of the Premium Auto Group (PAG) through acquisitions of Land Rover and Volvo; GM's investment in Fiat and Suzuki; and Renault's acquisition of a controlling interest in Nissan and others.

By contrast, the past several years have been characterised by disintegration, where lackluster returns and unrealised synergies led to the sale of previously acquired assets. For example, this reversal saw Daimler sell its majority interest in Chrysler and Mitsubishi, Ford dissolve PAG, and GM pay its way out of a put option that would have required it to purchase Fiat. At the time, conventional wisdom thought the 1990s experiment with VM consolidation had been unsuccessful and should not continue.

However, the current VM deal environment is showing signs of another inflection point. A new set of acquisitions suggests a renewed phase of integration may be developing. The new period of consolidation is likely to have three primary drivers: "Dis-integrated" pieces finding new homes where synergies may be more achievable; newly assertive emerging market players going global; and increased regulatory and development costs motivating VMs to spread costs over more units. Globalisation, increased competition, and insufficient returns still indicate that further consolidation of VMs is necessary and likely inevitable. The lesson of the late 1990s deal busts is no longer that VM consolidation is not sensible but rather demonstrates that successful deals require a realistic strategy.

Vehicle manufacturer deal cycle



Source: PwC Analysis

Component supplier sector

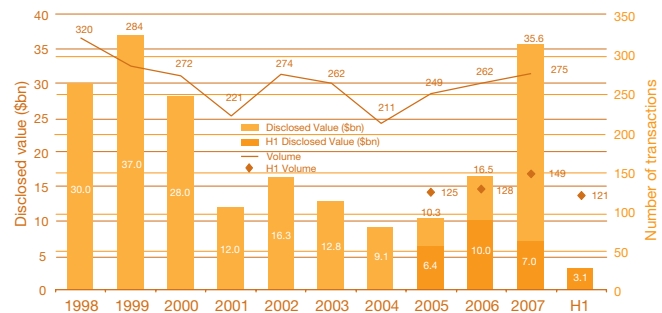
The mega-deal bubble

In 2007, the mega-deal returned, which included Continental AG's \$15.6 billion acquisition of Siemens VDO, one of the largest supplier acquisitions in history. Other deals included the purchase of Allison Transmission, a share of Magna, a division of Goodyear, Metaldyne, Bandag and Tower. These large transactions helped the component supplier sector represent 62 percent of the total disclosed deal value for the year. The aggregate deal value for 2007 was \$35.6 billion, nearly triple the previous six-year average of \$12.8 billion.

With low-cost financing readily available in the first half of the year, the automotive component sector witnessed record amounts of financial buyer investment in 2007. Financial buyers accounted for \$9.9 billion of component supplier transactions in 2007, up from \$3.0 and \$4.4 billion in 2005 and 2006, respectively.

However, the first half of 2008 has revealed new trends: significantly increased trade deal volume and the absence of mega-deals. In the first half of 2008, 121 component supplier deals have been closed with a total value of \$3.1 billion. This dramatic shift in deal value appears to be directly related to the tightened credit market. However, the mega-deal may not be dead in 2008 as is evident by German supplier Schaeffler Group's widely publicized attempt to acquire Continental AG.

Automotive component supplier M&A activity 1998 - H1 2008



Source: Thomson Financial and other publicly available sources

Transaction activity over the past two years has revealed the following trends in the current deal market:

- Conglomerates continue to exit the automotive sector. The Siemens VDO sale is a good example of this trend. Continental AG's acquisition of German conglomerate Siemens' automotive business made the company the world's fifth-largest automotive components supplier with forecast revenue of 26.4 billion Euro (\$37.8 billion).
- VMs are divesting assets to finance restructuring. Allison Transmission, the commercial and military vehicle transmission manufacturer, was sold by GM to private equity firms Carlyle Group and Onex Corporation for \$5.6 billion to gain liquidity to fund GM's restructuring and legacy cost obligations.
- Foreign direct investment is increasing. Magna International, the Toronto-listed component supplier, sold a minority stake (18 percent) to Russian Machines, parent of Russian VM GAZ, for \$1.5 billion. The stake allows GAZ access to Magna's technology and engineering while Magna gains a firmer footing in the high-growth Russian market.

H1 2008—Largest component supplier transactions

Rank	Value (\$m)	Target	Target Nation	Buyer	Buyer Type	Buyer Nation	% Acquired
1	900	Federal-Mogul Corp	USA	Thornwood Associates LP	Financial	USA	50
2	750	Dana Corp	USA	Centerbridge Capital Partners	Financial	USA	Minority
3	687	Mando Corp	KOR	Investor Group	Trade	KOR	72.4
4	146	ThyssenKrupp Praezisionsschmiede GmbH	GER	Sona Koyo Steering Systems	Trade	IND	100
5	106	Delphi Corp-Interiors	USA	Renco Group Inc	Trade	USA	100

Source: Thomsom Financial and other publicly available sources

2007—Largest vehicle manufacturer transactions

Rank	Value (\$m)	Target	Target Nation	Buyer	Buyer Type	Buyer Nation	% Acquired
1	15,649	Siemens VDO Automotive	GER	Continental	Trade	GER	100
2	5,575	Allison Transmission	USA	Carlyle & Onex	Financial	USA	100
3	1,537	Magna International	CAN	Russian Machines	Trade	RUS	18
4	1,475	Goodyear, (Engineered Prod.)	USA	Carlyle Group	Financial	USA	100
5	1,189	Metaldyne	USA	Asahi Tec	Trade	JPN	100
6	1,018	Bandag	USA	Bridgestone/Firestone	Trade	USA	100
7	1,000	Tower Automotive	USA	Cerberus Capital	Financial	USA	100
8	560	Teleflex, (Automotive Business)	USA	Kongsberg Automotive	Trade	NOR	100
9	485	TK Aluminum (Select Ops)	ITA	Nemek	Trade	MEX	100
10	363	Koninklijke Ned Schroef Holding	NED	Gilde, Parcom Ventures	Financial	NED	100

Source: Thomsom Financial and other publicly available sources

Macro trends to drive supplier deals

The supply sector deal market faces headwinds. In the near term, continued turmoil in the credit markets could prevent financial buyers, as well as some trade acquirers, from executing mega-deals.

Risk of a cyclical downturn in key markets also may dampen supplier deal enthusiasm. Some buyers may be concerned with deal timing, as it is easier to create value when buying occurs at a market bottom. Second, some suppliers are responding to the global credit crisis by focusing on business fundamentals — execution, survival, and organic growth — rather than embracing the risk of large, complex transactions.

Yet there are a number of positive indicators that point to sustained supplier deal market strength:

- Increasingly stringent regulatory standards—CO₂/fuel economy, harmful emissions, and safety—combined with ongoing oil price increases and volatility, are creating opportunities in the marketplace. Suppliers with advanced technologies to help meet new regulations may become attractive acquisition candidates.
- Distressed investment opportunities in the automotive sector may increase in 2008 and 2009, sustaining deal flow. This is particularly true in North America, given its current vehicle market weakness, though this could spread, depending on global macroeconomic conditions.
- Following several large-scale supplier transactions in 2007, individual business division or segment spin-offs from these newly formed conglomerates may produce deal flow.
- Financial buyers may continue to have capital in need of deployment. The timing of this investment, however, is linked to the credit market recovery and the economic cycle.
- Emerging markets may continue to attract intense deal interest as global suppliers better position themselves in key growth markets.
- In addition, emerging markets appear to be moving to a new stage. Supplier acquisitions are shifting aim from winning with VMs in countries with established markets to also winning business with VMs in countries such as China and India. In turn, emerging market companies may be looking for developed

market acquisitions to secure access to customers and technologies.

- Macroeconomic trends, particularly the depreciation of the US dollar, may be making US supplier assets attractive to overseas investors.
- It appears the future for most auto suppliers is clear: greater concentration of both scale and expertise. As companies move to that model, it creates deal flow both through the sale of non-core businesses and strategic, “bolt-on” acquisitions to strengthen the core.

Retail, aftermarket, rental/leasing and wholesale sectors

These four sectors observed an approximate 8 percent increase in deal activity in 2007, although overall deal value dropped approximately 60 percent to \$10.1 billion. Financial buyers were the predominant driving force, leading more than 80 percent of \$1+ billion deals in these sectors during the past four years. However, 2007 was devoid of any mega-deals such as the \$14 billion GMAC deal in 2006 or the \$15 billion Hertz deal in 2005.

In 2007, six of the top 10 deals (by value) in these sectors were led by financial buyers. The largest transaction was KAR Holdings’ acquisition of ADESA for \$2.6 billion, bolstering the company’s North American salvage auction portfolio by adding ADESA’s used-car auction capabilities. The second-largest financial buyer deal of the period was CVC Capital Partners’ acquisition of Fraikin for \$1.78 billion from Eurazeo, adding the freight vehicle leasing company to an already diverse portfolio that includes the British motoring organization, the AA.

In the UK dealership sector, consolidation continues with both Inchcape and Lookers making strategic acquisitions. The largest trade deal by value closed during 2007 was Europcar’s acquisition of Vanguard EMEA, which strengthened Europcar’s position as Europe’s largest car rental company. The deal included a 10-year partnership with Vanguard US, giving Europcar (and parent company Eurazeo) access to the lucrative North American market, enabling them to offer clients a worldwide network.

Persistently strong deal volume—above 250 per annum during the past three years—creates an encouraging, healthy outlook for these sectors going forward. M&A activity for the first half of 2008 realized

129 deals in this sector and at a total disclosed value of \$1.6 billion. Although the financial buyer mega-deals of the past may be stalled in the near-term by a limited availability of large-scale financing, there is little reason to believe that total deal activity, which is driven in these sectors by middle-market trade acquirers, should decrease significantly.

H1–Largest retail, aftermarket, rental/leasing and wholesale

Rank	Value (\$m)	Target	Target Nation	Buyer	Buyer Type	Buyer Nation	% Acquired
1	2,556	ADESA	USA	KAR Holdings II	Financial	USA	100
2	1,783	Fraikin	FRA	CVC Capital Partners	Financial	GBR	100
3	858	Vanguard EMEA	GBR	Europcar International	Trade	FRA	100
4	807	Keystone Automotive Inds	USA	LKQ	Trade	USA	100
5	617	Feu Vert	FRA	CDC Capital	Financial	FRA	66
6	516	European Motor Holdings	GBR	Inchcape	Trade	GBR	100
7	336	Repcor Corp	AUS	CCMP Capital Asia	Financial	HKG	100
8	293	Avis Greece	GRE	Bank of Piraeus	Financial	GRE	100
9	200	TruckPro	USA	Code Hennessy & Simmons	Financial	USA	100
10	109	Dutton-Forshaw Motor Co	GBR	Lookers	Trade	GBR	100

Source: Thomsom Financial and other publicly available sources

2007–Largest retail, aftermarket, rental/leasing and wholesale transactions

Rank	Value (\$m)	Target	Target Nation	Buyer	Buyer Type	Buyer Nation	% Acquired
1	486	GE Capital Auto Lease PCL	THL	Bank of Ayudhya PCL	Financial	THL	100
2	299	National Au Bank-Coml Fleet Bus	AUS	Super Group Australia Pty Ltd	Trade	AUS	100
3	200	Musa Motors	RUS	Inchcape PLC	Trade	UK	75.1
4	74	Pneufin SpA	ITA	H Grps SpA	Financial	ITA	100
5	55	OOO Orgtekhstroy	RUS	Inchcape PLC	Trade	UK	24.9

Source: Thomsom Financial and other publicly available sources

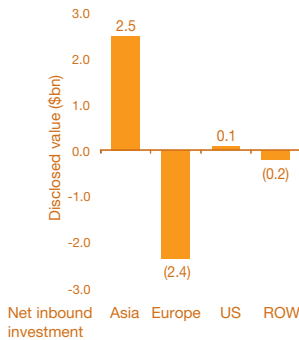
Cross-region deal flow

Shift into reverse

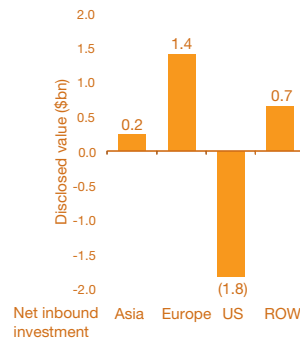
Cross-region deal activity through H1 2008 versus 2007 has realized a significant shift to a net deal flow into Europe. In fact, European targets represented 66 percent of cross-region deals in H1 2008, compared with 44 percent for all of 2007. However,

it should be noted that a large portion of this is driven by Tata's purchase of Jaguar and Land Rover, one of the few mega-deals this year.

Net deal flow H1 2008



Net deal flow 2007



Source: Thomson Financial and other publicly available sources

Laying the BRICs

Drivers of future cross-region automotive deals likely will include the arrival of new global players, emerging market growth, and currency fluctuations.

In many cases, automotive companies in emerging nations are quickly becoming global players looking for increased access to global customers, markets, and technology. Examples in recent deals include India's Tata and Mahindra & Mahindra, China's Chery and SAIC, and Russia's Russian Machines. This trend is likely to feed cross-region deal flow over the next several years.

In turn, companies from developed nations seeking to gain further access to the quickly growing markets in the BRIC countries also

are likely to be a factor in future cross-region deal activity. This could be especially true of component suppliers seeking proximity to local VMs. There were early signs of this trend in 2007, including Cummins' purchase of the remaining shares of Tata Holset (a joint venture founded to produce diesel engines in India) and Bosch's increased investment in Motor Industries, an Indian-based component supplier.

Finally, the weakening of the US dollar against global currencies in 2008 versus 2007 may encourage bargain hunting in the United States. The devaluation of the US dollar has not attracted increased foreign investment to date. This is likely the result of weakness in the US economy and its automotive market, which appears to be causing would-be acquirers to reconsider or delay US M&A investments until they have more clarity about the magnitude of downside risk.



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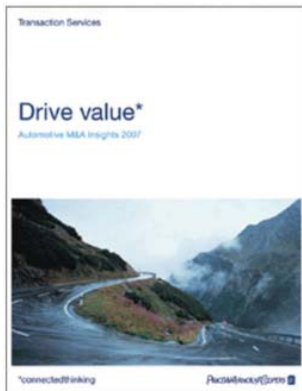
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About the PwC Transaction Services Practice

The Transaction Services group of PricewaterhouseCoopers offers a deal process that helps clients bid smarter, close faster, and realize profits sooner on mergers, acquisitions, sales and financing transactions. We offer a strategic perspective, practical solutions and a holistic service approach that helps management anticipate and resolve a broad array of transaction, financial reporting, and registration process challenges. We also help clients develop or appraise strategic business plans, identifying potential deal risks and increasing the chances of making successful, strategically sound deals. Our global network of over 6,000 transaction professionals and more than 500 capital markets specialists operate from 16 US cities and some 90 locations in North America, Latin America, Europe and Asia.

For further reading:

[Drive value: Automotive M&A Insights 2007](#)





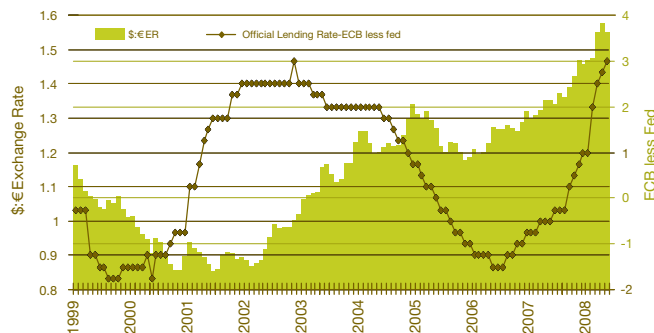
Exchange Rates—Challenges and Opportunities Around the Dollar:Euro Shift

When the Euro launched in January 1999, there was a fair amount of scepticism surrounding the currency, its likelihood of survival, and therefore its security. This contributed to an almost immediate and consistent decline in its value from \$1.175 at close of first-day trading to a low of \$0.825 in October 2000. It wasn't until December 2002 that it regained parity with the dollar and May 2003 that it regained its launch value. However, despite this weakness in the early years, during the past two years, the euro has been going through a period of almost relentless growth against the dollar, culminating in a high of nearly \$1.60 in late April 2008.

A number of factors have spurred this growth. A factor that can have a significant impact on currency valuations is monetary policy and, therefore, relative interest rates. As the chart shows, there has been a reasonable correlation between interest-rate movements and exchange-rate movements, albeit with a noticeable lag in 2001. Certainly, since 2005, there has been a close correlation between the two: As interest rates in the United States appreciated against those in the European Union the dollar appreciated, and as interest rates in the United States fell in relation to the European Union from mid-2006 the dollar has depreciated.

Since mid-2007 the correlation has been more apparent. The Federal Reserve has acted decisively to attempt to reduce the impact of the credit crunch by rapidly reducing interest rates, from 5.25 percent in August 2007 to just 2 percent by May 2008. Conversely, the European Central Bank (ECB) remains focused on targeting inflation, and it has remained steadfast on interest rates. With the ECB stating it will keep rates on hold for the remainder of 2008, the positive ECB interest rate differential is likely to remain and provide continued support for the strong euro.

US dollar: euro exchange rate since euro inception and variation in official lending rates



Source: ECB

Relative interest rates and “hot money” are not the only reason for the euro’s appreciation. Relative economic performance and expectations play their part, and the fact that the United States has been more significantly affected by the credit crunch is putting further downward pressure on the dollar. Another factor behind the appreciation of the euro is the increasing credibility of the currency as an alternative to the dollar. Many thought the euro wouldn’t last when it was introduced. Clearly, almost 10 years later, it is here to stay. A good illustration of this is that the euro’s share of disclosed currency reserves increased from 18 percent in 1999 to 25 percent in 2007 (FT, p15, 28/5/2008).

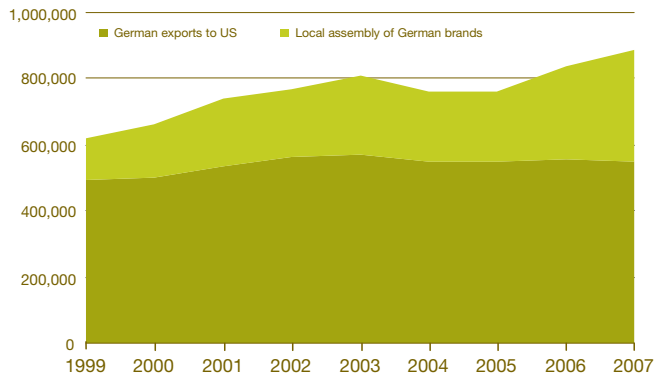
Exchange rates can be volatile, making planning difficult. However, it is becoming increasingly apparent that the appreciation of the euro in recent years is not a short-term phenomenon, so strategy needs to be developed and changed accordingly. Within the context of the automotive industry and vehicle manufacturers, the US dollar: euro shift has had a significant impact, especially on the profitability of European manufacturers with large export volumes to the United States. Conversely, it also provides opportunities for US-based manufacturers, especially within an export context and given the more competitive cost base that prevails in the

United States resulting from the UAW (United Auto Workers Union) agreements.

Challenges

The appreciation of the euro has had a sizeable influence on the financial performance of European manufacturers' US operations. For the past few years, German manufacturers with significant sales in the United States have cited the dollar:euro exchange rate as the main reason for the poor financial performance of their US operations, which in some cases has been a loss. In such a situation, theoretically, a choice can be made between margin retention (increasing prices and losing sales) or sales retention (maintaining prices and losing margin). In a market as large and competitive as the United States, no one can afford to forgo significant sales voluntarily. As a result, we have seen increasing German brand penetration within the US market without the increasing profit that normally would be associated with such a development, all other things being equal.

Exports of German cars to the US and assembly of German cars in North America



Source: VDA, PwC Automotive Institute

Another result of the weak US dollar is an increased cost of imported components for US-made vehicles. This is likely to be more marked for the European manufacturers with US assembly where major components such as engines and transmissions are being imported from Europe. However, moves by US manufacturers in recent years to reduce costs by sourcing more components from lower cost countries such as China, India and Brazil, will have been

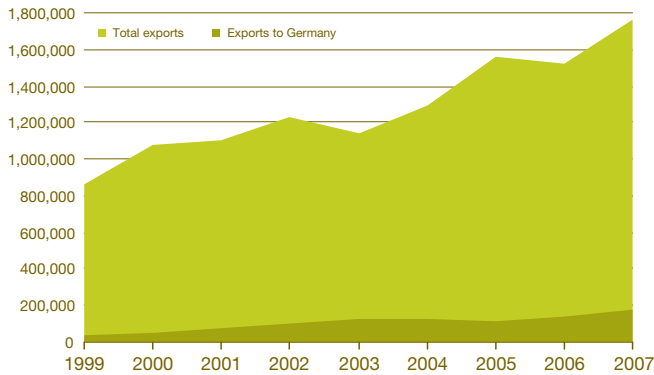
undermined by depreciation of the dollar against these countries' currencies, although such currency developments have been less marked than the movement against the euro.

The current exchange rate scenario arguably has made it more difficult to react quickly to the changing structure of the US light vehicle market that has been seen during the past year or so following the credit crunch and significant increase in fuel prices. This change has led to a significant fall in sales of SUVs, to the detriment of US brands, and relatively strong growth of smaller cars, to the benefit of Asian brands. Most of the US brands have cars within their European portfolios that could address the changing needs of the market, but the strong euro is one of the obstacles in the way of profitably importing from Europe. Therefore, local assembly is the only viable option; this takes longer to implement but will be seen within the next few years.

Opportunities

The depreciation of the dollar makes US exports more price-competitive. This development, during a period in which the original US manufacturers are losing market share in a declining market, provides a timely opportunity to diversify the market base and export more products. Certainly a number of brands such as Dodge and Chrysler have been targeting Europe as a growth market, and the weak dollar will help in this strategy, allowing the brands to price competitively while retaining decent margins. Although we did not have access to comprehensive data for Europe, data for Germany, which provides a good proxy for Europe as a whole, shows that US exports increased 43 percent (or 51k units) between 2005 and 2007. Export opportunities to Europe are presently limited by a relative lack of appropriate product for the European market, but this is likely to change due to the structural changes taking place in the US light vehicle market, which should see an increasing focus on smaller, more fuel-efficient vehicles.

US exports of cars to Germany and the rest of the world



Source: Wards

In addition to this, we have seen US brands pull back from production in the European Union. Chrysler is withdrawing European assembly of its products by 2010; in 2005 more than 61,000 Chrysler vehicles were assembled in Europe. Assembly of the next-generation small Cadillac also will move to the United States. This will contribute to further growth in US exports in the coming years. Undoubtedly, other factors have been at play regarding these decisions, but the exchange rate will have been a significant factor in the decision process.

As a result of high oil prices, the credit crunch and an economic slowdown, there is a noticeable structural shift taking place in the United States' new car market with sales of small cars increasing dramatically. As a result, we are going to see local assembly of European small cars within North America—again the exchange rate has dictated this strategy as local assembly is the only way to profitably satisfy the increasing demand for small cars. This strategy is likely to see assembly of the Saturn (Opel) Astra and Corsa and the Ford Fiesta and small MPV within North America within the next few years.

One of the other opportunities the exchange rate scenario creates is to provide a natural hedging opportunity for the European manufacturers. This can be both in terms of producing more vehicles within the United States and also sourcing more components from the United States. VW has had an assembly plant in Mexico for a long time, BMW started assembling in the United States in 1994, and Mercedes in 1997. BMW significantly

increased output in the United States with the launch of the X5 in 1999, and Mercedes did so when it added the R-Class and GLK to the M-Class that was already being assembled. BMW has recently added the X6 Crossover to its North American plant and while product synergies and local market preferences would have been key factors in the decision-making process, the exchange rate certainly would have supported the decision. In addition, it has announced that it will be relocating assembly of the next generation X3 from Austria to its Spartanburg, South Carolina, plant from late 2010.

However, it is not just a case of localising production. BMW's Chief Financial Officer Michael Ganal stated in an interview with *Automotive News Europe* (14th April 2008) that BMW will increase its sourcing of components within the United States. The significant exchange rate movement, combined with the sizeable redundancies in the North American auto industry during the past couple of years that have led to in many cases lower wage costs, now puts the United States at a significant competitive advantage from a cost perspective. BorgWarner President Bernd Matthes has stated that the United States currently enjoys a 30 percent cost advantage over Europe (Just Auto 25th March 2008).

Not only does this mean that, all other things being equal, North American-produced cars can be sold more profitably in the North American market than cars imported from Europe, but also it means they can potentially be exported to Europe and sold there more profitably than if produced in Europe. Mercedes' and BMW's decision last decade to produce their new SUV/Crossovers, the ML and X5, in the United States, can be seen as particularly auspicious in the current exchange rate environment.

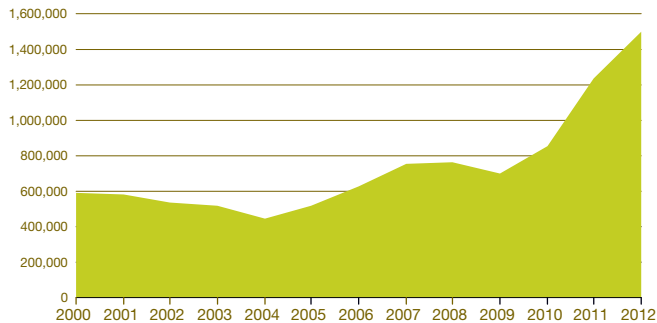
Volkswagen has major ambitions for the North American market, and these can't be achieved profitably with the current exchange rate without significant investment in North American assembly. Although it has a large plant at Puebla in Mexico, it is considering an additional plant in North America and plans to decide on a location by mid-2008.

Alfa Romeo is re-entering the US market this year, albeit on a small scale with the high-end 8C Competizione, but will start selling volume models in the next couple of years. However, Fiat Chief Executive Officer Sergio Marchionne has stated that this cannot be done profitably without local production. Fiat is considering the

options and has stated a decision will be made by mid-2008. It is likely that any investment would not just be for local supply but also export of vehicles to Europe and other markets. Fiat also has stated that it is considering selling the Fiat 500 in North America. It is likely that, if they chose to go ahead with such a strategy, this would be done in conjunction with local assembly should the current exchange rate scenario be maintained or deteriorate further.

Conclusions

Production of European brand cars in North America (PwC forecast post 2007)



There are many options open to manufacturers as ways of accommodating, at least partially, exchange rate fluctuation including financial hedging and changing component sourcing. Another option is changing vehicle sourcing, although this can require a significant, long-term investment and is therefore rarely done on the back of short-term exchange rate developments. However, it is becoming increasingly clear that the decline in the dollar seen during the past two and a half years is not a short-term phenomenon and that strategy is going to have to change to accommodate it. This is what we are starting to witness, and if euro strength is maintained, we are likely to see further investment by European-based manufacturers, past the second phase being considered by VW and Fiat.



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IFRS and US GAAP: Transition for the US Automotive Industry

The US automotive manufacturers and suppliers are currently challenged by the uncertainty of the US economy, increasing regulatory demands, rising commodity prices and relentless competition at home and abroad. In addition, escalating gas prices have quickly shifted consumer demand away from trucks and SUVs toward more fuel-efficient, smaller vehicles. The impact of these factors has taken a dramatic toll on volumes and vehicle mix. The financial performance of the US automotive manufacturers and suppliers has resulted in record impairment and restructuring charges, loss of jobs and benefits, and the bankruptcy of some companies.

During such tumultuous times, it is essential the financial statements provide useful information and a true representation of the company's changing financial position and performance to allow management, investors and other stakeholders to formulate and make economic decisions. US Generally Accepted Accounting Principles (US GAAP) have long been the accounting platform for all US companies to prepare their financial statements. Over the past several years, US GAAP has been characterized by many as a voluminous, prescriptive and complex set of rules for the recording of economic activities and events. However, there is clear indication that the long-standing accounting platform utilised by US companies is going to change.

The momentum towards International Financial Reporting Standards (IFRS) as the single set of globally accepted accounting standards is evidenced by the speed at which markets, countries, regulators and management have adopted and accepted IFRS around the world. IFRS is considered to be a less prescriptive accounting regime with enhanced transparency, better comparability and a potential reduction in the costs of consolidation. In fact by 2011, all major capital markets will require or permit IFRS for its registrants, with the exception of the US.

In 2002, while most public companies in the US were focused on the implementation of Sarbanes-Oxley to rebuild the trust in financial reporting, a small group was working with the intention to harmonize accounting standards globally. In the shadow of

this quest for better internal controls over financial reporting, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) reached formal agreement on a plan of convergence for their respective financial reporting standards. The memorandum of understanding commonly referred to as the 'Norwalk Agreement' had both groups undertaking efforts to make US GAAP and IFRS comparable as soon as practicable, and coordinating efforts to minimize potential differences on future accounting standard-setting projects.

In 2005, most European Union registrants were required to abandon their national GAAP and submit consolidated financial statements under IFRS. Presently, over 100 countries are using or have committed to a timetable to use IFRS for public reporting, including Japan, Korea, Brazil, Russia, India, and China. Many of the large, global automotive industry players have changed their accounting platform or have concrete transitional plans in place to do so. As the IFRS community of markets and market participants expands, this increases those companies' ability to access capital more broadly and investors' capability for comparing companies' financial position and results within the industry.

In 2007, the SEC eliminated the required reconciliation between IFRS and US GAAP for foreign private issuers (i.e., non-US companies with registered securities in the US). By eliminating the reconciliation and accepting statements under IFRS, the SEC has endorsed this accounting framework. However, this elimination of the reconciliation creates differences between domestic registrants and foreign private issuers within industry groups, impacting comparability. Thus, the SEC is currently considering permitting US registrants the option of filing under IFRS, instead of US GAAP.

These developments clearly indicate that the US is no longer solely on a path of convergence, but now is embracing conversion. This would be a change in the underlying accounting framework which would alter the financial position and performance results, not to mention the presentation and disclosure of the financial statements. The conversion to IFRS by US automotive entities goes well beyond a debit and credit exercise of the accounting and

reporting. Its impacts may be felt across the organization to boards, investor relations, budgets, key performance measurements, covenants, profit-sharing agreements, tax positions, systems, etc. The challenge for US automotive manufacturers is how to manage through such a transition to IFRS. However, due to its global nature, there are relatively few other industries more poised to take advantage of IFRS than the US automotive manufacturers and suppliers. There are considerable risks anytime the impact of such a transition is so pervasive, but there are also considerable opportunities if management plans, assesses and executes in a thoughtful manner.

Under IFRS some standards offer an increase in judgment in the application of the accounting standard. This provides an opportunity for US automotive manufacturers to re-examine their accounting policies and practices. In an industry where there are complex supply and production arrangements, this is a one-time opportunity to take out a clean sheet of paper and establish policies and practices consistent with the way an entity conducts its business. There were times in the past where a US automotive entity might need to structure a transaction or include language to achieve a certain accounting or where a transaction did not quite reflect the underlying economics because of an accounting rule.

Manufacturing a vehicle or supplying parts to the automotive industry requires considerable lead-times, several different commodity inputs, labor and significant capital investment upfront. Thus, there are several critical accounting areas that US automotive manufacturers and suppliers will generally need to closely examine upon transitioning to IFRS. One way to categorize each area is to consider the financial impact and the level of complexity or expertise needed to record or recognize a transaction, event, asset or liability. Critical accounting areas that display a level of financial impact and/or complexity in the transition to IFRS for US automotive manufacturers and suppliers are R&D costs, tooling, inventory, buy-back arrangements, financing arrangements, fixed asset impairments, goodwill impairments, contingent liabilities and pensions. There are other areas, but these appear to be the ones where considerable amount of time, effort, and support are needed.

For instance, the costs to develop a vehicle program, integrate technology, assemble and bring it to market are sizable. Currently under US GAAP, research and development costs are expensed as incurred. However, under International Accounting Standard,

Intangible Assets ('IAS 38'), upon meeting certain criteria or conditions, development costs would be capitalized as internally generated intangible assets. Most of the criteria are fairly straightforward, but one in particular relates to the ability of the entity to demonstrate that the intangible asset is in a position to generate future economic benefits. Generally, this analysis is not something that US automotive manufacturers or suppliers have completed on a project basis. In addition, after recognizing the intangible asset, there are two methods by which to attribute these costs to the underlying program, the cost method (i.e., straight-line) or an alternative revaluation method.

Another example is buyback agreements where an automotive manufacturer sells new cars to fleet or rental companies with a commitment to buy those vehicles back after the contracted period. There are a number of conditions which need to be met for a sale to be recognized, and one of the key conditions is the consideration as to the transfer of the risks and rewards by the seller to the buyer. Under IFRS, during the buyback period there are various options for an automaker to consider on how to account for those vehicles under the buyback arrangement. Vehicles could be considered inventory, fixed assets or a combination of both. Depending on which accounting policy an automaker adopts, there are implications to working capital or financial position measurements and ratios.

In these examples outlined above, the tax implications were not highlighted nor the more extensive data gathering requirements on a company's systems and personnel for the required presentation and disclosures. There are more examples with potentially significant impact, such as LIFO or the increased disclosures related to warranties. And as stated earlier, this transition goes well beyond a mere debit and credit exercise. There will be considerable time and effort to educate stakeholders, training of staff and potentially reworking agreements that were based on results under a US GAAP framework, such as profit-sharing agreements, covenants and transfer pricing arrangements.

Regardless, all of these examples briefly provide insight into the depth and breadth of the impact transitioning to IFRS would have on an US automotive entity. However, US automotive manufacturers and suppliers also have a unique, onetime opportunity to re-evaluate their current accounting policies and practices, potentially establish new policies or refine those currently in place

to better reflect the intentions of the underlying economics of the transaction, and assess the overall impact on the organization.

Given the current operational and financial turmoil confronting the US automotive industry, this might cause some in the industry to overlook the challenges and benefits of a transition to IFRS. US automotive entities are not precluded from weighing in with the FASB, SEC or the IASB in the debate on IFRS standards. However, at this point US automotive entities are not at the forefront of this debate or influencing the way IFRS is being applied or presented within industry parameters and practices. It might be understandable, but their lack of participation individually or collectively is allowing their non-US automotive competitors to design the format, shape the implementation guidance and determine the reporting for the industry and their financial position, performance, presentation and disclosure for years to come. It is essential that the US automotive industry find a way to participate, otherwise the financial reporting rules might well be decided for them.

The transition to IFRS obviously has several challenges, but there are compensating factors which would potentially reduce the overall time and level of effort needed to transition. In other words, out of the large automotive producing countries around the world, the US automotive entities are better poised than any to take on this change for a number of reasons. First, many of their subsidiaries might currently be reporting under IFRS for local statutory purposes. However, there are normally nuances within each jurisdiction as to the application of IFRS without an overall company accounting manual based on IFRS. Thus, many US automotive entities will need to inventory the practices and processes currently in place at their subsidiaries for local IFRS reporting to ensure a consistent reporting approach for consolidation purposes. Once achieved, this will be the basis to establish the new IFRS company manual of accounting. In addition, this might also reduce potential risks related to compliance on a local statutory level given there is only one basis for accounting throughout the company and each jurisdiction.

Second, US companies have found it more and more difficult to secure US GAAP resources at their foreign operations because universities overseas are no longer teaching the subject. Given that these accounting resources at most of the foreign locations are currently reporting under IFRS, there is a pool of knowledgeable,

experienced resources to participate in an IFRS assessment and conversion process for the entire enterprise. These subsidiaries and their personnel can be leveraged to engage in a more thoughtful debate as to the company's accounting policies and judgments as they consider the implications under an IFRS accounting framework.

Third, US automotive entities have been working to effectively manage the internal controls over financial reporting as a result of Sarbanes-Oxley Act of 2002. This was not the case in Europe at the time of its conversion to IFRS. Thus, US automotive entities have documentation of their controls which will support their efforts to make decisions as they consider alternative accounting methods. This will not only help with the consistency of application of a chosen accounting policy, but also support the additional data gathering for the numerous disclosure requirements under IFRS.

Finally, US automotive entities are currently reporting under a more robust GAAP than their European competitors were when reporting under their varying local country GAAP prior to 2005 or than their Asia competitors are reporting under today. Thus, for US automotive entities it might well be easier to transition from a more prescriptive framework to one where the framework is less prescriptive.

Those factors considered, the US automotive entities still have considerable amount of work for themselves as past experience indicates that a full conversion to IFRS may take as long as 24 - 36 months, similar to the amount of time to design a new vehicle model. In fact, the US automotive entities might view this as development of a new global platform for their accounting, reporting and decision-making. The financial statements, like their distinctive products, define their company. As the automotive industry strives for ways to drive time and costs out of a process without sacrificing quality of reporting, so can they with the transition to IFRS. Postponing the inevitable transition to IFRS when there is critical competition for capital to support operations and new programs would be ill-advised, particularly given US automotive entities' presence around the world. Moreover, leveraging off of the lessons learned in Europe, the knowledgeable global resources and the internal controls over financial reporting could provide US automotive entities opportunities to rationalize the financial reporting process throughout their global operations,

particularly given a single set of accounting standards for local and consolidation reporting purposes.

Some may continue to debate whether IFRS is better than US GAAP, or vice-versa, but this topic will fade away in the near future. Both accounting frameworks are designed to provide management with a way to communicate their company's financial position and results, so that prudent investors and stakeholders can make decisions. More importantly, all valid, accepted accounting standards are rooted in conceptual foundations and include some guidance on application and implementation. It is clear from the US regulators and US standard setters that IFRS is clearly on the horizon, and it is also clear that the US automotive entities are positioned fairly well to take advantage of a transition to new accounting framework, which ultimately reduces complexity, provides better transparency, increases comparability and improves reporting. Thus, the risk to US automotive manufacturers and suppliers is not IFRS itself, but ultimately in the way management responds to this pending business risk.

Due to its global nature, there are relatively few other industries more poised to take advantage of IFRS than the US automotive manufacturers and suppliers.

“the risk to US automotive manufacturers and suppliers is not IFRS itself, but ultimately in the way management responds to this pending business risk.”



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Top 10 global capital markets

US	US GAAP
Japan	Converging to IFRS 2011
UK	IFRS
France	IFRS
Canada	Converging to IFRS 2011
Germany	IFRS
Hong Kong	IFRS
Spain	IFRS
Switzerland	IFRS
Australia	IFRS

About PwC helping companies transition to IFRS

PwC has a proven track record in helping companies successfully complete the transition to IFRS. With our vast worldwide experience in all major industry sectors, we propose practical solutions to address challenges that companies face during IFRS conversions.

PwC developed a transition IFRS methodology which provides a complete framework for an efficient and effective conversion, and has been applied to over 1300 conversion projects. This methodology, as well as getting the numbers right and guiding companies through operational problems, focuses on effective knowledge transfer to ensure lasting benefits.

For further reading:

IFRS and US GAAP: Similarities and differences





From the Chairmen

The Letters to Shareholders from chairmen and/or presidents of the automotive companies included in this review illustrate priorities, challenges, accomplishments and visions to which industry executives attribute particular importance. More and more chairmen choose the form of an interview for their messages.

Nearly all chairmen point out a difficult economic environment. Most of them do not expect significant improvements for the automotive industry in 2008. In this context, chairmen focus on the implementation and / or the follow-up of action plans such as cost reductions, opportunities on emerging markets or development of innovative and safety products.

Additionally, reduction of CO₂ emissions is considered as a key challenge in the 2007 annual reports. Most of chairmen highlight the actions implemented by their companies to face to this environmental challenge.

Overall industry and economic context for 2007

Economic context remains difficult for the automotive industry. Most chairmen point out the continued increase of raw material prices, the rise of fuel prices, the strong competition from the players and the difficulties regarding the North American and West European markets. These weaknesses and uncertainties are partially offset for certain companies by strong costs reduction programmes and opportunities in emerging countries.

ArvinMeritor Inc.

[...]We operate in an industry that fluctuates with changes in the worldwide economies, consumer spending and governmental and environmental regulations. In order to not only survive—but thrive—in this industry, it is critical that we are a diversified, flexible and disciplined company. [...]

With approximately 50 percent of our commercial vehicles sales in North America, we were affected this year by a downturn in this market that has proven to be longer and deeper than originally expected, primarily due to concerns related to the housing market and rising fuel prices. [...]

Our European customers experienced an unanticipated demand for trucks driven by the ongoing logistical integration of Western and Central Europe. Based on our commitment to meet customer requirements and exceed expectations even in difficult circumstances, we incurred high-volume penalties caused by sourcing issues, premium freight and additional labor costs. [...]

Asia Pacific continues to offer unprecedented opportunities for growth and profitability, but also presents challenges inherent in rapidly growing markets, which include recruiting and retaining talent, increasing competition, moving products quickly to market and managing our supply chain [...].

Bridgestone Corporation

Despite an increasingly difficult business environment caused by changes in the global structure of demand and competition, consolidated net sales increased by 13% to ¥3,390.2 billion. Gains were recorded across all geographical segments. [...]

Yet the rapidly changing global market in which we operate differs vastly from the conditions back in 1988. Tire demand has shifted to either side of the spectrum, away from the middle. Today, the market segments that are growing are state-of-the-art high-performance tires and low-priced general-purpose tires. The gains in market share being made by low-priced tires from low-cost manufacturers point to fundamental shifts in the structure of competition. The earnings structure of the tire industry has undergone wrenching change as well, due to the pressures applied by inexorably rising raw material costs. [...]

Eaton Corporation

[...]We entered 2007 facing a stiff headwind, as North American heavy-duty truck markets were projected to decline by more than 40 percent due to the changes in the US diesel emissions standards. That management challenge became even tougher as the year went on as generally upbeat economic forecasts fell under the dark cloud of a credit crisis in global markets. [...]

General Motors Corporation

GM's centennial comes at an exciting time for the auto industry, as we move aggressively to realize the potential of two huge trends that are transforming the global auto industry and society itself. The first trend is the rapidly growing role, and importance, of emerging markets. 2007 was the auto industry's sixth consecutive year of record global sales: about 71 million units. That's up about 24 percent in just six years—all of it attributable to emerging markets. Going forward, we expect the growth and importance of emerging markets to accelerate.

This extraordinary growth is helping to define the second trend transforming our industry and world today, and that is the need to develop robust alternatives to our traditional almost-complete reliance on oil to power our vehicles. It's clear that biofuels and advanced propulsion technologies will be required to address key societal issues of energy supply, energy security and CO2 emissions. [...]

JTEKT Corporation

[...]Although Japan's economy performed strongly overall during this period thanks to growth in such areas as exports and private-sector capital expenditures, uncertainty over the economy's direction grew during the period's last half as a result of surges in raw material costs, financial market confusion caused by the subprime mortgage problem, dramatic shifts in exchange rates, and other factors.

Regarding economies around the world, while Asian economies led by China maintained a high growth rate, the economies of America and other regions showed signs of receding.

With such circumstances as a backdrop, the JTEKT Group endeavored during this period to strengthen its technology development capability, improve quality, and raise the efficiency of its manufacturing and sales structures. [...]

Mazda Motor Corporation

[...]The economic environment contained many elements of risk and uncertainty for Mazda both in Japan and overseas, with unstable international capital markets, a global economic slowdown and significantly higher prices for energy and crude oil. Looking at Japan, exports continued to grow and there was a growth trend in corporate capital investment, but on the other hand prices of

domestic corporate goods and consumer prices rose against the backdrop of high international commodity prices. There was also a trend of declining consumer sentiment, with a drop in housing investment and weak unit sales of new cars. The effect of these factors was further exacerbated by exchange rate fluctuations, leading to a slowdown in the domestic economy.

Given this background, the environment for the automobile industry is becoming increasingly difficult, and I expect competition among companies, focusing on cost competitiveness, to intensify. [...]

Compagnie Générale des Etablissements Michelin

[...] The year 2007 was an important one for Michelin. In an environment marked by generally favorable market conditions and a deceleration of raw material price increases, Michelin posted a substantial performance improvement with 6.5% sales growth, at constant exchange rates, and net income up 35%. With a clear return to growth, a 1.6 pt operating margin improvement, 9.7% return on capital employed and substantially positive free cash flow, Michelin's indicators are in line with its Horizon 2010 plan. [...]

Toyota Motor Corporation

In fiscal 2008, ended March 31, 2008, Toyota set new records in consolidated net revenues and all income categories. This success enabled us to increase shareholder dividends paid for the ninth consecutive year. I believe this ability to increase revenues and earnings in a severe business environment is the result of the various measures we have implemented.

Although the economic downturn in some developed nations has caused a certain amount of stagnation in today's global automotive industry, markets in resource-rich and emerging countries are rapidly expanding. However, the environment surrounding the automotive industry is undergoing drastic changes marked by sharp increases in raw material costs, sudden currency exchange fluctuations, and increased environmental regulations worldwide. [...]

ZF Friedrichschafen AG

[...] The decline in demand for passenger cars and commercial vehicles in the North American market as well as the weakness of the large manufacturers General Motors, Ford, and Chrysler are monitored with particular concern by the Supervisory Board. The ZF Group reacted to the resulting, urgently required

restructuring measures by closing down two locations in the USA and consolidating the activities of the Powertrain and Suspension Components division in Mexico. After in-depth discussions, these measures were fully backed by the Supervisory Board. The changes introduced in the business year significantly impacted the result of the regional area of North America. [...]

[...] The risks arising from the high raw material and energy prices which are likely to further increase, as well as risks derived from the strong euro and the resulting foreign exchange rates were discussed in detail. Here, increased hedging by means of Natural Hedging is necessary. [...]

Strategies for success

Strategies presented by chairmen detail different goals and actions to improve or restore profitability in a difficult economic environment such as cost reduction programmes, redeployment of industrial facilities, pursue expansion in emerging countries, new acquisitions or collaboration and partnering, accelerating rationalization of organizations, launch of new innovated products or reinforcement of innovation.

Aisin Seiki Company, Ltd.

[...] AISIN will strive to develop new technologies, new manufacturing processes and new products to tackle the challenges at hand and to earn the trust and inspire customers around the world. We will also work to expand sales and accelerate initiatives aimed at new growth by leveraging the cohesive strengths of the AISIN Group. [...]

BMW AG

[...] The Supervisory Board supports the strategic objective set by the Board of Management—to be the world’s leading provider of premium products and premium services for individual mobility. The Supervisory Board agrees with the Board of Management that profitability and quality of earnings should play a central role in the Group’s strategic realignment. It therefore encouraged the Board of Management to press ahead with the implementation of the stated strategy and gives its full backing to the measures and targets adopted by the Board of Management. This includes plans to generate some euro 6 billion of efficiency benefits by 2012 and to successively take pension obligations to employees in Germany off the balance sheet by creating external pension funds. The Supervisory Board believes that these measures will help to strengthen the Group’s competitiveness in the long term. To

coincide with the BMW Group’s strategic realignment, the Board of Management has formulated a set of core principles that are intended to serve as guidelines for managers and employees. In the opinion of the Supervisory Board, these core principles provide an excellent basis for open and objective-oriented cooperation throughout the Group. [...]

Continental AG

2007 was a very special year for Continental. In December, we completed the largest acquisition in our Company’s 136-year history—the purchase of Siemens VDO Automotive AG.

[...] We are building on a partnership-based integration using the slogan “winning the future—together”, which requires flexibility, creativity and an enormous orientation on performance from all involved. We are confident that, backed by our dedicated employees, this project will lead to success. The positive experience of the first months after the acquisition has encouraged us in this view. [...]

Why are we convinced that this acquisition was the right step at the right time at the right price? The answer is both simple and complex: Continental and Siemens VDO complement each other perfectly. Together we will provide new impetus in the areas of safety, environment, and information for everything vehicle-related. [...]

Daimler AG

In the year 2007, we set the future course for your company. With the transfer of a majority interest in Chrysler and the new name of Daimler, we opened a new chapter—a chapter in which we will build upon our traditional strengths while seizing new opportunities: with our outstanding premium automobiles, first-class trucks, vans and buses, and a full range of financial services all around these products.

We are starting from a very good basis:

- We have defined a clear strategy as well as growth and profitability targets for each of our businesses.
- We have streamlined our structures and processes throughout the Group, reducing complexity and accelerating the decision process.
- We have significantly improved our risk profile. [...]

Fiat SpA

[...] Fiat has reshaped its organization, implemented new business strategies, and redefined its relationships with both its partners and the world that surrounds it. Moreover, it accelerated the pace of its activities, which will enable it to become even more competitive and more global. [...]

[...] Within this context, 2007 represents a major step in the Group's history. It marked the completion of the industrial turnaround plan that was presented in July 2004. All sectors achieved the targets set at the time and in many cases even exceeded them. Based on the results achieved during the first nine months of the year, Fiat had already revised its full-year targets upwards. Ultimately, Fiat managed to top those new targets as well. All of these accomplishments reflect the company's positive and determined attitude and a true commitment to keeping its promises.

2007 also marked a turning point for the Group's industrial debt. Just four years ago, Fiat was burdened by almost 10 billion euros in debt; now the Group has shed this burden. Not only has it extinguished its net industrial debt, it also closed the year with net cash of approximately 350 million euros.

At the same time, the significant industrial cash flow generated during the year allowed Fiat to reinvest major resources in all activities to continue renewing its product line, improving its quality standards, and boosting its profitability.

[...] At the organizational level, our approach has been to harness the strength that comes from being a leading automotive enterprise. A result of this approach is a cross-disciplinary structure comprising product engineering, manufacturing, purchasing, and marketing. The aim is to ensure the best possible integration between the various Sectors and to leverage all possible synergies at the Group level. The managerial structure was also reinforced, by implementing leaner, more agile, and more efficient organizations in every Sector. [...]

Ford Motor Company

[...] Our worldwide team is focused on four key priorities: aggressively restructuring to operate profitably at the current demand and changing model mix, accelerating the development of new products that our customers want and value, funding our plan and improving our balance sheet, and elevating to a new level

of performance our commitment to working together with all of our partners. These are the same priorities I outlined in this report last year, and they will remain our priorities for the foreseeable future. [...]

Lear Corporation

Since 2005, the Lear team has worked hard to reposition our operations and implement the necessary strategic actions to improve our long-term competitiveness—divesting the non core Interior business, implementing a comprehensive restructuring initiative, continuing to diversify our sales and focusing on further strengthening and growing our Seating and Electrical and Electronics businesses. [...]

Magna International Inc.

[...] As Magna celebrated its 50th anniversary in 2007, we laid the foundation for success in the years ahead in three important ways. First, we completed the arrangement involving Magna and Russian Machines, which was approved by shareholders last August, in order to set Magna on course for further growth outside of our traditional markets. Second, together with the Canadian Auto Workers (CAW), we entered into the Framework of Fairness Agreement—a unique set of principles which balances the needs of employees and business and which represents a new, non-confrontational labour relations model. Finally, we continued our pursuit of advanced technologies through innovative programs and development of a centre for technological innovation. [...]

Peugeot SA

[...] Four priorities were defined and translated into action in the course of the year: first, bring the quality of our products and services up to world-class standard; second, reduce costs; third, formulate an enhanced product plan and accelerate its rollout; and finally, intensify our sales offensive both in Europe - Germany in particular - and worldwide. In addition, we have instigated new management practices, leaving more room for initiative-taking, team spirit and a focus on results. That our teams have taken real ownership of the CAP 2010 plan is a fantastic asset to help us attain the goals we have set ourselves. [...]

Porsche Holding Gesellschaft M.B.H.

[...] There can be absolutely no doubt that the Volkswagen Group will benefit from our involvement: It is our intention to be a lasting and reliable partner for Europe's largest carmaker. And we

know that both the shareholders and employees of Porsche and Volkswagen alike fully endorse and support the commitment we are making. They welcome our clear intention to protect one of the most imaginative, interesting and exciting carmakers in the world from the risk of possibly being stripped of its assets and literally taken to pieces. And now—we see this without the slightest feeling of personal satisfaction—even the most critical analysts and experts in the capital market accept and endorse our strategy, even though originally they were somewhat sceptical about the assumption of our stake in Volkswagen.

The world of finance has therefore also recognised our long-term objective:

Porsche sees itself not merely as an investor in Volkswagen, but rather as a strategic and industrial partner. Our commitment benefits both our Company and Volkswagen alike. Our cooperation already encompassing important areas of technology such as the development of the next generation of our Sports Utility Vehicle and hybrid drive will be expanded to other areas and activities. And we are firmly convinced that Volkswagen in the long run will succeed in moving up to the world's No 1 in our industry, Toyota, in terms of both profitability and its product portfolio. This, we are convinced, is the most promising way to secure jobs at Volkswagen also in the long term. [...]

Renault SA

All indicators point to significantly higher quality in our offering of products and services. Despite a challenging environment, we achieved a 3.3% operating margin in 2007, exceeding the 3% milestone we had set. In the past two years, the entire company joined forces to lay the groundwork for future growth: we overhauled our product line-up, developed new technologies and expanded our geographical footprint on booming markets. We are now ready and able to take the offensive.

During these two years, we focused on meeting the three objectives of Renault Commitment 2009, but our ambitions naturally extend beyond 2009. Our aim is not to hit a temporary peak at this date, but to position Renault durably on the path of strong and profitable growth. We initiated a number of high-potential projects with our eye on the longer-term horizon.

Given that the long-term outlook for mature markets is at best flat, the future growth of the auto industry depends largely on positioning in high-growth markets. [...]

Fuji Heavy Industries, Ltd.

[...] In April 2008, FHI strengthened its alliance with Toyota Group, which involves the joint development of a compact FR sporty car and the procurement of compact cars and minicars on an OEM basis. The Alliance has thus entered a new age of development and is clearly headed in the right direction. In my opinion, these achievements are simply part of the process of establishing the Subaru brand, provide no guarantee that FHI will record stable growth in the future. In our ongoing quest to deliver “a distinctive Subaru experience”, we recognize that the true value of Subaru will be determined by the success or failure of initiatives going forward.

Sumitomo Electric Industries Ltd.

[...] Amid a harsh operating environment following the bursting of the IT bubble, the Sumitomo Electric Group in April 2003 launched a new medium-term management plan under the name “VISION 2007,” which calls for a change in strategies with an emphasis on the achievement of sustainable growth. Under VISION 2007, we set our targets at ¥2,000 billion in net sales, ¥120 billion in operating income, and an ROA of 8%, all on a consolidated basis. This plan includes the two core policies of raising our global presence [...] and strengthening our leading technology

[...] In line with these policies, each business segment has formulated growth strategies and worked to maximize group synergies. As a result, in the previous term, ended March 2007, we reached our numerical targets one year ahead of schedule. These targets were then exceeded by a wide margin in the reporting period.
[...]

Tata Motors, Ltd.

[...] During the year, the Company expressed its interest in participating in the Ford Motor Company's intended sale of Jaguar and Land Rover on a going concern basis. Both brands are highly regarded and have a long heritage in their respective segments. Jaguar has been a prestigious maker of high performance passenger cars with a racing history, and Land Rover has always been the 'Gold Standard' for off road vehicles.

Several international private equity firms and one other Indian automotive manufacturer participated in the process. After a protracted negotiation through the year, Tata Motors was considered by Ford for focused discussion, with the full support of the unions and the work force. The two enterprises were formally transferred on June 2, 2008 at a signing ceremony at the Jaguar and Land Rover head quarters in West Midlands, when history was made and these two globally-renowned brands became Indian-owned.

In these brands, Tata Motors has acquired impressive engineering capabilities, substantial manufacturing facilities, (which reflect the major investments by both Ford and BMW in past years), and enormous goodwill amongst the dealer network and the Jaguar owners' community. There is a need to introduce a greater number of attractive products for both brands, and to re-kindle Jaguar's past image connected with its sports car heritage. Both brands have tremendous unfulfilled market potential and a significant global presence.

To fund the acquisition of Jaguar and Land Rover, Tata Motors is raising Rs.7200 crores on a rights basis and US\$500/600 million through an international offering of equity and/or cost effective quasi equity instruments. [...]

Valeo SA

[...] We have already divested several businesses that were not essential to our strategy, including the motors and actuators activity in 2006 and, more recently, the wiring harness activity sold to Leoni in late 2007. At the same time, we reinforced our Driving Assistance Domain with the acquisition of the Irish company Connaught Electronics Ltd., specialized in camera-based vision systems for low-speed maneuvering. We will continue to align our product portfolio with our three Domains. [...]

Visteon Corporation

[...] We are now in the final year of our three-year plan, which we launched in January 2006 to shape Visteon into a lean and productive company. This plan, vital as it is, marks just the beginning of our journey—one that will gather momentum and lead us to profitability by 2010. And while we continue to look ahead—positively—there is also much to report about where we have been. Over the past two years, we made very significant progress

executing the key pillars of our three-year plan—restructuring, improving base operations and growing the business.

Our plan is working, as evidenced by our balanced product portfolio, increasingly diverse customer base, continued strong new business wins and a virtually unmatched global manufacturing and engineering footprint. [...]

Technology and innovation

Innovation remains a strategic element in the automotive industry. As in the previous years, chairmen comments focussed on innovation regarding comfort and safety. Additionally most of the chairmen highlighted in 2007 the development of clean and efficient products.

Autoliv Inc.

[...] We will, for instance, take advantage of the fact that the fastest growing product in our market is side curtain airbags.

Autoliv introduced this patented technology in 1998 and we still command a global market share of approximately 40%. Over the next several years, sales of this product will be driven by new regulations issued in 2007 that, in effect, mandate the phase-in through August 2013 of side curtain airbags in all new light vehicles sold in the US. In other regions, sales will be driven by the fact that curtain airbags are twice as efficient in preventing head injuries in side crashes as frontal airbags are in eliminating severe injuries in frontal crashes.

We are also taking advantage of increasing demand for active seatbelts [...]. These belts can be tightened ahead of an imminent crash by use of an electrical motor. In addition, these seatbelts are reversible and the webbing can therefore be released again to normal comfort, should the driver manage to avoid the crash. [...]

[...] also offers new growth opportunities. This airbag addresses the problem in a frontal crash when front-seat passengers are sitting too close or are coming too close to the airbag in a sudden precrash braking. Our uncomplicated but reliable safety-vent solution is also seen as an alternative in most US vehicles to the expensive and complex weight sensors that turn the airbag off if there is a child or a child seat in the front-passenger seat. [...]

Daimler AG

[...] Mercedes-Benz Cars is very well positioned to excel this year as well—with the new GLK and CLC models, with six new model generations, and with further models optimized for increased fuel-efficiency. And the next milestones have already been set: at the Frankfurt Motor Show we presented 19 innovative models on our “Road to the Future”—19 automobiles that combine fascination with responsibility, all to be launched in the near future. [...]

Denso Corporation

[...] In addition to environmental concerns, the automotive industry is also focusing on safety issues. Along with our airbag sensing systems and pre-crash safety systems, we are stepping up the development of driver assistance systems to identify and avoid potential dangers before an accident occurs. This includes systems based on gaze detection technology so that drivers don't miss seeing pedestrians, traffic signals and traffic signs, as well as vehicle-infrastructure cooperative systems to prevent collisions at intersections.

The ultimate objective that motivates our operations in the environmental and safety fields is to realize an automotive society with no environmental impact and no traffic accidents. [...]

General Motors Corporation

[...] The second major trend affecting the global auto industry today is the rapid development of advanced propulsion technology, based on the very important fact that oil alone will not be able to supply the world's automotive energy requirements in the years to come.

In 2007, we made tremendous progress in pursuit of GM's advanced propulsion technology strategy, which, in short, is to offer a broad range of clean and efficient vehicles, powered by different sources of energy, to respond optimally to local consumer needs around the world [...]. Some evidence of this progress:

- GM will offer 17 models in the US market this year that get 30 miles-per-gallon highway—more than any other automaker.
- By the end of 2008, GM will offer 25 ethanol-enabled FlexFuel cars and trucks around the world, and produce more than one million new FlexFuel vehicles, in addition to the four million we've already produced.
- Between 2007 and 2010, we'll introduce 16 new hybrid vehicles—an average of one every three months. This includes

the new Chevrolet Tahoe and GMC Yukon two-mode hybrids, which get 50 percent better city fuel economy than their gasoline counterparts, which already get the best fuel economy in their class.

- We've begun delivering 100 Chevy Equinox Fuel Cell SUVs to customers in the US and Europe, to create the world's largest hydrogen fuel-cell test fleet.

And then there's our revolutionary new E-Flex propulsion system, which drives the Chevy Volt, Opel/Saturn Flextreme, and Cadillac Provoq concept vehicles. It's fair to say that no concept car in my GM career has created more excitement than the Chevy Volt. We're running all-out to get this technology to market as soon as possible. [...]

GKN Plc

[...] Our continued success can only be assured through the sustained development of innovative technologies and products. This year sees the introduction into the marketplace of GKN's highly acclaimed countertrack™ constant velocity joints which are fitted to a number of new vehicles being launched during 2008. These joints have set new standards for size, weight and efficiency, supporting vehicle manufacturers' drive for lower emissions.

GKN's technologies for the 21st century are being applied across the vehicle spectrum. The new Tata Nano, launched in India this year, is the world's lowest cost car with a price tag equivalent to \$2,500. Our new driveshaft for low cost vehicles is a key component within the new car.

Meanwhile, BMW are launching the X6, a new premium vehicle which utilises GKN's electronic torque vectoring technology — the most advanced traction control system in the world. [...]

The Goodyear Tire & Rubber Company

[...] Like pieces of a puzzle, our commitment to Innovation and Speed was integrated successfully with our strategic growth platforms. We are quite simply passionate about innovation and speed of execution. Our associates are innovating across every facet of our business, not just the new product stream. They do so at a pace today that was previously unknown in our company and in our industry. [...].

Our ability to generate top-line growth is underpinned by our Product Leadership Strategy. We focus our new product engine on increasing our mix of high-value-added tires. The introduction of impactful new products to our portfolio raised the bar again in 2007. The Goodyear Eagle F1 Asymmetric and the Goodyear Eagle F1 All-Season tires are two innovative new products that have been very well received in the marketplace and have won prestigious awards. [...]

Johnson Controls, Inc.

[...] We build automotive interior systems that improve safety, are lighter to help improve vehicle fuel economy and are easier to recycle when they wear out. Automotive batteries are the most-recycled consumer product, and we're positioned to become the leading supplier of battery systems for the next generation of hybrid vehicles. [...]

By collaborating across the businesses on common technologies and competencies, we're leveraging our best-in-class methods, processes and programming. These efforts are enabling us to create higher degrees of smart environments. For example, employees researched how our Metasys® system user interface could be made significantly easier to use by applying techniques of our automotive interiors business, where driver information systems need to be simple and intuitive. [...]

Nissan Motor Corporation, Ltd.

[...] Since no one knows which solution will prevail, we must invest massively in R&D in pursuit of every viable alternative.

Fortunately, Nissan is now ready to go the distance in this race. In 1999, when its finances were in perilous shape, Nissan could not afford sustained investment in technological innovation — the historic core of its brand identity.

Today, with a much healthier balance sheet, our R&D budget is more than double the level of 1999. The impact is much more than double, however, because over the same period we have significantly increased the efficiency of our R&D activities.

This allows us to intensively pursue a broad range of technologies under "Nissan Green Program 2010," our environmental blueprint. And thanks to our alliance with Renault we are able to focus our on specific promising technologies — such as advanced lithium-ion

batteries — and let our partner take the lead in other areas, such as clean diesels. [...]

Valeo SA

[...] Innovation is one of the pillars of our strategy, based on three Domains: Driving Assistance, Powertrain Efficiency and Comfort Enhancement—which respond to market demands for cleaner, safer and more comfortable vehicles. Our innovations in these Domains are winning over a growing number of automakers, as reflected by a record order intake, at 1.3 times sales. Today, innovations account for a third of these orders, compared to just over 20% in 2006. [...]

Valeo's Park4U™ automatic park assist system, for example, now equips the Volkswagen Touran, Cross Touran and Tiguan. It received a PACE Award in 2008, which is the fourth consecutive award for the Group. We have firm orders to equip 16 vehicles with this system by 2010. Another Driving Assistance innovation is the Blind Spot Detection system, which equips several General Motors models and the Jaguar XF. We have 27 orders for this system. A top priority for Valeo is reducing fuel consumption and CO2 emissions, and our micro-hybrid StARS system is recognized as a key solution in this field. With the first Citroën vehicles equipped since 2004, StARS was adopted in 2007 on the smart fortwo mhd, for which it provides fuel savings of 19%. [...]

By passing stricter laws on safety or CO2 emissions, for example, legislators can push manufacturers to adopt new technologies. Valeo is in a good position to meet this demand, with our many Driving Assistance systems that improve safety and visibility, and our Powertrain Efficiency systems that offer fuel savings and reduced CO2 emissions. [...]

Cost Reduction

Cost reduction is considered to be a key success factor for reinforcing competitiveness. Cost reduction programmes include different actions such as moving of production capacity to low-cost countries, saving via lower structure costs or negotiating new healthcare plans.

ArvinMeritor Inc.

[...] Our Performance Plus initiatives generated or enhanced the following business advances: [...]

Selling, General and Administrative Instituted across-the-board actions to reduce discretionary spending and corporate overhead costs, including a recently announced agreement with EDS to manage ArvinMeritor's US and Canadian Information Systems infrastructure services.

Direct Material Optimization Generated and began implementation of a series of activities including design optimization, leading cost competitive sourcing, freight savings, and clean sheet assessments and negotiations, which combined will account for approximately two-thirds of the total savings from

Health Care Decreased health care costs by transitioning to more consumer-driven healthcare plans with a greater sharing of cost between the company and our employees.

Restructuring Began restructuring actions that will result in the closure of 13 facilities—six of which have been announced. Combined, these actions will provide greater flexibility, further optimize assets and improve our global manufacturing footprint so that we can be more responsive to changing market demands and customer requirements. [...]

Dana Holding Corporation

[...] During the 23-month reorganization, Dana and its stakeholders took steps to achieve approximately \$460 million in annual cost savings and revenue improvements. These savings result mainly from improvements in our manufacturing footprint, including consolidation of operations; renegotiation of customer contracts; lower labor and benefit costs; creation of Voluntary Employee Benefit Association (VEBA) trusts to assume ongoing obligations for retiree health and welfare costs; and further reductions in administrative expenses.

These improvements were made possible by the persistence and sacrifices of our people, as well as the longstanding, positive relationships with our many valued customers. Another key to our successful emergence was the innovative partnerships we forged with our labor unions, which were both creative and supportive during this process. [...]

General Motors Corporation

[...] On the cost-side of our turnaround plan, we realized the full benefit of our massive cost-reduction efforts in 2005 and 2006, with GM North America now running at an annual structural-cost base that is \$9 billion less than in 2005. We also continued to make progress in our long-term effort to improve quality. As one example, in the latest J.D. Power vehicle dependability survey, Buick finished tied for first place among all manufacturers, and Cadillac came in third. We've also witnessed, since 2005, an 89 percent reduction in vehicle recall campaigns involving safety and non-compliance.

And, very importantly, we also negotiated a new labor agreement with our primary union, the United

Auto Workers, in 2007. In addition to effectively addressing our healthcare cost burden, as discussed below, this agreement will enable us to significantly improve our competitive position in the US [...]

We've also made tremendous progress on what has been probably our single-most challenging issue in recent years: GM's healthcare and legacy cost burden. [...]

The result of these and other actions in this area: we expect our cash spending on US pensions and retiree healthcare to decline from the annual average of \$7 billion over the last 15 years, to about \$1 billion per year starting in 2010. That savings of approximately \$6 billion a year offers us a tremendous opportunity to improve GM's earnings and balance sheet, and to invest in new products and advanced propulsion technology. [...]

Going forward, we have plans to further reduce our structural costs in North America by about \$5 billion by 2011, beyond the \$9 billion we have realized so far since 2005. Based on this, we are now targeting to reduce our global automotive structural costs from 34 percent of revenue in 2005 to 25 percent of revenue by 2010—and then to 23 percent of revenue by 2012, a clear benchmark among major global auto manufacturers. [...]

The Goodyear Tire & Rubber Company

[...] We made significant progress against our 4 Point Cost Savings Plan with the initiatives we implemented during 2007.

- We signed a milestone contract with the United Steelworkers, including the proposed VEBA trust, which will result in a step-

change improvement in the cost structure of our North American Tire business.

- We ceased tire production in two North American plants, Tyler, Texas, and Valleyfield, Quebec, which reduced high-cost capacity by approximately 16 million units and will result in annualized cost savings of approximately \$90 million.
- We announced changes to the retirement benefits for our salaried workforce, resulting in annual savings of \$80 million to \$90 million in our legacy costs.

These actions, along with many others, have contributed to our progress against the cost savings goal we have shared with you. Through 2007, two years into our plan, we have achieved gross cost savings of more than \$1 billion toward our target of \$1.8 billion to \$2.0 billion by the end of 2009. We are clearly on track to achieve our goal. Our associates continue to find new and innovative ways to reduce our cost structure and have fully embraced the idea of continuous improvement. [...]

Hyundai Motor Company

[...] The collective wage agreement reached between labor and management was a milestone for Hyundai Motor Company and indeed for any Korean company. The agreement ensures our competitiveness in the global market for years to come. [...]

Peugeot SA

[...] CAP 2010 has begun delivering results fast: a significant reduction in fixed costs, lower warranty expenses and an accelerated deployment of the PSA Peugeot Citroën production system. There is a revolution happening in our plants: it's called Convergence. We aim to achieve zero defects and lean manufacturing, i.e. producing just what is required, without any waste, enabling cost reductions and a faster return on assets. This now involves the engineering teams, too. [...]

Valeo SA

[...] We have continued to cut costs and improve productivity, and have done a great deal in the past few years to rationalize and rebalance our industrial footprint. We now have 125 production plants in 28 countries worldwide, and nearly half of our plants are located in competitive-cost countries. Our sourcing in these countries has also continued to rise, reaching 37% of total purchases in 2007. [...]

Visteon Corporation

[...] In the area of restructuring we have hit all of our marks along the way. We delivered on each of the 11 restructuring targets we set for 2006 and completed seven that were identified for 2007.

We continue to make progress on improving base operations, reducing administrative expenses and establishing a more competitive cost structure, while improving product quality to our customers by 79 percent over the last two years. Despite customer vehicle production declines and unstable market conditions, we improved our liquidity and cash position. [...]

People

Human resources are highlighted by most chairmen: involvement and mobilisation of employees remains a critical element for success. Other topics described focus on the importance of innovated proposals, qualitative trainings and regular discussions.

Faurecia SA

[...] Playing to strengths and promoting the quest for excellence requires both a joint effort and values shared by everyone at Faurecia.

Three core values form the backbone of all Faurecia operations, both inside and outside the Group.

- **Commitment.** This represents the determination of every Faurecia employee to better themselves and improve results, day in and day out.
- **Team spirit.** Whether as part of an autonomous production group (GAP), autonomous production unit (UAP), manufacturing site, engineering or R&D center, division or Product Group, every Faurecia employee is part of a team and should contribute to (in the same way that they benefit from) the team as a whole. This team spirit should permeate and shine through every aspect of Faurecia's international network.
- **Transparency.** Relations with all partners should be guided by a sense of trust and business ethics. It is important that Faurecia act responsibly and ethically and project an image in keeping with these values. The trust of its partners and a positive image are two key factors in ensuring sustainable growth. [...]

Fiat SpA

[...] We believe that success is judged by how it is achieved. Our actions recognize the central role played by individuals, the importance of capitalizing on everyone's abilities and skills, and guaranteeing an adequate and stimulating work environment.

We are aware that the performance of any organization depends on the people who work every day with commitment, determination, and passion to transform it into a group that they can be proud of, and we sincerely thank all the men and women who work for Fiat worldwide. The results presented on these pages are attributable to their intelligence, dedication, and the solid values that they embody. These people and their abilities are the best guarantee for our Company's future. [...]

GKN Plc

[...] Within GKN we expect much from our people. Our leaders are tasked with growing the business on a global basis, focusing on delivering value to our customers and managing teams often spread across continents. They work in a business environment which is highly competitive and typified by complex supply chains and constantly developing technologies.

At plant level, supervisors and operators are at the front line of our implementation of a Lean Enterprise culture where continuous improvement and innovation is becoming routine.

GKN people, however, know that they can count on high levels of support both in helping the Group achieve its strategic objectives and in developing their own abilities and aspirations.

A key feature which has emerged during recent years is what we call The GKN Way. At its heart is a common language and a common set of values, metrics, management processes and a core principle that development opportunities will be available for all GKN employees. In 2007, as part of an intensive programme of employee development, we completed a training programme for 1,000 leaders in the principles and practices of Lean Enterprise as part of our ongoing training in continuous improvement techniques.

GKN people are no longer separated by geographic, business or market boundaries — increasingly they have come to feel and to act as one team. [...]

Hyundai Motor Company

[...] We listened to what our employees had to say and answered with a strong collective wage agreement. We improved our management practices on a global scale and raised our standing among the world's leading automakers. [...]

Magna International

[...] Going forward, our success will depend in large part on our ability to develop new, highly advanced technologies that enhance the vehicles being produced by our customers. To achieve this goal, we are further involving our employees in a new program designed to bring forward innovative new ideas, with the objective of developing commercially successful new products. We want to win the hearts and minds of employees so that they will not only work hard but also think about new and innovative ways to make a better product for a better price. We will also open a new Centre of Innovation in North America that will identify, develop and train Magna's next generation of managers while also incubating new products and technologies that will eventually be spun out into new Magna manufacturing divisions. [...]

Toyota Motor Corporation

[...] We are establishing Global Production Centers (GPCs) worldwide to develop global human resources.

Currently, the Toyota Group includes 53 production sites in 27 countries and regions, with sales operations in over 170 countries and regions. With such geographic diversity, we need to advance human resources development globally. We established a GPC at our Motomachi plant to pass Toyota's unique culture and values on to all employees and enable them to understand the Toyota Way. The GPC developed intensive technical training systems that enable personnel to gain an understanding of advanced skills in a short period of time. In the five years since the GPC opened more than 10,000 employees from Japan and abroad have learned about our philosophy and technologies. They then pass on this knowledge to staff members at their respective places of employment worldwide. We have also established GPCs in the United States, the United Kingdom, and Thailand to further promote the development of human resources. We are also pursuing the Toyota Way for sales and marketing activities through the kaizen process of our Global Knowledge Center (GKC)—established in 2002—and by sharing best practices with distributors and dealers worldwide. In addition, to develop human resources in management, in 2001 we

established the Toyota Institute, where executive candidates and members of middle management are trained in putting the Toyota Way into practice. [...]

Volkswagen AG

[...] Our employees play a key role. We need a top team to shape the future. We need people who take pride in their work, who are proud of the vehicles they build. Our most valuable asset is the potential and creativity in the hearts and minds of our workforce. We're already making good progress here. But we need the best designers, engineers, technicians, commercial staff and marketing professionals. The Volkswagen Group must become the first choice for the top talents in our industry. That's why developing young potentials and our reputation as an attractive employer are right at the top of our agenda. [...]

Environmental Consideration

Many chairmen present their actions to address environmental issues. Most focus on the development of eco-friendly products and the solutions to reduce CO2 emissions.

BMW AG

[...] The growing need to reduce CO2 emissions in the transport sector, the challenges that this poses for the BMW Group as a premium car maker and the technical measures introduced by the Board of Management to reduce emissions and fuel consumption were reported on in detail by the Board of Management and discussed within the Supervisory Board. In the opinion of the Supervisory Board, the package of measures known as EfficientDynamics—designed to improve fuel economy whilst simultaneously emphasising agile and dynamic vehicle concepts—represents a clear competitive advantage for the BMW Group. [...]

Denso Coporation

[...] As countries around the world take steps to prevent global warming, such as reducing CO2 emissions and tightening regulations for vehicle fuel efficiency and exhaust emissions, we are accelerating development of technologies that will reduce the environmental impact. We are advancing product development to support gasoline, diesel, hybrid, biofuel and all power sources as each presents unique characteristics that meet specific regional and market demands. [...]

Ford Motor Company

[...] Environmental stewardship also is a key element of our revitalized product plans. In the near term, we are introducing EcoBoost, an affordable engine technology that will give our customers substantial fuel economy improvements at a competitive price. Longer term, we are investing in a variety of alternative fuel technologies to meet the energy and environmental challenges of the future. [...]

Compagnie Générale des Etablissements Michelin

[...] The year 2007 was also a landmark year as it witnessed heightened levels of public awareness of the environmental impact of road transportation and, above all, of the positive contribution the tire industry in general, and Michelin in particular, can have in this area.

In fact, the official recognition—in the form of laws and regulations adopted in the United States or under review in Europe, of the tires' contribution to overall vehicle environmental impact, is a major development. It clearly vindicates Michelin's efforts to promote "green" tires over the past two decades. Today, our world-class research and development operations driven by this foresight, clearly give us an edge over our competitors. In short, the environmental issues, the need for enhanced safety and comfort and for lower vehicle noise are all differentiation opportunities for Michelin. We will continue to leverage these opportunities to affirm more forcefully than ever our leading role as the most innovative tire manufacturer and the best equipped to rise to the serious challenges of tomorrow's road mobility. [...]

Peugeot SA

[...] One of the many strengths of this Group is that it has always shown the ability to find innovative solutions. As a pioneer for electric vehicles, particulate filters and, more recently, Stop & Start, the Group can be proud of its technological expertise. For the second year in a row, we sold over a million vehicles emitting less than 140 g of CO2/km. This asset gives us an increasingly decisive competitive edge. Changes in tax laws and other regulations in Europe, France and other countries would tend to reinforce our strategy. We are investing massively in new generation, low-emission Diesel or petrol engines, and gradually we shall be proposing the whole range of hybrid solutions, the diesel-hybrid solution being in our opinion the most efficient in terms of environmental performance. In addition, major efforts are going into

reducing vehicle mass, whilst integrating more and more “green” materials.

Renault SA

[...] The goal today is no longer to simply reduce the negative environmental impact of cars, but to eliminate it. We are currently developing vehicles capable of running on renewable energy without any impact at all on the environment. Within three years, we will be able to mass market electrical vehicles with zero carbon dioxide, zero particle and zero noise emissions without sacrificing performance, autonomy or driving pleasure. You will see the first concrete example on the Israeli market in 2011. [...]

Robert Bosch GmbH

[...] At the same time, we face major ecological challenges on a global scale. Few other issues command as much worldwide attention as climate change. Although there is still no international consensus on the measures to be taken, we see that more and more countries are debating and implementing strict environmental protection and conservation regulations. This means that the market for “green” technologies will grow rapidly—a market in which we already enjoy success with a wide array of products. Tomorrow just as today, we shall continue to develop innovative and beneficial solutions that improve the quality of life and help conserve resources, true to our slogan “Invented for life.” This is a further reason why we invest heavily in research and development. [...]

Toyota Motor Corporation

[...] We plan to expand production of hybrid vehicles and introduce ultra-efficient package vehicles.

Hybrid technology contributes to improved fuel efficiency, reduced CO2 output and cleaner exhaust emissions. The cumulative total of Toyota’s hybrid vehicle sales reached 1.5 million in June 2008. Moving forward, we aim to further expand our hybrid lineup and achieve annual sales of one million hybrid vehicles by the early 2010s. At the same time, we will continue to improve hybrid system performance and fuel efficiency, and strive to create lighter, more compact vehicles while cutting costs. Our goal is to equip all of our models with hybrid systems by about 2020. Meanwhile, the iQ ultra-efficient package vehicle is scheduled to be launched in Japan and Europe in 2008. Marking a radical change in vehicle packaging, this innovative, environmentally friendly vehicle is poised to create a new market. Measuring less than three meters in length yet offering

a spacious interior, the iQ was specifically designed to reduce CO2 emissions and realize outstanding fuel efficiency. To revitalize the market, we plan to continue to introduce similar demand-creating products that boast new value-added features. [...]

Volkswagen AG

[...] Environmental innovations have to be accepted by our customers, too. So the price is an important factor. That’s why we’re focusing closely on optimizing the Volkswagen TDI and TSI engines or Audi’s TFSI technology. Volkswagen’s BlueMotion series, Audi’s e-models, SEAT’s Ecomotive line or Škoda’s GreenLine vehicles already cut consumption quite significantly without sacrificing driving pleasure. We’re looking towards the future, too: we’re making massive investment in second-generation biofuels. And we’re working on series maturity for alternative drivetrain technologies such as hybrid engines, fuel cells or plug-in electric systems which are recharged by connecting a plug to a regenerative electric power source. [...]

Opportunities in China, Asia-Pacific, Russia and Central Europe

China, Asia-Pacific and Central Europe continue to constitute key growth areas for the automotive industry. To pursue their international expansion in accordance with the goal of competitiveness and to find additional outlets, most of chairmen identify other attractive countries as Russia. Chairmen highlight that partnering generally facilitates the access to these markets.

Dana Holding Corporation

[...] We want to take greater advantage of our broad operations and relationships moving forward. In particular, we plan to grow our presence in China, India, Eastern Europe, and other expanding markets. At the same time, we will continue to pursue new opportunities with the Detroit three—both in the US and abroad. [...]

Fiat SpA

[...] During the year, Fiat continued to pursue its strategy to reinforce its industrial and commercial position through targeted alliances, among other initiatives.

In China, Fiat Group Automobiles signed a memorandum of understanding with Chery Automobiles, a leading carmaker and top exporter, to set up a 50-50 joint venture that will start operations in 2009. To gain more flexibility and concentrate on restructuring its

business in China, it also decided to withdraw from the joint venture with NAC.

Iveco signed a letter of intent with Tata Motors to assess the possibility of collaborating in various markets in the commercial vehicles sector, and finalized an agreement with the Samotlor-NN industrial group to manufacture the Daily in Russia. [...]

Magneti Marelli signed agreements in Russia, China, and India to provide further impetus to its expansion projects. [...]

Hyundai Motor Company

[...] Our goal is to defend our strong presence in the Korean market while expanding in key foreign markets. In our soon-to-be completed plant in the Czech Republic, we will begin mass production of the i30 in 2009 to meet growing European demand. In India, we've opened the doors to a second mass production facility for subcompact and compact cars destined for worldwide export. This will be followed by a second production facility in China and a first in Russia, as part of our strategy for the important Brazil-Russia-India-China (BRIC) market. At home and in the US, the launch of the Hyundai Genesis will mark our entry into the premium sedan class. [...]

Magna International Inc.

[...] I see enormous opportunities for Magna in Russia, which is one of the world's major emerging markets. Russia's economy is growing rapidly, its income level is increasing, demand for new cars is strong and the automotive industry in Russia is developing. Magna has extensive manufacturing capabilities and advanced technical know-how and thereby we believe this is a great opportunity for us to participate in the growing Russian automotive market. The access to the Russian market and domestic OEMs offered to us through our strategic partner, Russian Machines, together with our own contacts at North American, Western European and Asian OEMs operating or opening facilities in Russia, should give Magna a significant advantage in realizing the opportunities in that market—with domestic OEMs and foreign-based ones as well. [...]

PSA Peugeot Citroen SA

[...] In our priority regions of China, South America and Russia, our sales are up 16.1%. This is sound growth. [...]

The Group is harvesting the fruits of past investments. In South America we showed a profit for the first time after several difficult years. We shall be striving all we can to capitalise on this booming region and to make all our operations at least as profitable as in the European markets. In China, the year fell short of our expectations with only 3% growth. We have reacted promptly, however, and taken several measures in agreement with our partner, Dongfeng Motor, including the improving and simplifying of our dealership networks. [...]

The plant will be on stream in 2010. The first foundation-stone will be laid in Kaluga, south-west of Moscow in June 2008. With a capacity to produce 150,000 vehicles, it will enable the Group to expand fast in this high-growth market where Peugeot and Citroën-branded cars have already proven to be really popular. [...]

Porsche Holding Gesellschaft M.B.H.

[...] Our Company is well prepared for the years to come. Porsche is growing very dynamically in new markets such as China and Russia, as well as the Middle East and South America—and we are consistently expanding our product range. [...]

Renault SA

[...] This explains our decision to build two new Alliance plants to expand our global capacities. The first is in Chennai, India and the second in the port of Tangiers in Morocco. We aim to make these two plants, which will each have an annual production capacity of 400,000 vehicles, the most competitive in our production system. Similarly, we were able to win selection from among a number of candidates as the exclusive partner of AvtoVAZ, Russia's largest manufacturer with production capacity currently estimated at over one million units a year. This partnership represents an exceptional opportunity for Renault. By reviving the Lada brand, the Alliance will become the clear leader in the Russian market, which will soon be the largest in Europe. [...]

[...] Alongside “zero emission” mobility, we are developing mobility for all. This is the aim of the \$2,500 vehicle we want to develop together with Nissan and the Indian manufacturer Bajaj. Designed for emerging markets, this car is made primarily for people who have not yet had access to individual transportation. [...]

Robert Bosch GmbH

[...] In shaping our strategy for the Bosch Group, we factor in the realization that markets are becoming ever more global. Today's emerging markets in Asia, eastern Europe, and South America are acquiring economic power on a scale that will bring about a global structural shift. As a company with a longstanding international focus, we welcome this as a great opportunity. Accordingly, we shall continue to expand our worldwide network of sales, production, and development facilities. The growth that this brings will also benefit our existing locations. [...]

Fuji Heavy Industries, Ltd.

[...]Unit sales of Subaru vehicles have grown steadily in the United States and Europe, as well as in China, Russia, and other overseas regions, highlighting the solid progress of our strategy to "increase sales globally", a key theme of our new medium-term management plan.[...]

Valeo SA

[...] After several years of investment in China and Eastern Europe, the Group continued to boost its presence in fast-growing markets in 2007, especially in India, where we set up two joint ventures. We are now preparing to enter the very promising Russian market. [...]

ZF Friedrichschafen AG

[...] The Board of Management and the Supervisory Board agree that innovations but also consistent best cost country sourcing and the opening up of new markets with subsequent production localization are important success factors. Therefore, the Supervisory Board welcomes the activities by the ZF Group to account for the boom in India and establish itself with its own production sites for the manufacturers of products for the local markets. Due to the increased need for qualified development engineers, the Supervisory Board agreed to acquiring a Czech engineering service provider, which is to extend development resources on the one hand and, on the other hand, is to also carry out qualified development, particularly in terms of mechatronics. [...]

Quality

Most of manufacturers' chairmen highlight improvements regarding quality. Quality is considered as a key aspect to restore their market shares.

Fiat SpA

[...] Our engineering and styling efforts to improve the quality and variety of our products have been appreciated and recognized. The 500 received the "Car of the Year 2008" award, the Linea won the "Autobest" accolade, the Grande Punto was elected "Carro do Año" in Brazil, the Scudo was voted "International Van of the Year 2008," the new Daily was designated the "Best Light Truck" in Great Britain and "Light Truck of the Year" in Spain, and the New Holland T7000 tractor was voted "Tractor of the Year." [...]

Ford Motor Company

[...] The highlights of our efforts in support of our plan in 2007 included: [...]

- Quality improvements that put us on par with the best in the business and earned us a number of strong endorsements from third parties such as Consumer Reports and J.D. Power and Associates.
- [...]
- Ford Mustang convertible was the first sports car and first convertible ever to earn five stars—the highest possible safety rating—in all categories from the National Highway Traffic and Safety Administration. Ford Taurus, Taurus X and Mercury Sable also earned five-star rating crash-test ratings from NHTSA, as well as Top Safety Pick ratings from the Insurance Institute for Highway Safety.
- Ford Europe captured Autocar magazine's annual "Car Company of the Year" award.
- Ford Mondeo joined three other models—Ford Focus, Galaxy and S-MAX—with a five-star performance on the Euro NCAP Top 10 list, giving Ford Europe the highest number of vehicles in the top 10 for adult occupant protection. [...]

General Motors Corporation

[...] We began 2007 by winning both the North American Car and Truck of the Year awards, with the Saturn Aura and Chevy Silverado, respectively. In 2008, we won the North American Car of the Year award for the second year in a row, this time with the all-new Chevy Malibu sedan.

In between, the Cadillac CTS was named Motor Trend's 2008 Car of the Year, the Buick Enclave luxury crossover was picked as Urban Wheel's Truck of the Year, and the Chevy Corvette, Chevy Malibu

and Cadillac CTS were picked as Automobile magazine "All Stars," and as three of Car and Driver's "10 Best Cars." [...]

We also continued to make progress in our long-term effort to improve quality. As one example, in the latest J.D. Power vehicle dependability survey, Buick finished tied for first place among all manufacturers, and Cadillac came in third. We've also witnessed, since 2005, an 89 percent reduction in vehicle recall campaigns involving safety and non-compliance.[...]

Hyundai Motor Company

[...] Consumers and critics from all corners of the globe recognized the continuous improvements in the quality of our vehicles. Auto Pacific named Grandeur, Santa Fe and Tucson first in their class in the Vehicle Satisfaction Awards, while Avante and Santa Fe were named Top Picks by Consumer Reports. In Spain, i30 earned Car of the Year honors and became the best-selling Asian import. [...]

PSA Peugeot Citroen SA

[...] We are on the fast track. In terms of quality and costs, I think we are at the very beginning of a virtuous circle, since, contrary to general belief, I am convinced that achieving better quality means lower costs. To illustrate this, take the results of the sharp improvement in product quality with the number of in-plant touch-ups reduced by two thirds in 2007, a figure we intend to halve by 2010. Warranty expenses fell 20% in 2007. Regarding new model launches, the Peugeot 308 has achieved the best results we have ever seen. And we have every confidence in the new Citroën C5. This is all really encouraging. [...]

Toyota Motor Corporation

[...] We are striving to improve quality by implementing the concept of "Built-in quality" in development, manufacturing and sales.

As a manufacturer, quality is the Toyota Group's lifeline and we are working with suppliers and dealers to improve. Our main priority is to improve quality from the perspective of our customers. Since 2005, through our Customer First activities, we have focused on the early detection and solution of problems to prevent them from appearing in products on the market. "Built-in quality" takes this even further. It assures that quality is built-in during each process, so that only the highest quality is passed on to the next process. In the event that a problem occurs during a particular process, the cause is investigated and design plans, facilities and management

conditions are reviewed. This ensures that our improvement cycle can also be implemented in upstream processes. This approach has been adopted not only in manufacturing, but also in development, sales and service, and management, leading to a marked decline in the number of initial quality claims in new models. In the future, we intend to strengthen our efforts overseas in this regard. [...]

Predictions

Chairmen expect a difficult worldwide automotive economic situation for 2008 due mainly to the slow down of the American economy and to the increase of the oil prices. To offset this trend, different solutions are pointed out such as restructuring processes, development of new vehicles, technological leadership, and expansion in emerging markets.

Autoliv Inc.

[...] However, light vehicle production is expected to decline by 5% both in North America and Western Europe. Since Autoliv generates more than 70% of its consolidated sales in North America and Western Europe, the impact on us will be significant and the weighted average increase in global light vehicles will be less in our larger markets than the expected global average of 2.5%. However, we expect to offset this negative effect by strong side curtain sales, market share gains in safety electronics and steering wheels, and by continued step-up in sales of active seatbelts and seatbelt pretensioners. We will also be helped during the latter part of the year by a number of important launches of new vehicle models. In addition, currency effects could have a favorable impact of 4% provided that the mid-February exchange rates prevail.

In conclusion, we expect sales in 2008 to grow by 7% with the organic sales portion growing at approximately 2% and the acquisition in India contributing 1%. Operating margin is expected to improve despite the drop in light vehicle production in our largest markets and to reach a level between 8.0-8.5% in line with our long term target of 8-9%. [...]

Fiat SpA

[...] Fiat is now ready to enter the next level that will transform it into a major global company. Its course has already been defined. The growth plan through 2010 has clear, specific targets. For 2008, these envision revenues exceeding 60 billion euros, trading profit of between 3.4 and 3.6 billion euros, net income of between 2.4

and 2.6 billion euros, and net cash on hand of at least 1.5 billion euros. The targets we have set are based on the conviction that the current turbulence in financial markets will have a limited impact on the real economy and, in the worst case, will be confined to the United States. [...]

Ford Motor Company

[...] In many ways 2008 will be like 2007—a year of transition. Our automotive operations will continue to improve, but will face the ongoing challenges of our highly competitive industry as well as a slowing US economy. To help us deliver on our commitments in this difficult external environment, we will be taking further cost reduction actions in North America. In addition, we will continue to accelerate the flow of new products and adjust production to the changing business environment. [...]

General Motors Corporation

[...] In 2008, we forecast continued solid growth in global vehicle sales, driven by the emerging markets of Asia, South America, and Central and Eastern Europe. In contrast, in the US, we anticipate continued headwinds in 2008, including abroad-based housing correction, higher gas prices and lower consumer confidence, leading to a relatively weak overall economic environment and auto industry sales. We are committed to continuing to take the actions to build our future, at the same time as we respond to the difficult US market conditions. [...]

Hyundai Motor Company

[...] The economy in 2008 is shaping up to be one of both uncertainty and opportunity. The domestic price of oil is topping US\$100 per barrel; the US housing market continues to decline; and major stock markets are wavering. The shaky economic climate in the US is being felt around the world. The auto industry is certainly being transformed, with US carmakers losing market share to emerging Chinese and Indian competitors. Amidst this uncertainty, Hyundai Motor Company is well positioned to challenge the top carmakers and compete on quality and brand recognition. [...]

Lear Corporation

[...] While the industry outlook in North America will be challenging this year, we are continuing to work to improve our overall cost structure and strengthen our international operations. As a result, our financial outlook for 2008 is solid, our financial position is strong and we are well positioned to capitalize on new opportunities

when industry conditions turn more positive and market sentiment improves. [...]

Mazda Motor Corporation

[...] The March 2009 fiscal year is shaping up to be a very difficult year for Mazda. In addition to unstable exchange rate trends, prices for raw materials are significantly higher than anticipated. On top of that, the main markets of Japan, North America and Europe are maturing, leading to intensified competition in each market. Accordingly, our March 2009 fiscal year forecasts reflect this severe situation. We are expecting a ¥47.1 billion decline in consolidated operating income, to ¥115.0 billion, our first decline since the March 2001 fiscal year.

Nevertheless, we absolutely must achieve this forecast to secure Mazda's future growth. Through resourcefulness and planning, we will raise business efficiency and ride out this difficult period. [...]

PSA Peugeot Citroen SA

[...] The economic environment is more difficult. We expect a flat or slightly decreasing European market, but no significant growth slowdown in our priority regions. In such a context, our worldwide sales growth forecast of 5% remains in line with our CAP 2010 target. And we are aiming at an operating margin of 3.5%.

Tata Motors, Ltd.

[...] The year ahead will be a year of major challenges. Higher fuel prices will negatively impact both commercial vehicles and passenger car sales.

There will be an enormous and unprecedented increase in material costs in steel, tyres, and the like, and there will be the impact of tighter money supply with higher interest rates. While dealing with these challenges in India, the Tata Motors' operations will also have to absorb the cost of the JLR acquisition, and deal with its integration.

[...] Apart from its own growth domestically in both the commercial vehicle and passenger car areas, for which it has ambitious plans, the high volumes of the NANO range will dramatically change Tata Motors' market position, reach and visibility. Internationally the Jaguar and Land Rover brands will add global scale, profits and visibility to Tata Motors, enabling it to take its place in the global auto industry as a credible international automobile company.

Toyota Industries Corporation

[...] Turning our focus to the fiscal year ending March 31, 2009, the likelihood of an unprecedentedly unstable business environment precludes optimism. This is evidenced by a continued surge in raw materials prices as a result of demand outstripping supply worldwide, with prices rising 70% for iron ore and tripling for coal in particular. The price for steel, a raw material required in substantial amounts to manufacture lift trucks, is projected to increase significantly versus the beginning of 2008. As for crude oil, even without speculative funds and surplus funds that are flowing in the oil market as a main factor, we are still faced with historically high prices due to unabated demand from emerging nations. In addition, the situation also remains uncertain in view of exchange rate fluctuations and volatile stock markets. Moreover, the subprime loan debacle is casting a longer shadow over the US economy than expected, whereby a delayed economic recovery may in turn negatively impact the global economy. Under such challenging conditions, we realize that such changes in the external environment are not a temporary situation and will strive to enhance overall quality as the Toyota Industries Group through outside-the-box thinking and fresh perspectives. [...]

TRW Automotive Holdings Corp.

[...] We expect 2008 will be challenging. The Company will need to once again overcome the negative impact of rising commodity prices and another year of weak vehicle production in North America. In response to this environment, the Company has initiated an aggressive business plan. We believe the demand for safety products, the stability provided by our diverse customer and geographic base and our ability to effectively reduce costs across our businesses will help counter the challenges as we see them today. [...]



Appendix A—OEM Segment Information

In \$ millions, except for units sold in thousands

OEMs	GAAP	Total Assets	Revenue	Units Sold	Net Income/ (Loss)	Cap Ex
BMW Group	IFRS					
Automobiles		41,977	74,254	1,500,678		5,661
Motorcycles		986	1,694	102,467		62
Financial services		86,913	19,233			152
Reconciliations		1,136	(17,892)			12
Total BMW Group		131,012	77,289	1,603,145	4,324	5,887
Daimler AG	IFRS					
Mercedes-Benz Cars		44,266	72,339	1,293,184	3,602	3,698
Daimler Trucks		22,750	39,275	467,667		1,531
Vans, Buses, Other		22,910	19,486	328,122		367
Daimler Financial Services		91,273	12,019		1,896	73
Elimination/Reconciliation		17,673	(5,976)			2,059
Total Daimler AG		198,872	137,142	2,088,973	5,498	7,728
FIAT SpA	IFRS					
Fiat Group Automobiles			36,993	2,233,800		2,573
Maserati			958	7,496		134
Ferrari			2,301	6,465		339
Agricultural and Construction Equipment (CNH)			16,340	NC		894
Trucks and Commercial Vehicles (Iveco)			15,447	211,700		1,007
FPT Powertrain Technologies			9,761	n/a		504
Components (Magneti Marelli)			6,899	n/a		440
Metallurgical Products (Teksid)			1,080	n/a		44
Production Systems (Comau)			1,503	n/a		46
Publishing and Communications (Itedi)			539	n/a		7
Holding companies, Other companies and Eliminations			(11,068)	n/a		39
Total FIAT SpA		88,526	80,753	2,459,461	2,834	6,027

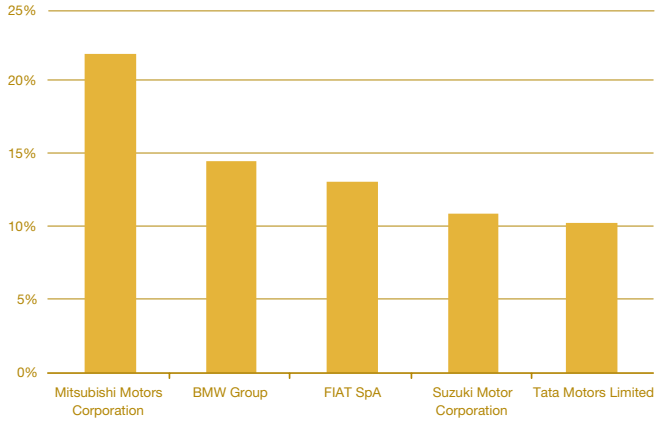
OEMs	GAAP	Total Assets	Revenue	Units Sold	Net Income/ (Loss)	Cap Ex
Ford Motor Company US						
Automotive			154,379			
Financial			18,076			
Total Ford Motor Company		279,264	172,455	6,553,000	(2,723)	6,022
General Motors US						
Automotive		131,894	178,199			
Financial		16,989	2,923			
Total General Motors		148,883	181,122	9,400,000	(38,732)	7,542
Honda Motor Company JPY						
Motorcycle Business		12,464	13,760	9,320,000		765
Automobile Business		56,180	83,772	3,925,000		4,811
Financial Services Business		59,360	4,847			7,415
Power Product and Other Businesses		3,322	3,909			192
Réconciling items		(4,569)	(327)			
Total Honda Motor Company		126,757	105,961	13,245,000	5,297	13,183
Hyundai Motor Company Local						
Non-financial industry		66,054	71,190		1,650	
Financial industry		25,729	3,876		622	
Elimination interco		(2,412)	(880)		(566)	
Total Hyundai Motor Company		89,371	74,186	1,700,297	1,706	
Mazda Motor Corporation JPY						
Total Mazda Motor Corporation		19,856	34,758	1,363,000	918	755
Mitsubishi Motors Corporation JPY						
Consolidated Financial results for FY 2007 (page n°)		15,376	23,460			607
Financial Services Business		638	217			188
Elimination interco		157				
Total Mitsubishi Motors Corporation		16,171	23,678	1,431,216	306	795

OEMs	GAAP	Total Assets	Revenue	Units Sold	Net Income/ (Loss)	Cap Ex
Nissan Motor Company						
	JPY					
Total Nissan Motor Company		119,964	95,556	3,770,000	4,257	13,279
Peugeot SA						
	IFRS					
Automobile			65,476		767	
Finance			2,758		(319)	
Transportation and Logistics			4,904		156	
Automotive equipment			17,469		581	
Other			684		(8)	
Eliminations			(7,662)		(37)	
Total Peugeot SA		67,996	83,629	3,428,400	1,140	3,780
Porsche AG						
	IFRS					
Automotive		15,143	9,190			760
Other operating incomes/ expenses (other than Stock option)		4,819	531			826
Financial		12,019	(207)			3
Total Porsche AG		31,982	9,721	97,515	5,597	1,590
Renault SA						
	IFRS					
Automotive		70,924	52,985		3,662	
Financial		37,752	3,215		446	
Eliminations		(8,282)	(70)		(335)	
Total Renault SA		100,394	56,130	2,484,472	3,772	6,407
Subaru - Fuji Heavy Industries, Ltd.						
	JP					
Automobiles		10,460	12,571			1,009
Industrial products		457	359			8
Aerospace		1,732	880			28
Other		652	155			6
Elimination and corporate		(276)	(85)			
Total Subaru - Fuji Heavy Industries, Ltd.		13,026	13,881	597,000	163	1,049

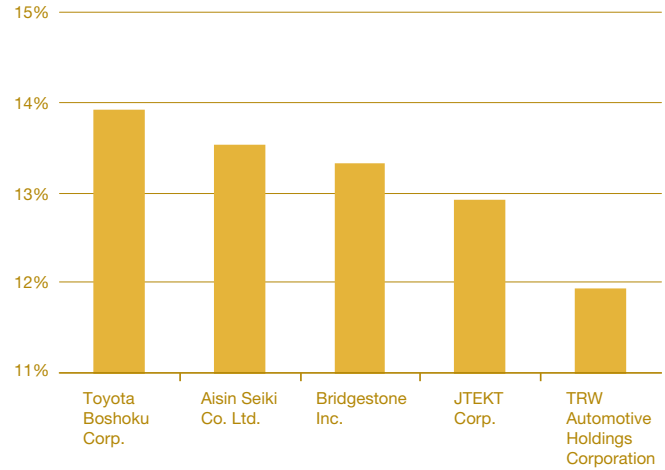
OEMs	GAAP	Total Assets	Revenue	Units Sold	Net Income/ (Loss)	Cap Ex
Suzuki Motor Corporation						
	JPY					
Motorscycles and all terrain Vehicles		3,534	5,226	3,344,000		239
Automobile Business		16,034	25,018	2,405,000		1,612
Financial Services Business						18
Other		559	676			1,869
Elimination interco		(4,080)				
Total Suzuki Motor Corporation		24,206	30,919		708	2,150
Tata Motors Limited						
	Local					
Total Tata Motors Limited		5,446	8,896	2,309,324	882	1,174
Toyota Motor Corporation						
	JPY					
Automotive		135,672	241,315			15,436
Financial		139,159	14,955			11,477
All other		12,711	13,444			563
Intersegment reconciliation		36,424	(7,320)			72
Total Toyota Motor Corporation		323,968	262,394	8,913,000	17,146	27,547
Volkswagen Group						
	IFRS					
Automotive			141,460			6,290
Financial			13,997			115
Eliminations			(5,210)			(6)
Total Volkswagen Group		213,980	150,247	6,191,618	5,684	6,399

Appendix B—OEM and Supplier Financial Indicators

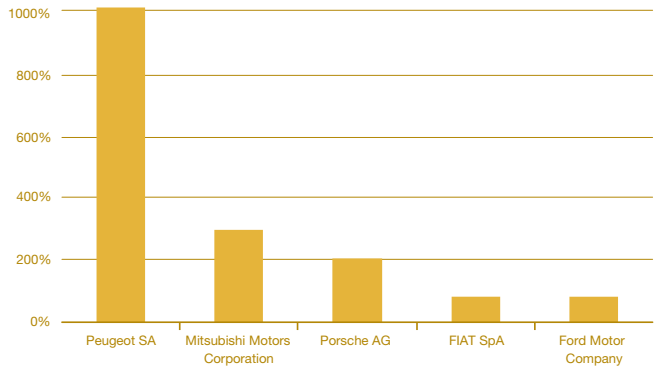
Top 5 vehicle manufacturers revenue increase in %



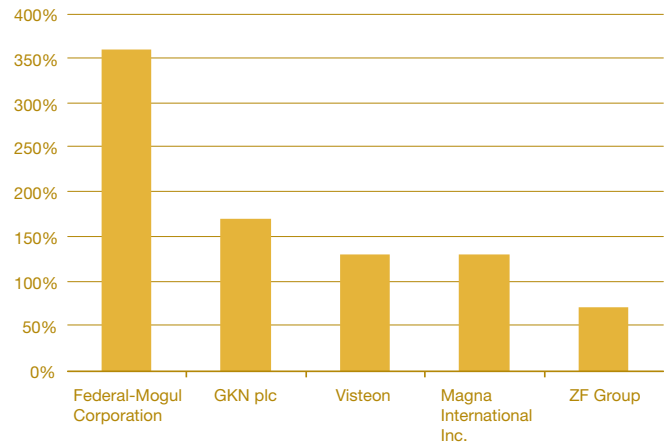
Top 5 vehicle suppliers revenue increase in %



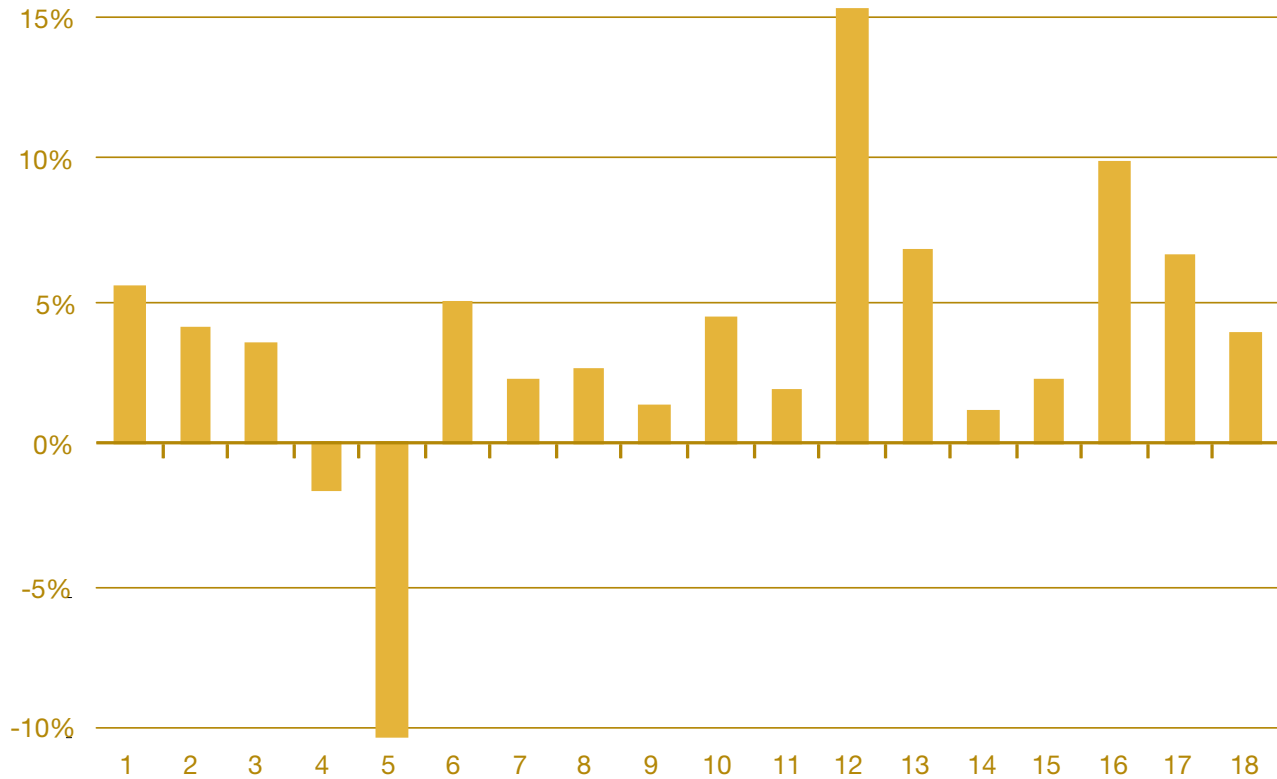
Top 5 vehicle manufacturers net income increase in %



Top 5 vehicle suppliers net income increase in %

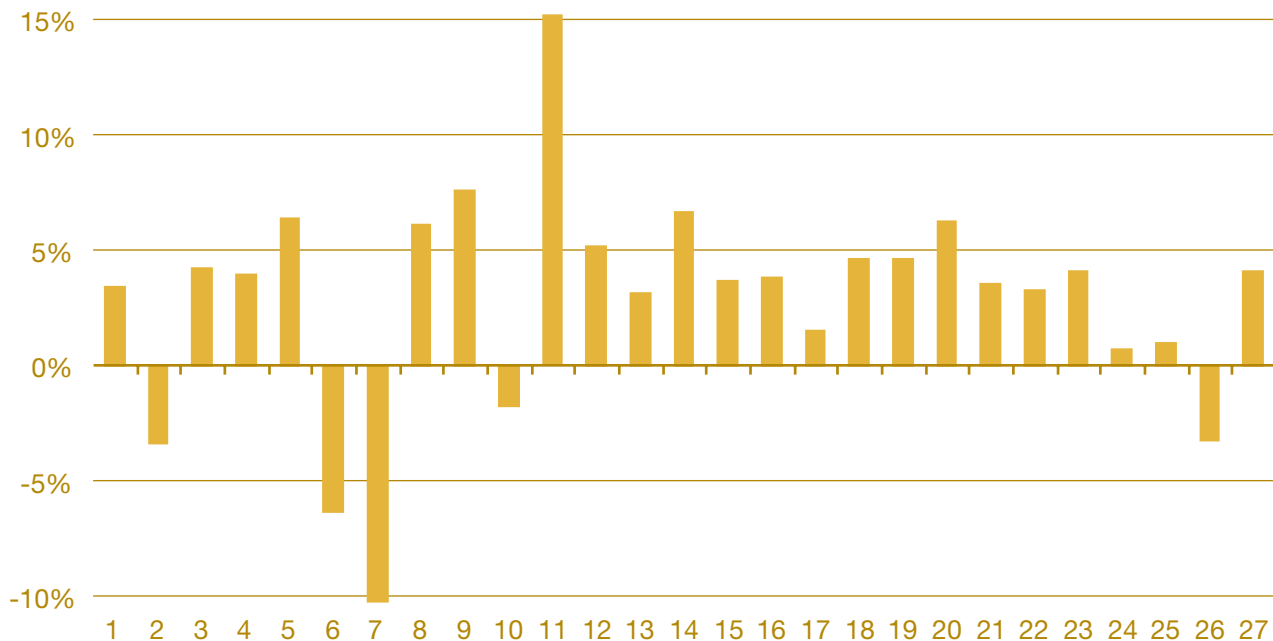


Vehicle manufacturers net income in %



- | | | | | | |
|---|---------------------|----|-------------------------------|----|--------------------------------|
| 1 | BMW Group | 7 | Hyundai Motor Company | 13 | Renault SA |
| 2 | Daimler AG | 8 | Mazda Motor Corporation | 14 | Subaru - Fuji Heavy Industries |
| 3 | FIAT SpA | 9 | Mitsubishi Motors Corporation | 15 | Suzuki Motor Corporation |
| 4 | Ford Motor Company | 10 | Nissan Motor Company | 16 | Tata Motors Limited |
| 5 | General Motors | 11 | Peugeot SA | 17 | Toyota Motor Corporation |
| 6 | Honda Motor Company | 12 | Porsche AG | 18 | Volkswagen Group |

Vehicle suppliers net income in %* **



- 1 Aisin Seiki Co. Ltd.
- 2 Arvin Meritor Inc.
- 3 Autoliv
- 4 Bridgestone Inc.
- 5 Continental AG
- 6 Dana Corporation
- 7 Delphi Corporation
- 8 Denso Corporation
- 9 Eaton Corporation

- 10 Faurecia
- 11 Federal-Mogul Corporation
- 12 GKN plc
- 13 Goodyear
- 14 Hyundai Mobis co. Ltd
- 15 Johnson Controls Inc
- 16 JTEKT Corp.
- 17 Lear Corporation
- 18 Magna International Inc.

- 19 Michelin Group
- 20 Robert Bosch GmbH
- 21 Sumitomo Electric Industries Ltd.
- 22 Toyota Boshoku Corp.
- 23 Toyota Industries Corporation
- 24 TRW Automotive Holdings Corporation
- 25 Valeo SA
- 26 Visteon
- 27 ZF Group

*Revenues are based on a year-end conversion factor.
 **Represents consolidated revenues of all business units.

PwC automotive institute

Capabilities summary: 2008 Q3

AUTOFACTS®

Synchronous forecasting
integrated data & analysis
online client access

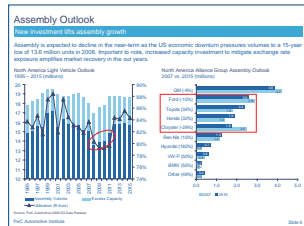


Providing clients with convenient, web-based access to class-leading detailed planning data and analysis on the global light vehicle sector:

- Assembly forecasting
- Capacity forecasting
- Powertrain forecasting

Analyst briefings

issues-based POV analysis
regional market analysis
strategic OEM profiles



Providing a differentiated point of view on the key market issues facing companies operating in the global automotive sector:

- Deep regional insights
- Global OEM analysis
- Powertrain technology trends

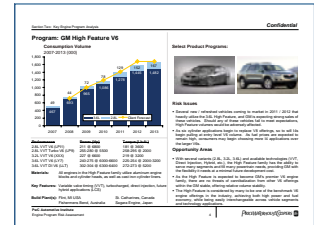
For more information visit these sites:
www.pwcautomotiveinstitute.com/signup.asp
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For more information on these services contact:
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Proprietary advisory
risk management
decision support
business planning

Providing knowledge-driven benefits to automotive executives through proprietary projects addressing client-specific needs:

- M&A valuation support
- Portfolio risk assessment
- Commercial due diligence



Analyst notes

- Bi-weekly distribution
- Engaging point of view
- Easily digestible format
- Free registration



Key client benefits

- An independent, unbiased global perspective
- A differentiating & refined industry PoV
- Proactive & informed dialogue with executives
- Access to sector specialists with deep knowledge

- Fully integrated with PwC Global Auto Practice
- “C-Suite” advisement & decision support
- Risk management assessment & strategy
- The embodiment of *connectedthinking

Contacts

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