

Brazilian Automotive Market Analysis

July 09, 2012 – Tokyo

July 12, 2012 – Nagoya

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1. Global Macroeconomic Scenario
2. Global Automotive Scenario
3. LATAM Macroeconomic Scenario
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5. Brazil Overview
6. Brazil, Argentina and Mexico Projections
7. Brazilian New Automotive Policy
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10. PwC Brazil



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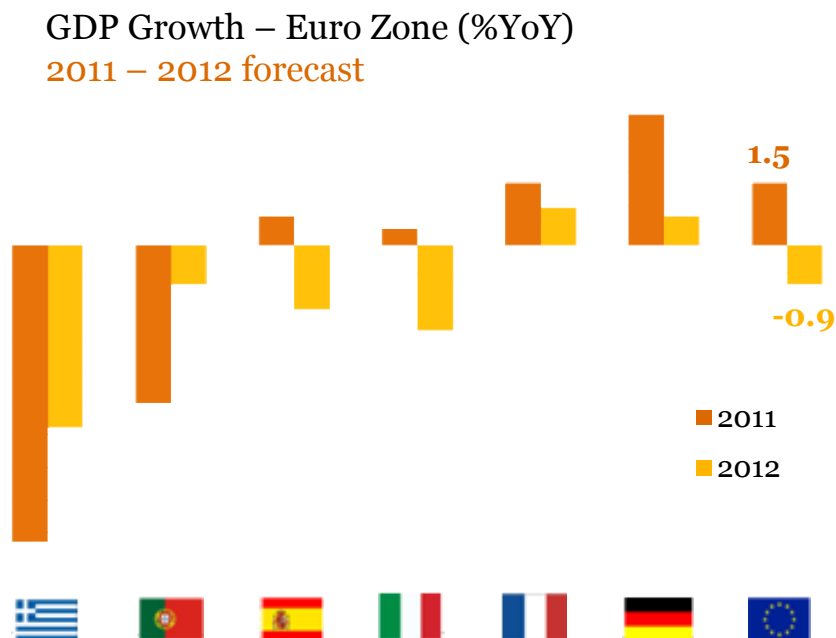
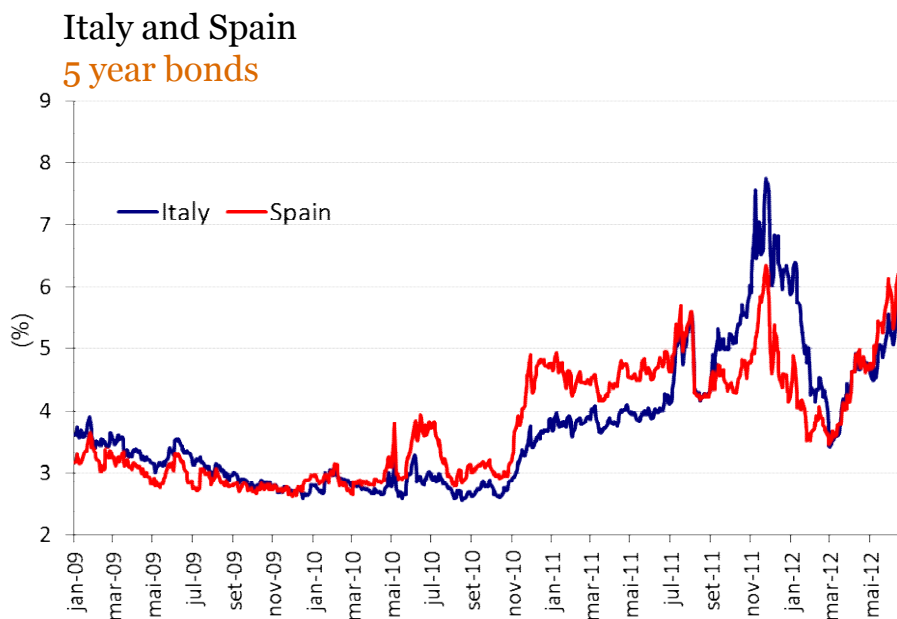
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Europe – International Scenario

Heterogeneous performance

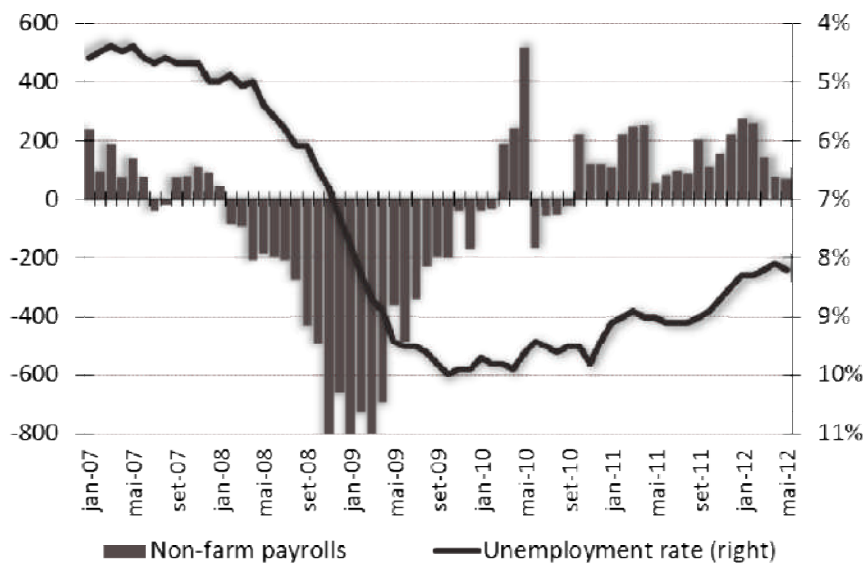
- In the first quarter, the risk of rupture in the eurozone declined substantially. But in recent months has increased uncertainty in Greece and Spain.
- Political scene in Greece brought tension to the markets. Country can leave the monetary union. In recent weeks the problem are the banks in Spain.
- Medium-term actions: putting in place a reform agenda that allows to combine growth with fiscal discipline.
- Long-term actions, resolve differences in competitiveness between countries in the bloc.



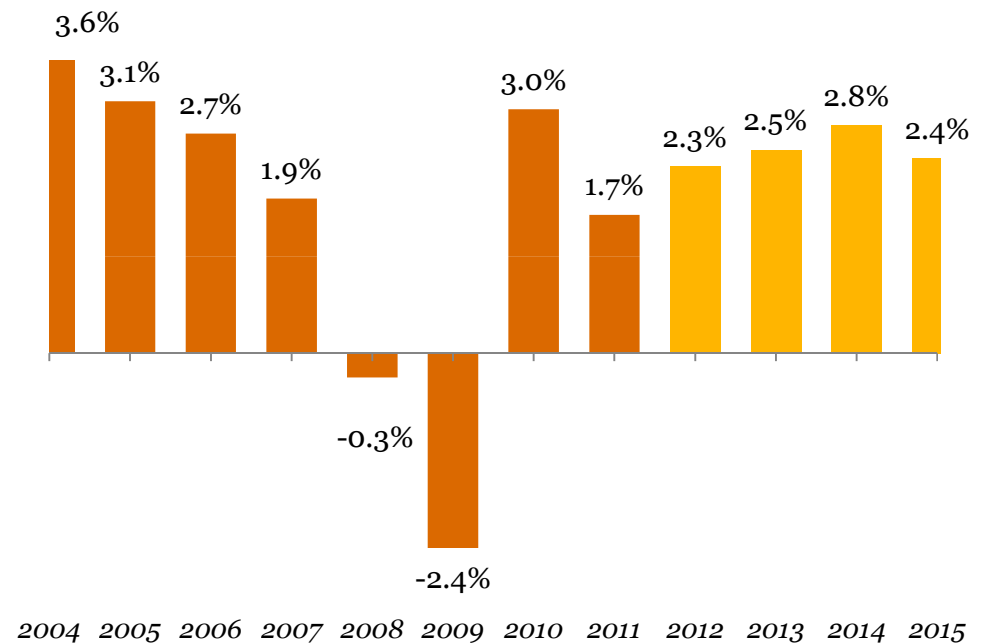
USA – International Scenario

Economy in slow path

- Economy keeps signs of moderate recovery. Recent data shows a more complicated picture.
- Labor market showed weakness in recent months. Unemployment rate rose to 8.2% in May.
- Federal Reserve statement that claims that they will keep interest rate low by the end of 2014. New QE program can not be discarded.



GDP Growth (%YoY)
2004 – 2015 forecast

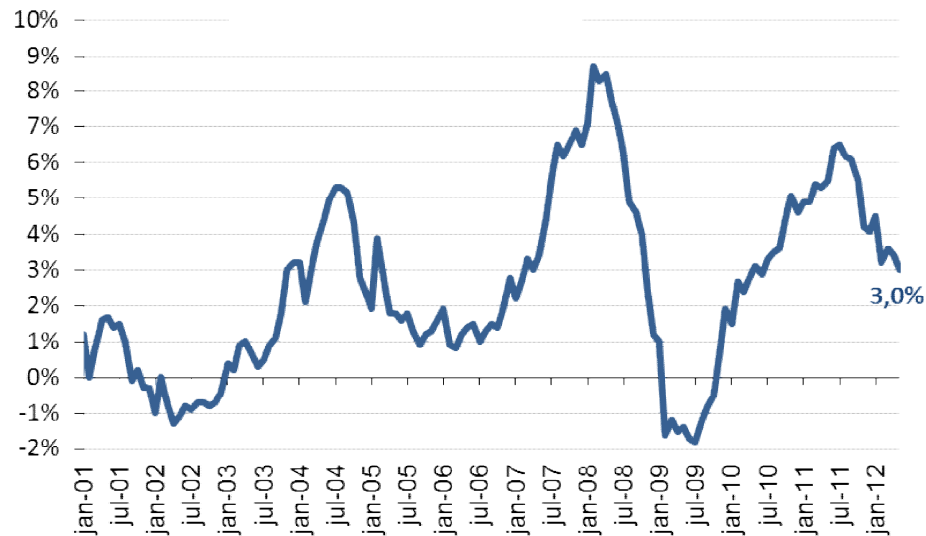


China – International Scenario

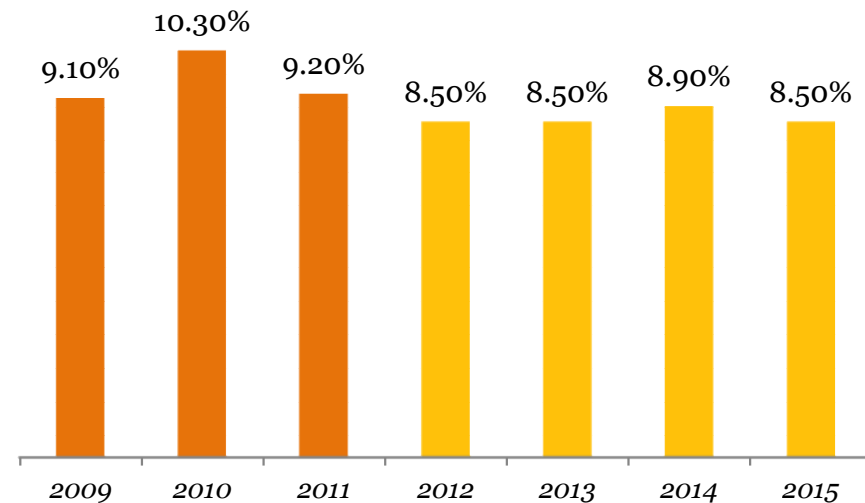
Reduced economy growth

- Economy is slowing gradually since late 2011, reflecting (a) weaker external demand and (b) investments growing at a slower pace.
- There is an ongoing process of increasing the importance of domestic consumption to sustain growth above the target of 7,5%. But process takes time.
- In the short term, inflation is slowing, which allows the Central Bank to use monetary policy to stimulate the economy. Interest rates are being reduced.

China - CPI
% YoY

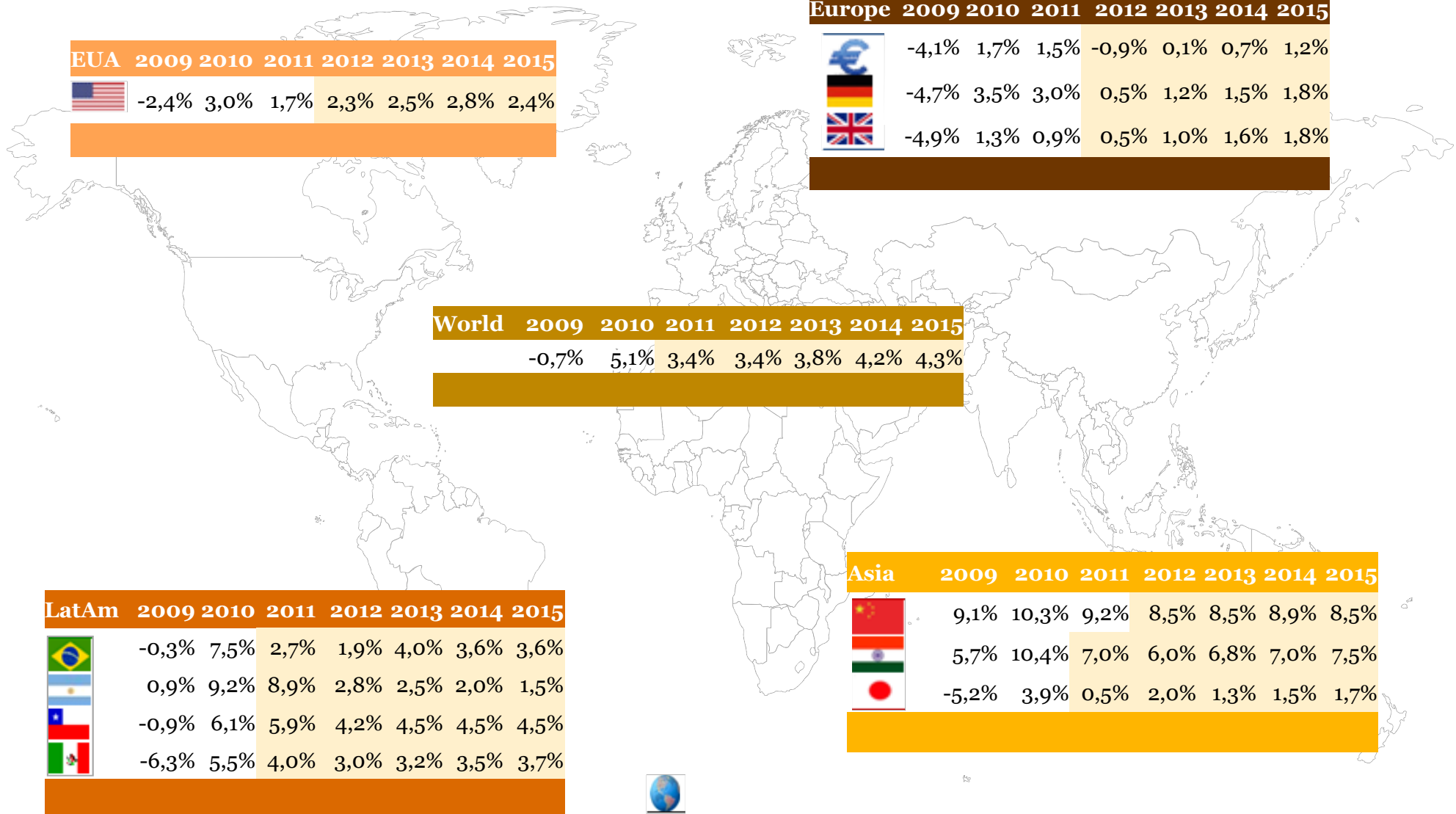


GDP Growth(%YoY)
2004 – 2015 forecast



Global Scenario

Main countries GDP growth



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Global Update – Assembly Outlook

Truly a global growth industry

106 million

The number of light vehicles that will likely be produced in 2018

5.2%

The CAGR for global light vehicle assembly between 2011 - 2018

84%

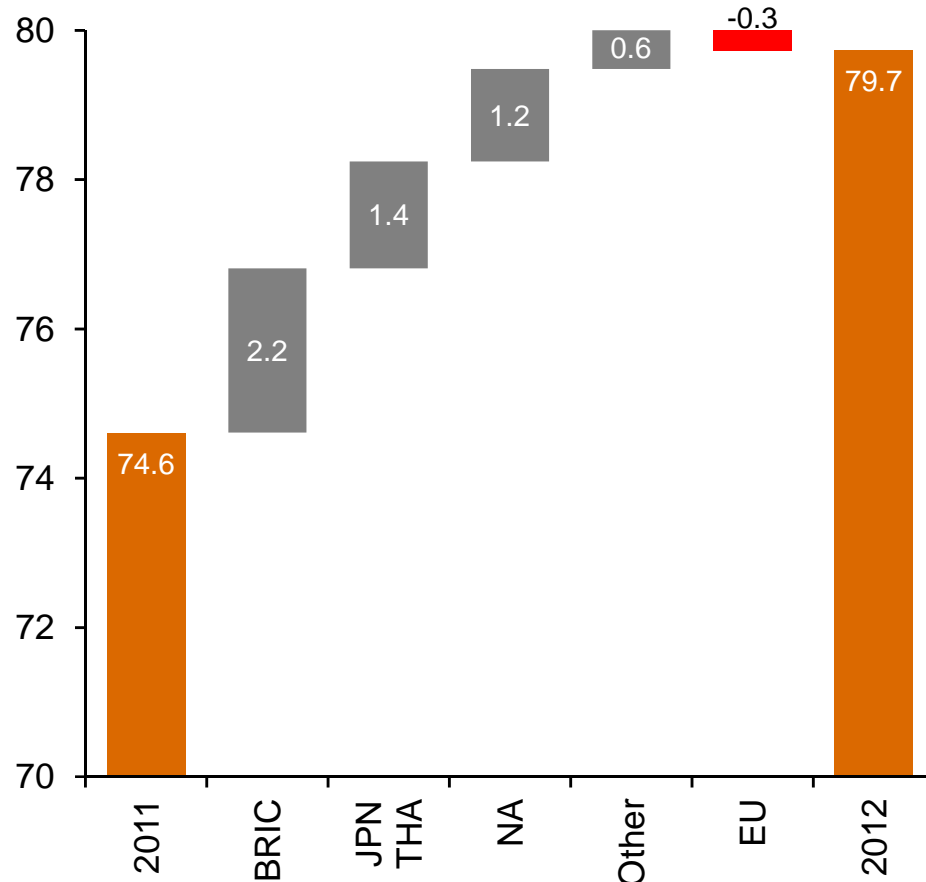
Emerging markets' contribution to growth between 2011 - 2018

Global Update – Forecast Drivers

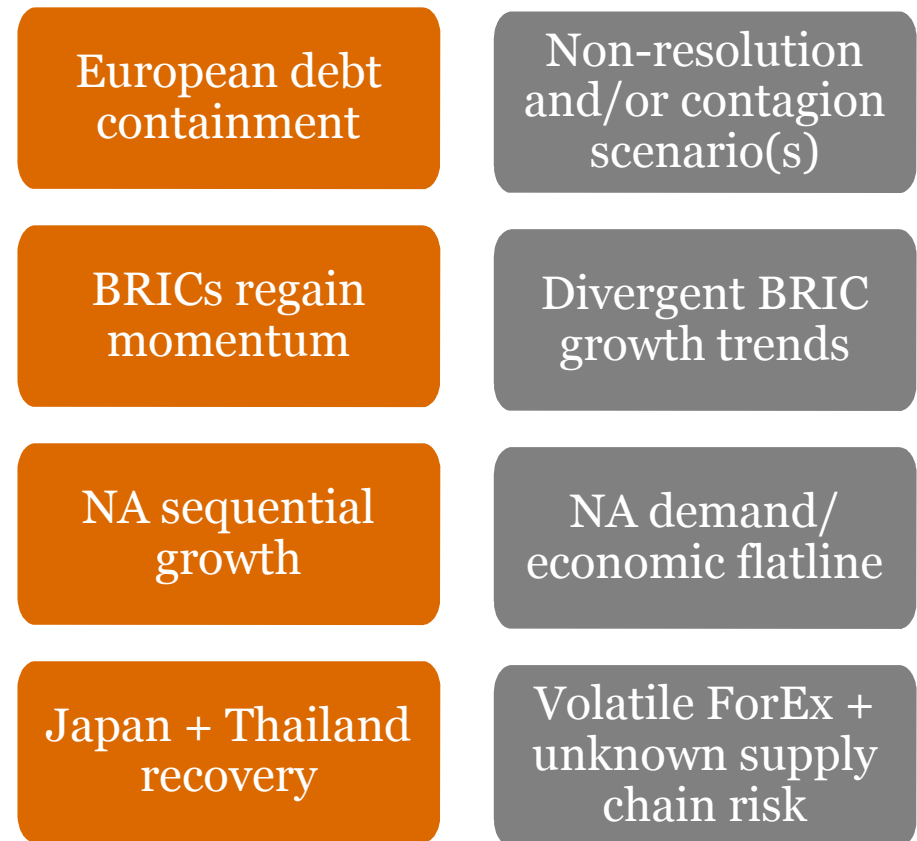
Accentuate the positive, contain the negative

Assuming the European debt crisis is contained within the region's borders, the auto industry has good reason to be optimistic for 2012. Monetary easing in key growth markets and recovery in Japan and Thailand should deliver a third sequential global record for light vehicle assembly in 2012.

Global: Light Vehicle Assembly Outlook
2011 – 2012 (millions)



Global: Light Vehicle Outlook
Near-term positive and negative drivers

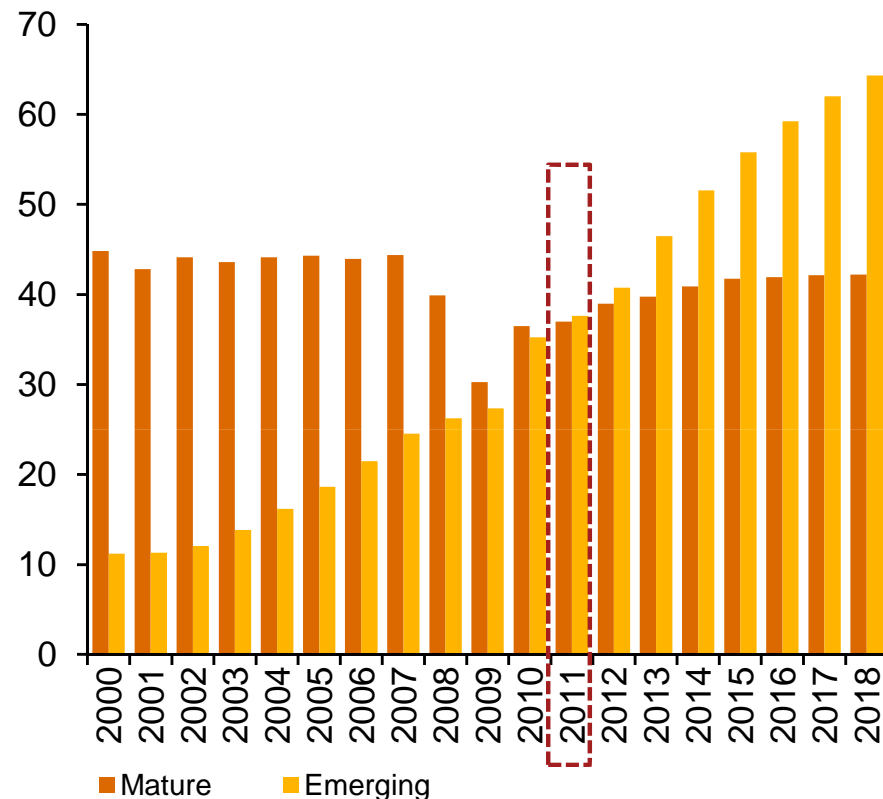


Global Update – Assembly Outlook

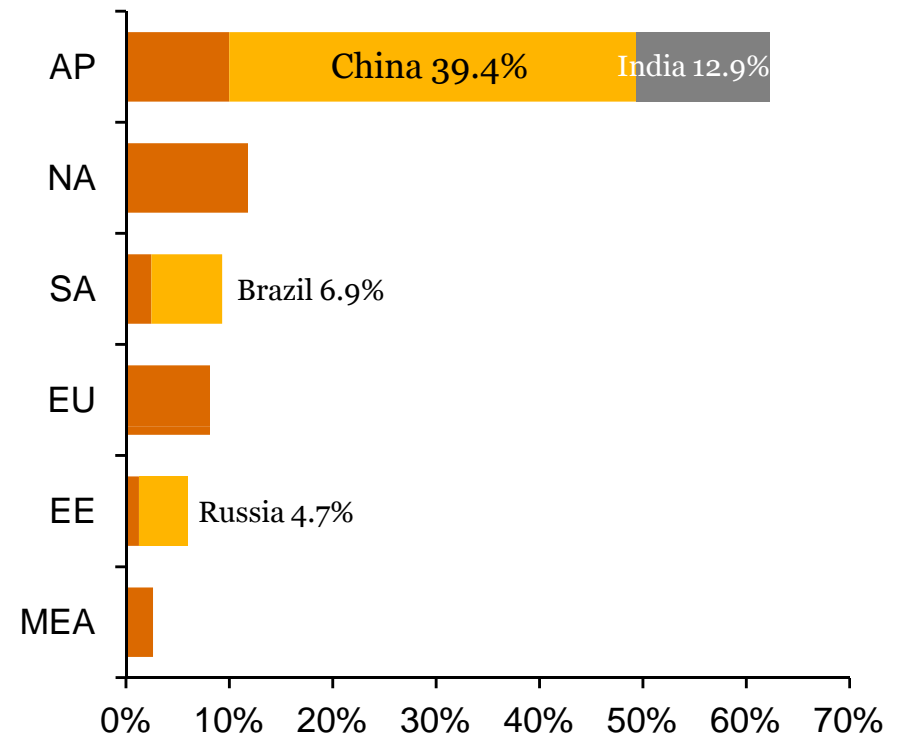
After 2011 emerging market production dominates

For the first time in history, the number of vehicles produced in developing and emerging markets in 2011 was greater than the number of vehicles produced in mature markets. Sustainable demand for light vehicles in emerging markets will underpin organic growth for the foreseeable future.

Global: Light Vehicle Assembly by Market Type
2000 – 2018 (millions)



Global: Contribution to Growth by Region
2011 – 2018

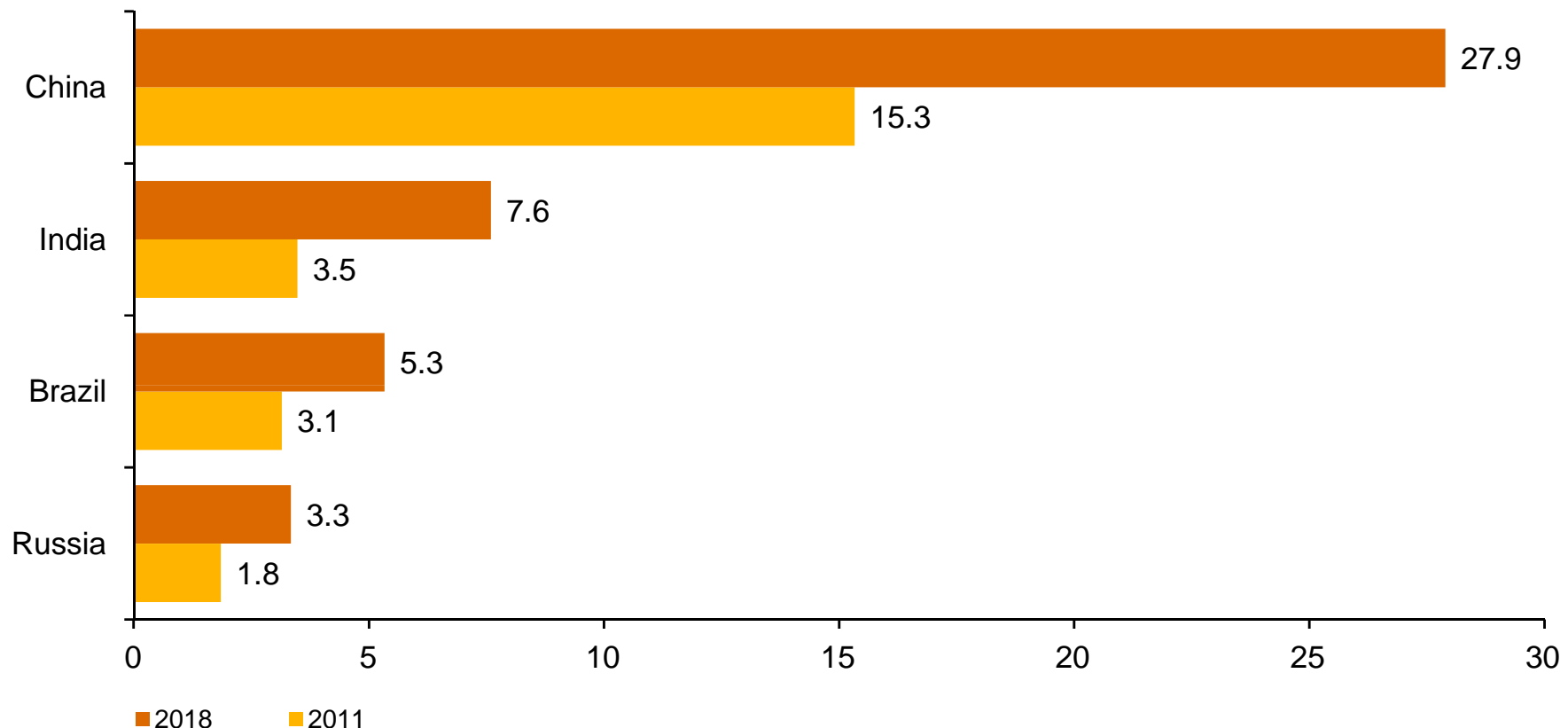


Global Update – BRIC Assembly Outlook

Demographics and economics sees China dominate BRICs

China's assembly growth will exceed the combined growth of the other BRIC countries. To compete effectively with the Chinese juggernaut, other countries have selected different strategies such as adoption of a product centric niche and/or localisation requirements to drive investment and growth.

BRIC: Assembly Outlook by Country
2011 vs. 2018 (millions)

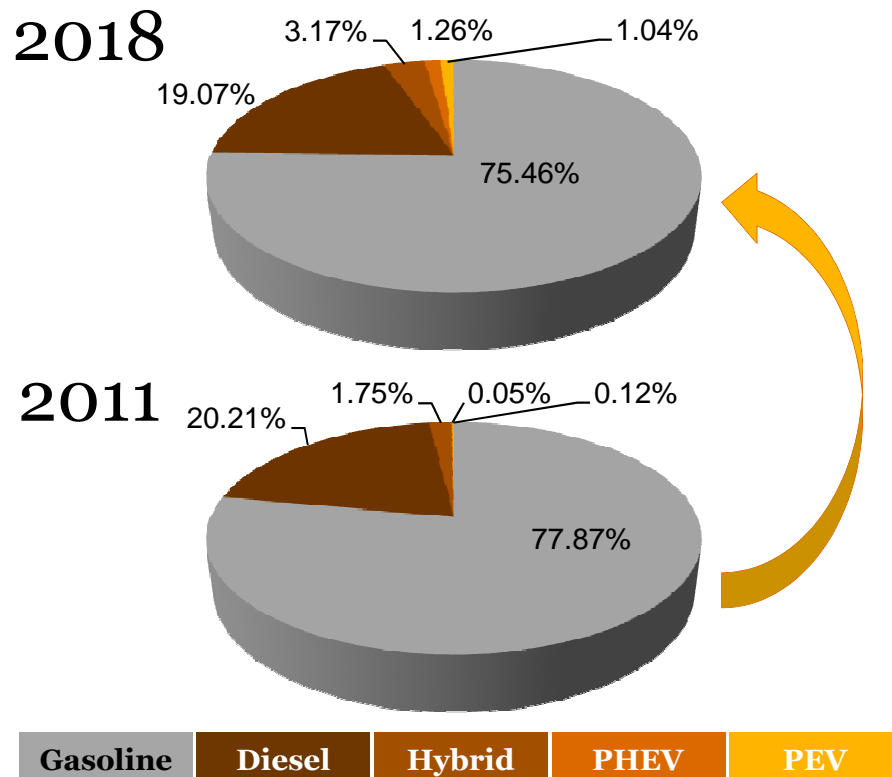


Powertrain Outlook – Global

Technology trending

Increasingly stringent global emission standards, combined with the ongoing consolidation of engine and transmission programs will result in a further shift towards alternative fuel technologies, with wider use of modularity to cater to individual market needs.

Global: Engine Fuel Type Consumption Outlook
2011 vs. 2018 (percent share)



Global: Top 5 Trending Powertrain Applications
Market share gain (2018 vs. 2011)

1	Direct Injection	+16.1%
2	DOHC	+5.9%
3	Turbocharging	+5.1%
4	CVTs	+3.2%
5	8-speed Trans.	+2.1%

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LATAM– Two groups

Stable economies leading the performance

- Latin America has important differences between the member countries and we can divide them between two groups: stable and unstable macro countries.
- In stable group we have: Brazil, Chile, Colombia, Peru and Mexico.
- This group can be characterized by the adoption of various measures of economic stabilization over the last decade, as the adoption of inflation targeting system. They also improved political and business environment.
- As a result these countries experience an drastic improvement in social and economic indicators.

GINI Index⁽¹⁾

	1999-2000	2009-2010
BRA	59,8	54,7
CHL	55,2	52,0
COL	58,6	55,9
MEX	51,8	48,3
PER	56,6	48,1

Country	CDS ⁽²⁾	S&P ⁽³⁾
France	201	AA+
Austria	183	AA+
<i>Peru</i>	161	BBB
<i>Brazil</i>	156	BBB
<i>Mexico</i>	144	BBB
<i>Colombia</i>	144	BBB-
Denmark	130	AAA
Netherlands	123	AAA
<i>Chile</i>	117	A+
Japan	92	AA-

LATAM– Two groups

Interventionism adding risk to investments

- In an unstable Macro group we have: Argentina, Venezuela, Bolivia and Ecuador.
- These countries have populist governments.
- Economic policies were driven to more state intervention in economy, trying to favor domestic production and to achieve social targets.
- The government in Argentina manipulate the CPI⁽¹⁾ to show lower inflation rates.
- Political instability is a key factor in these countries.
- In some cases they threat foreign investors with expropriation of their properties. In others they create trade barriers unilaterally.

Country	CDS	S&P
Greece	11729	CCC
Argentina	1253	B
Portugal	1044	BB
Venezuela	852	B+

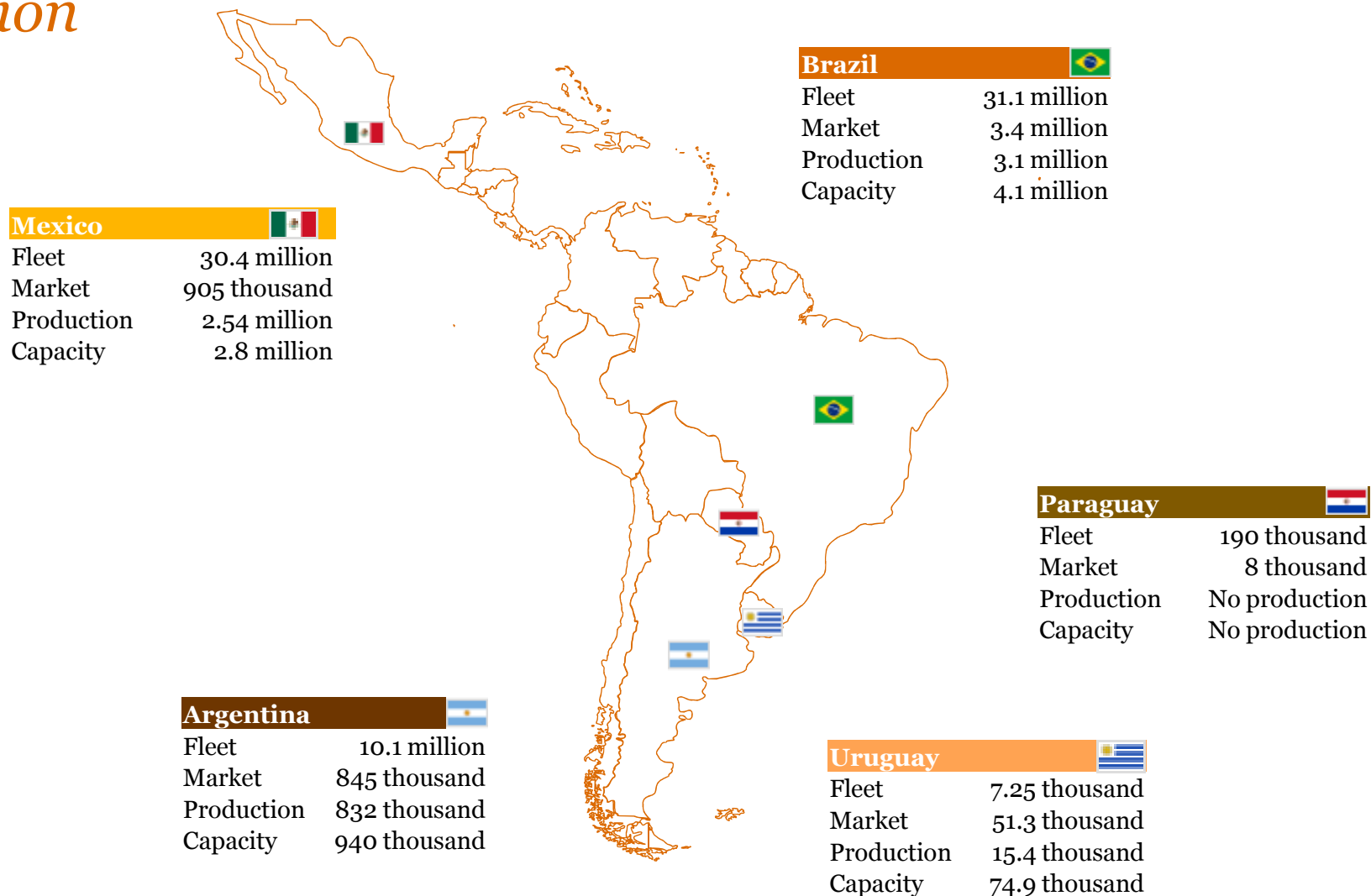
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Latin America – Automotive Overview

Brazil, Argentina and Mexico are the main markets in the region

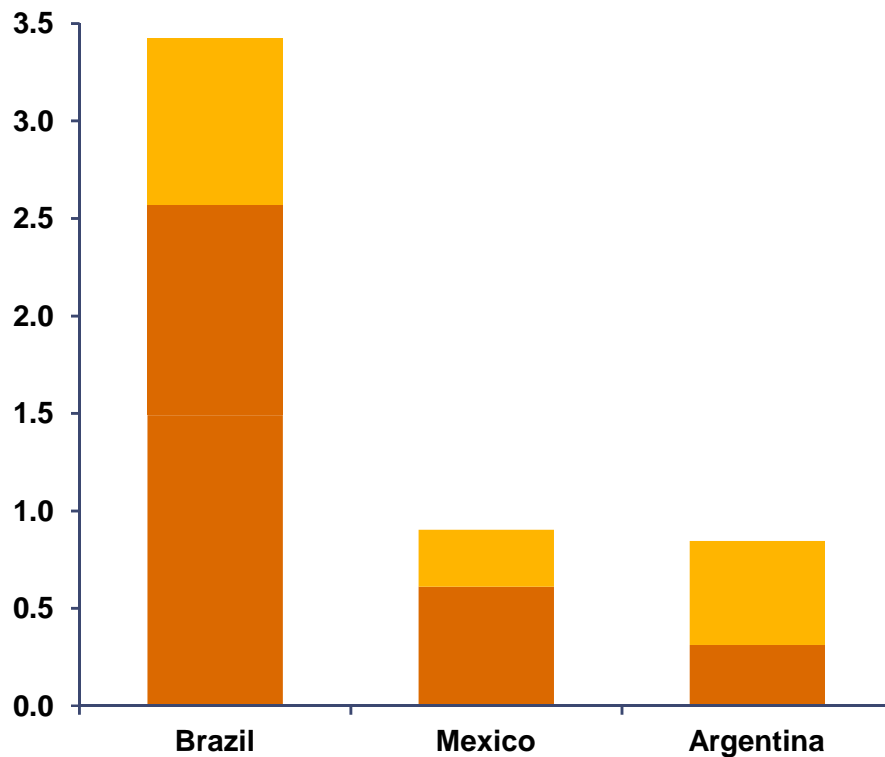


Latin America – Market Overview

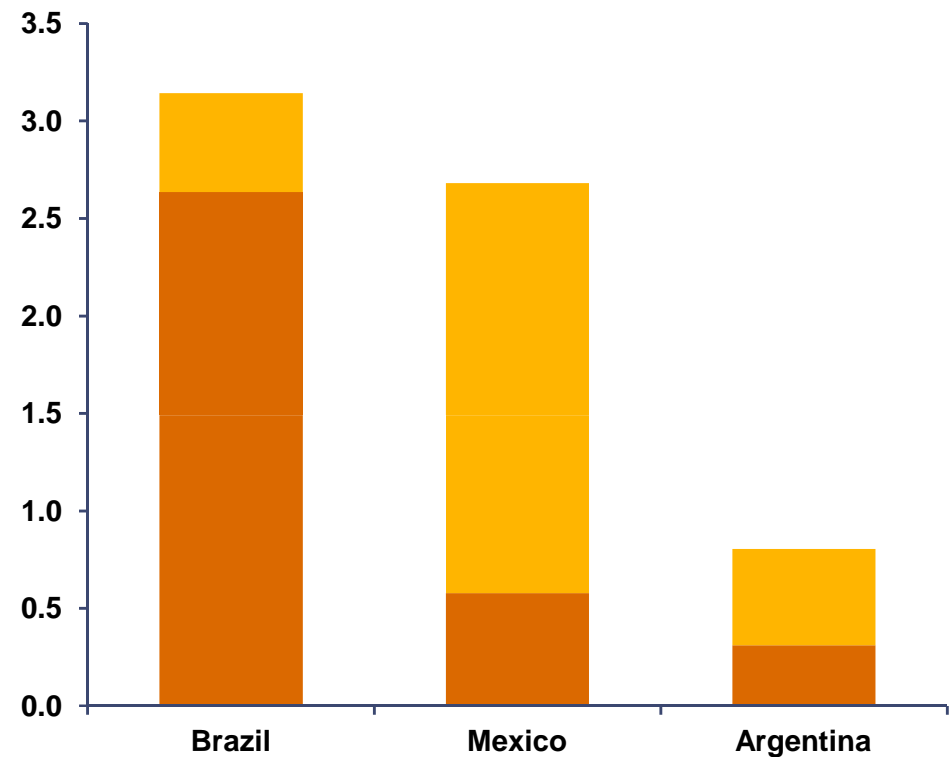
Everyone is different

The ratios of domestic & import sales and domestic & export assembly remain disparate when comparing the largest markets in Latin America. While Brazil has ratios that most closely mirror a developed nation, Argentina and Mexico's situation is largely dependent on their large neighbours.

Latin America: Light Vehicle Sales
2011 (millions)



Latin America: Light Vehicle Assembly
2011 (millions)



■ Imported Origin ■ Domestic Origin

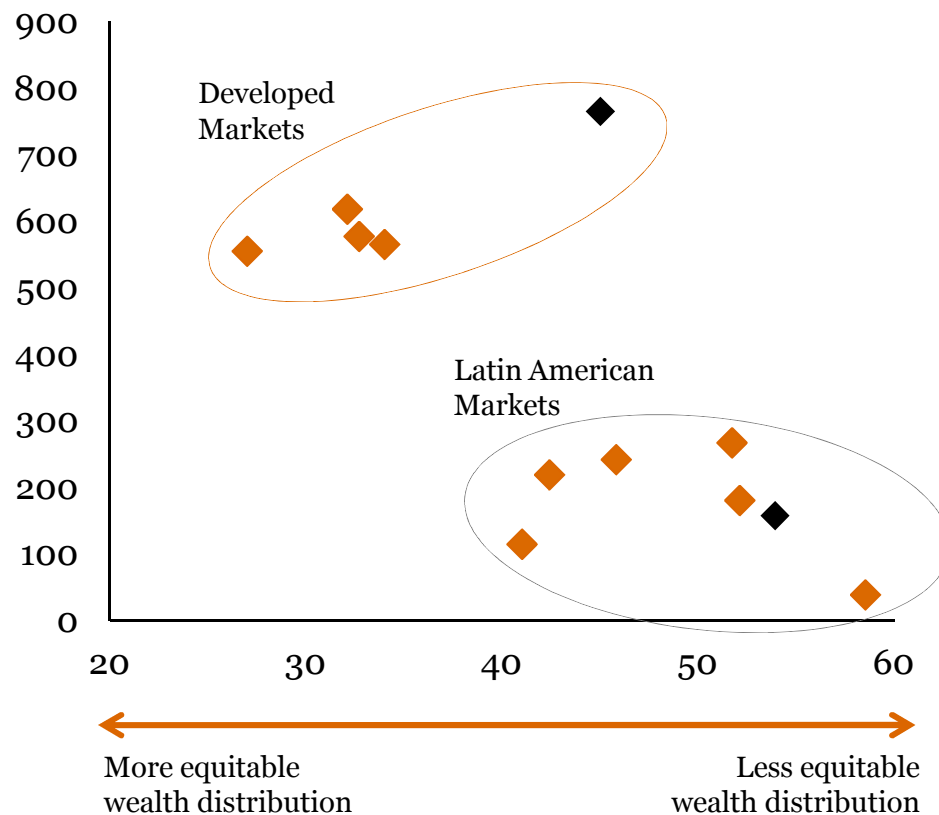
■ Exports ■ Domestic Consumption

Latin America – Market Overview

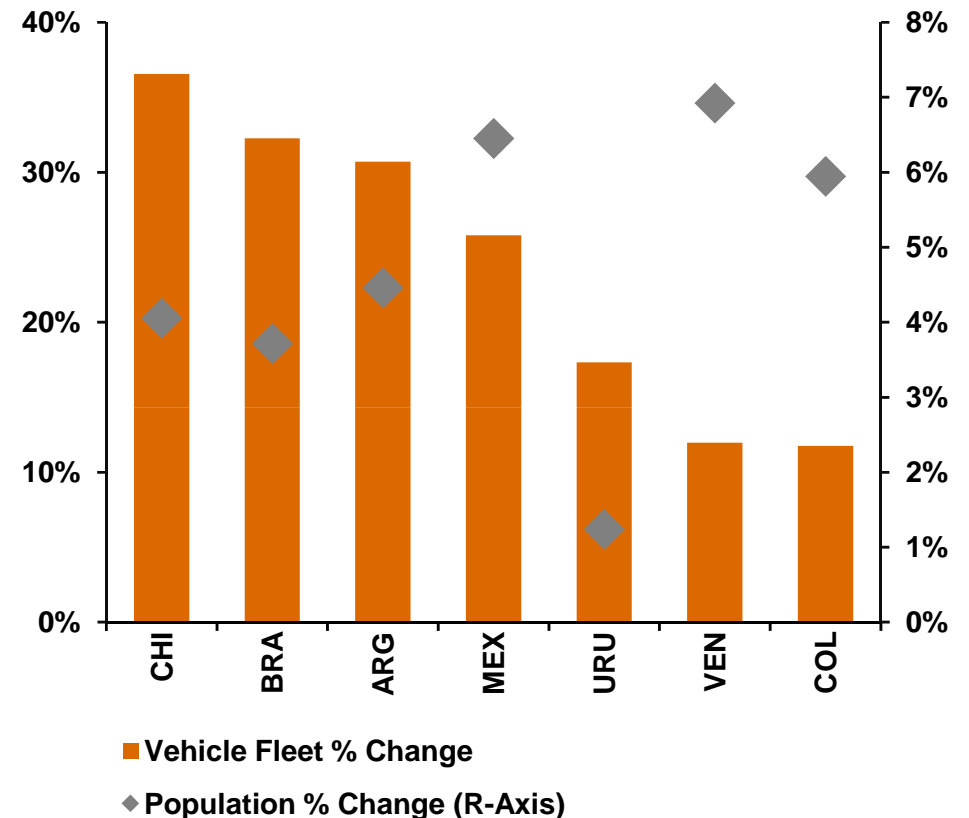
Room to grow

Even with the impressive growth that Latin America has witnessed, there is substantial room for further growth to achieve the type of vehicle fleet that developed countries possess. Most Latin American countries' auto sectors have outpaced population growth several times over.

Global: Developed Markets vs. Latin America
Vehicles per 1,000 vs. Gini Coefficient



Latin America: Vehicle Sales and population
2006 – 2010

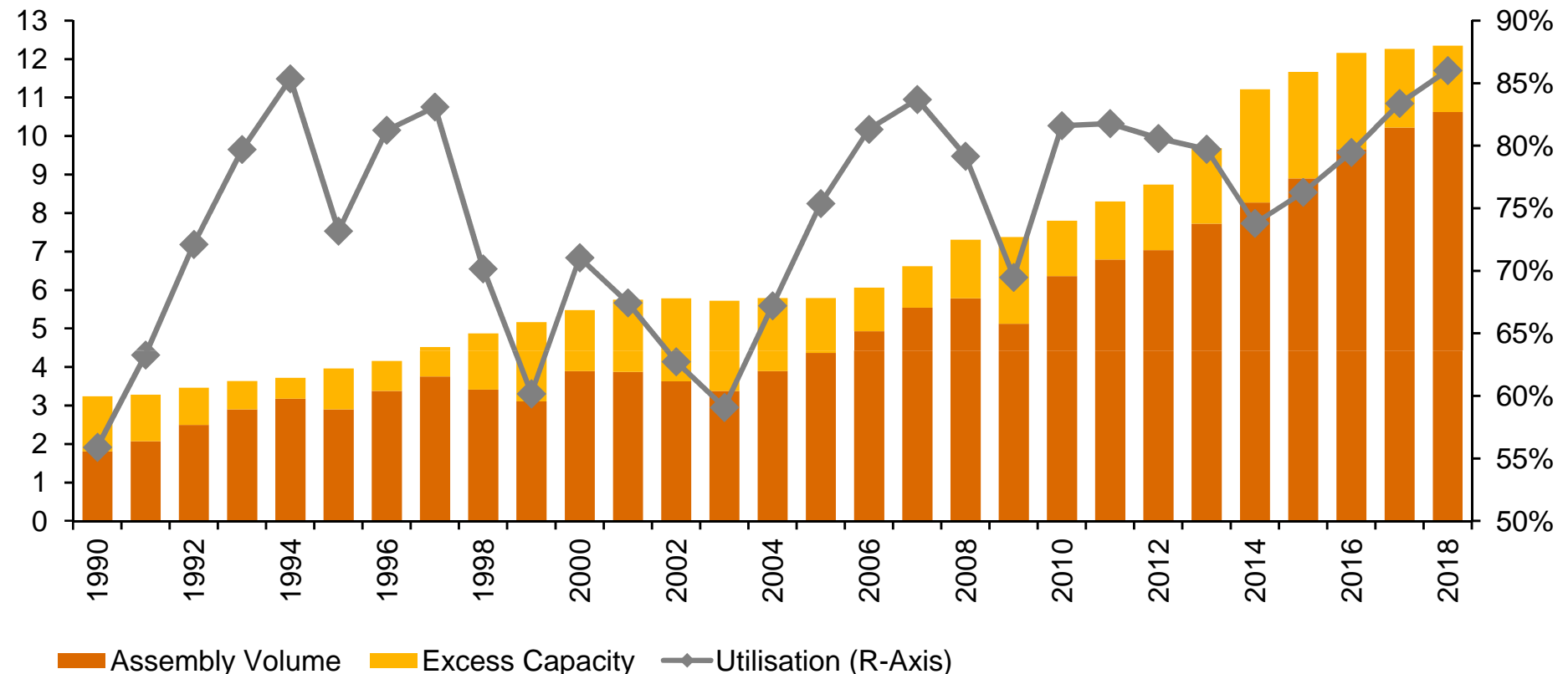


Latin America – Market Outlook

New heights

Latin America is poised to see an increase in capacity of nearly four million units in the coming years, highlighted by numerous investments in Brazil. Most automakers are preparing for large expansions, however growth and market share will become increasingly contested as more OEMs enter the market.

Latin America: Light Vehicle Assembly Outlook
1990 – 2018 (millions)

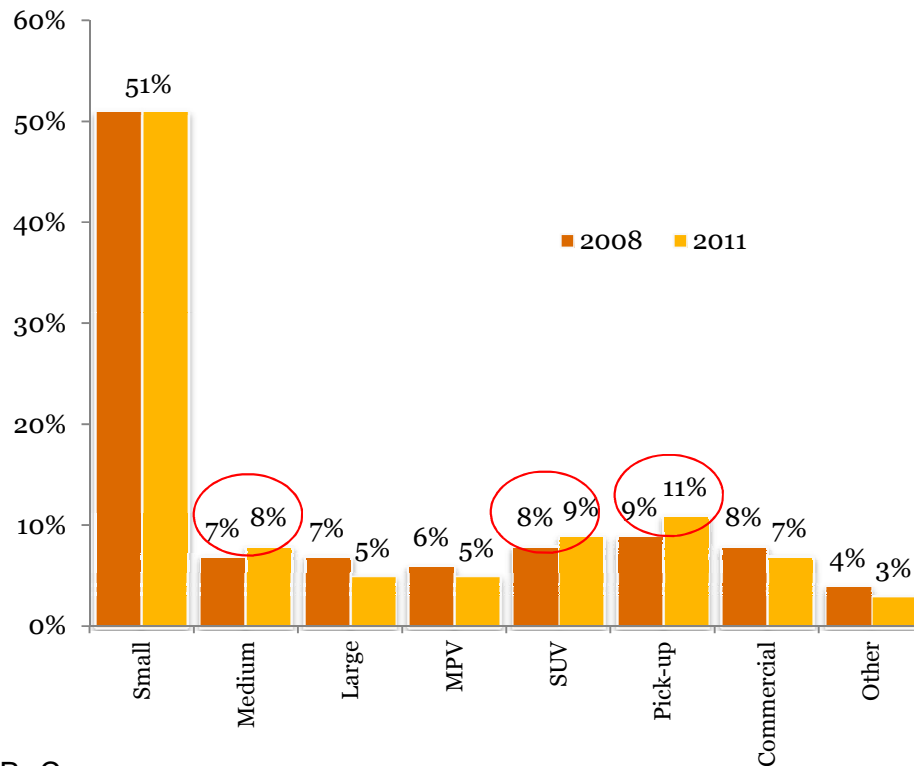


Latin America – Automotive Overview

LATAM represents 8.5% of the global light vehicles market, totaling 6.4 million units. In 2011, imports represented 25% of the market, with Japan, Korea and China been the major source.

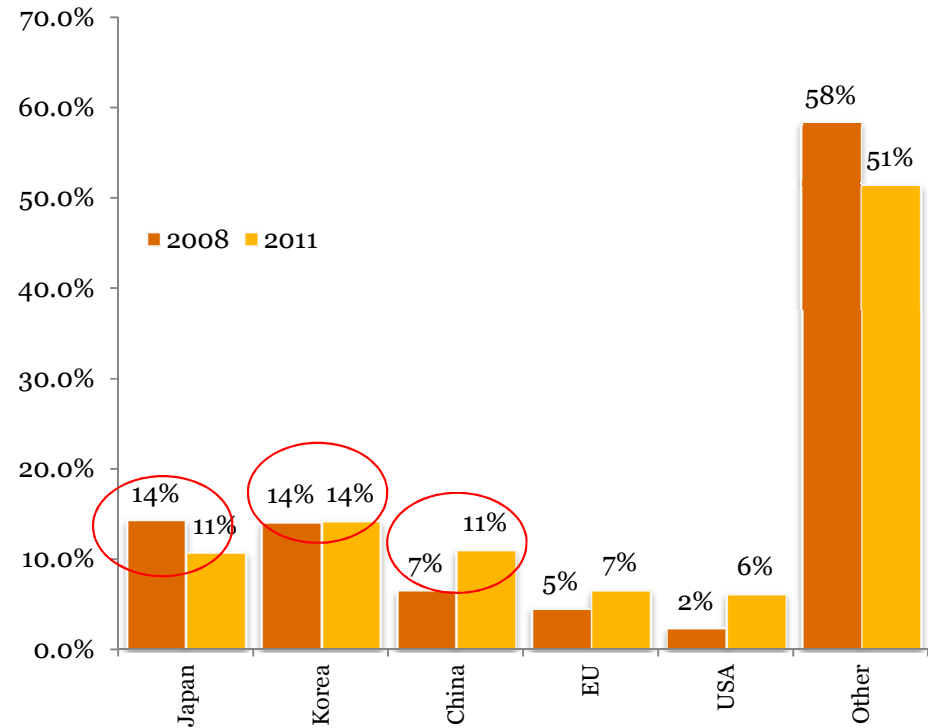
Light Vehicle Sales by Vehicle Type

2008 - 2011 [%]



Imports by Country of Origin

2008 - 2011 [%]



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Brazil

In Brazil, we have:

- Nearly 200 million people; demographic bonus
- Portuguese as single language despite being a “melting pot” society
- Clean and renewable energy sources (hydro, ethanol, wind and solar)
- Will become net exporter of oil (Pre Salt Layer)
- GDP of nearly US\$2.3 trillion, 32 million new consumers over last 5 years; 5,5% unemployment rate
- Net foreign creditor: US\$355 billion of reserves
- One of the most internet-connected countries (over 67 million people wired)
- Sophisticated financial services sector and regulatory system
- Strong and stable democratic institutions

In Brazil, we do not have:

- Border conflicts
- Major natural disasters
- Ethnic/racial/religious tensions/terrorism or conflicts

However, we STILL have:

- Social inequality
- Education challenges
- Slow judicial decisions
- Bureaucracy
- High interest rates
- Complex tax environment and heavy tax burden
- Infrastructure gaps

Brazilian Trade Balance 2011

Exports (US\$ 256 Billion)

Destination	%
Asia	28
Europe	22
USA	10
South America	13
Africa	4
Other	23

Imports (US\$ 226 Billion)

Origin	%
Asia	31
Europe	21
USA	15
South America	9
Africa	6
Other	18

Source: Secex/MDIC

Economy: Current government focus

- Reduce interest rate
- Expand consumption
- Reduce taxation in some specific sectors
- Keep inflation under control
- Reduce regional development imbalances
- Specific focus on infrastructure, energy, technology and telecom as well as the promotion of Brazilian MNCs
- Focus on the expansion of the competitiveness of Brazilian conglomerates in strategic sectors

Politics:

Current government focus

- Assure reelection
- Expand connections with US, Pacific and specific countries in Europe and Africa
- Decouple the country from South America populism
- Target special relationship with other BRICS
- Expand global activism(United Nations/Security Council , G20, IMF, World Bank, OECD)
- Anti –corruption drive
- More government efficiency
- Specific focus on education (“Science Without Borders Program”) and on the reduction of social inequality (several specific programs)

Brazil – Automotive Industry Overview

20
Assemblers

3,7 thousand
Dealers

US\$ 91,5
billion
Sales

US\$ 24,8 billion
Exports

US\$ 34,7 billion
Imports

US\$ 121,2
billion
Revenue

4,3 million
Production
capacity/year

53
Industrial units
in 9 states, 39
cities

1,5 million
Employees

5% total
GDP share
21% Industrial

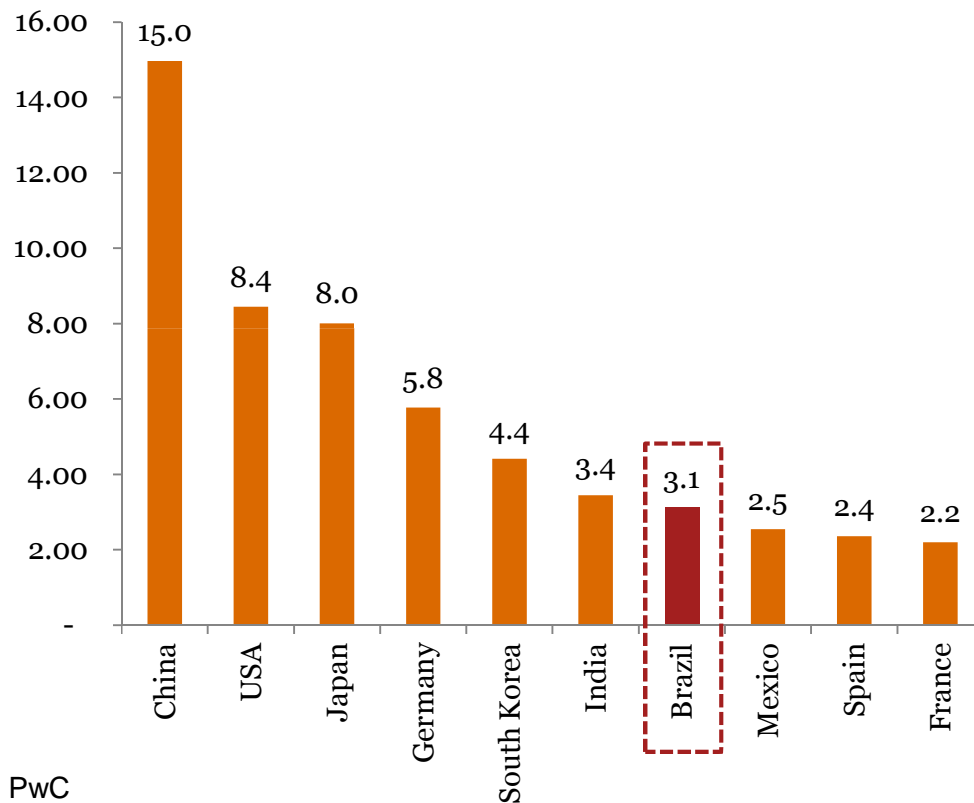
US\$ 61 billion
Investments
1994-2011

Brazil – Light Vehicle World Production

Brazil is the 7th in the production rank and the 5th market in sales.

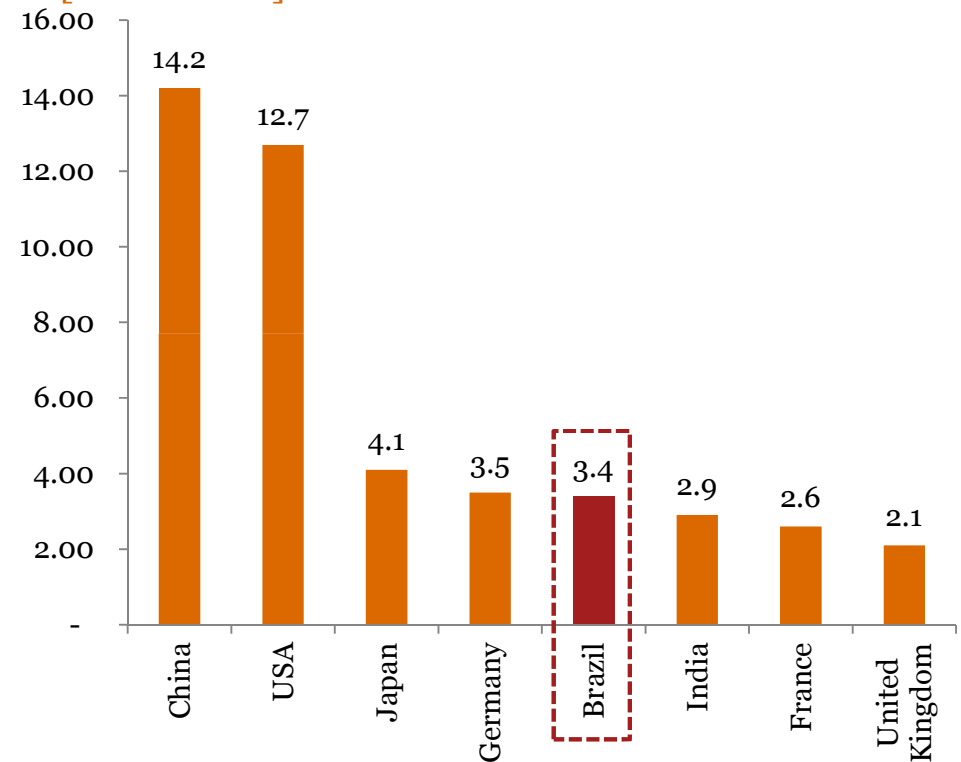
Production by country

2011 [million units]



Sales by country

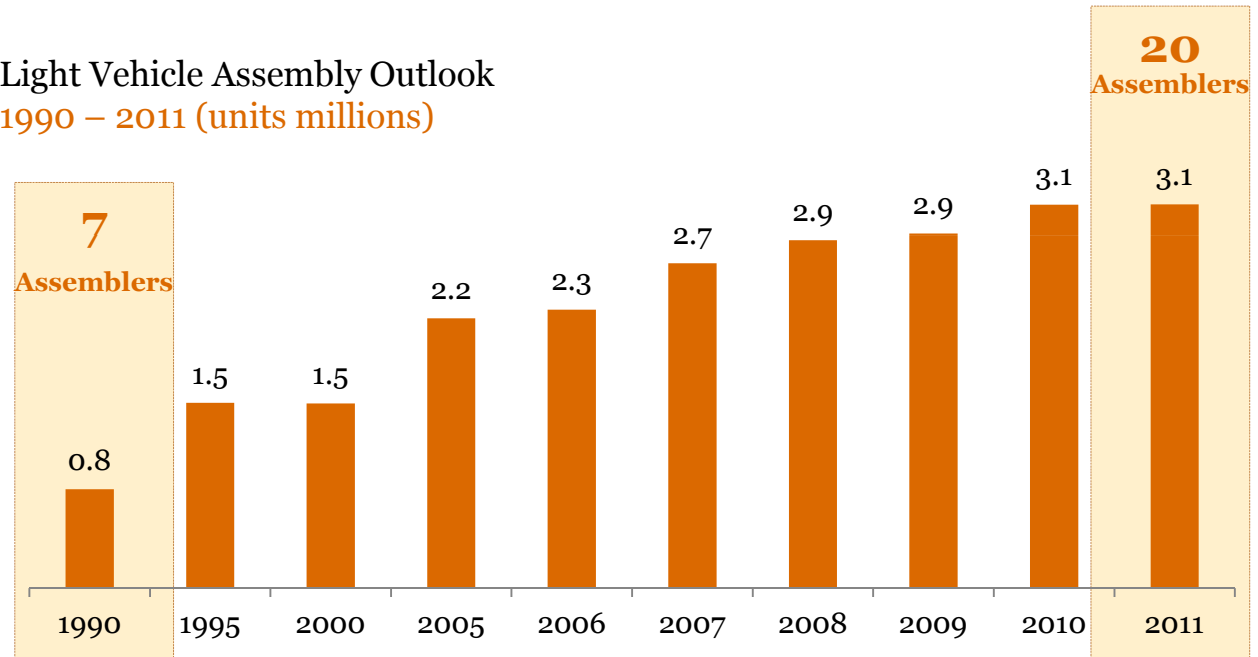
2011 [million units]



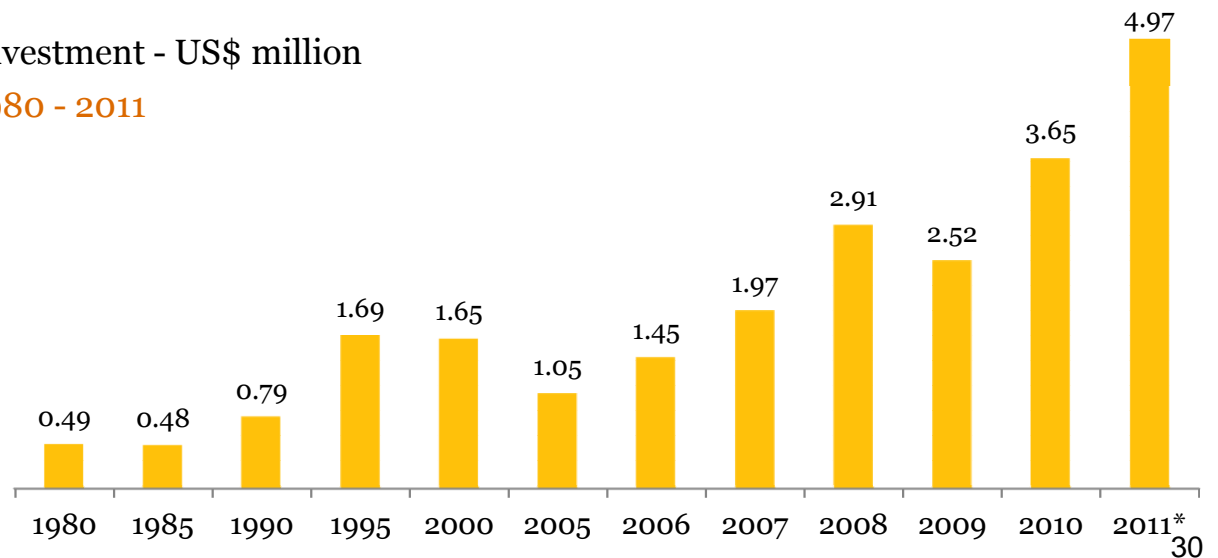
Brazil – Automotive Industry

Brand	
1930	General Motors
1953	Ford
1953	Volkswagen
1959	Toyota
1976	Fiat
1997	Honda
1999	Renault
2001	Peugeot Citroën
2002	Nissan

Light Vehicle Assembly Outlook
1990 – 2011 (units millions)



Investment - US\$ million
1980 - 2011

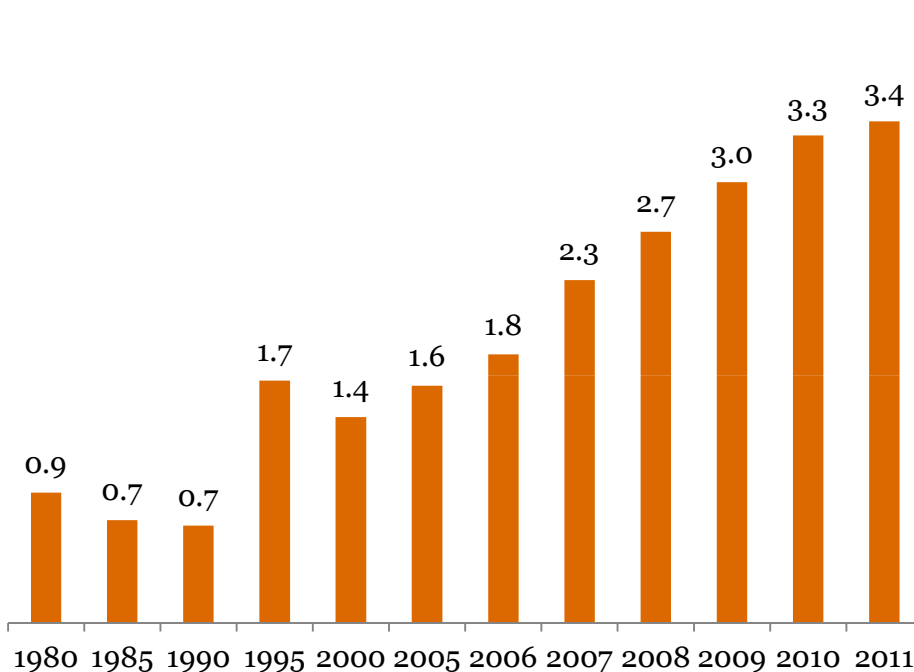


Market Overview – Brazil

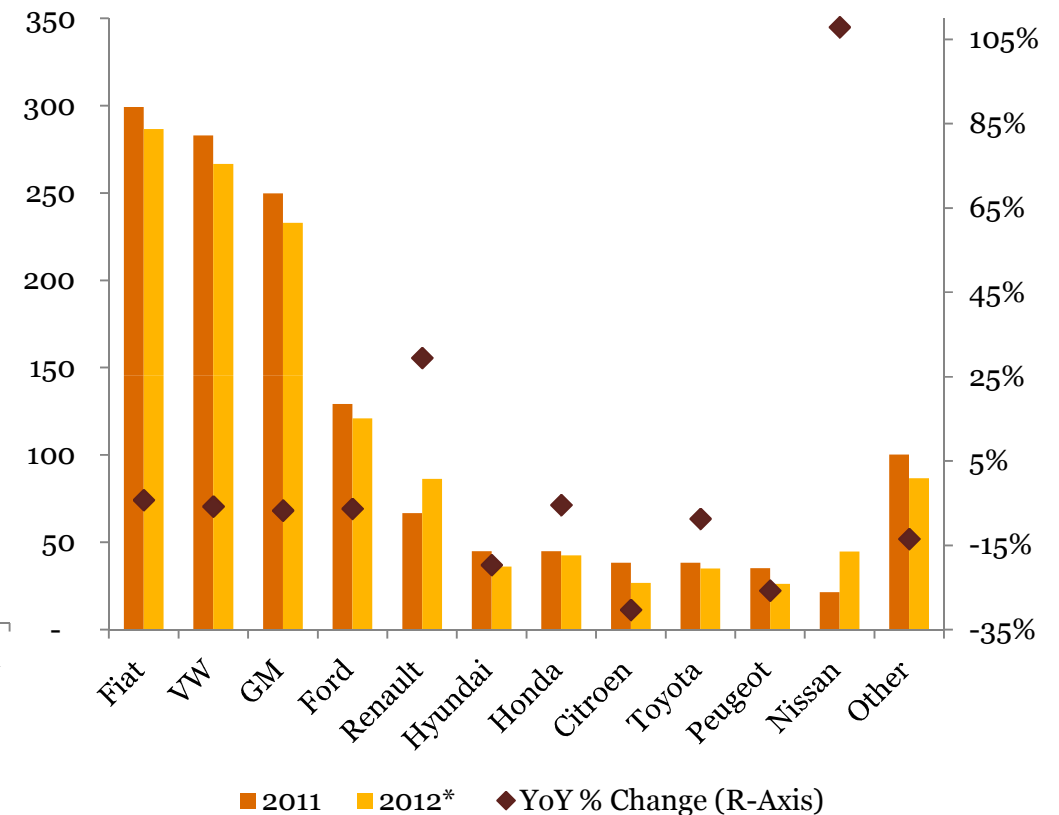
Oligarchy dominate market

The Brazilian auto market is controlled largely by three automakers: Fiat, VW, and GM. Combined, they total nearly two-thirds of the market, although they have recently been losing share at a slow pace due to increased competition from new market entrants.

Light Vehicle Sales
1980 – 2011 (units thousands)



Light Vehicle Sales by Automaker
May 2011 vs. May 2012 (units thousands)



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Brazil – Sports Events

Sports events will mainly boost infrastructure investments, and the services sector

Moreover Brazil will receive important investments in the energy (oil and ethanol), mining and agribusiness sectors.

World Cup

4 billion people watching the World Cup

12 cities

3.5 million new jobs

US\$ 2.5 billion investments in sports arenas



International visibility

Brazil waited 64 years to host the World Cup

5 times world champion

National Sport: 192 MM persons passionate by soccer

Olimpic Games

The biggest sports event worldwide

New Olympic Village– 2.448 apart.

Tourism

US\$ 820 millions in urban improvements



4 thousand new jobs

48 millions volunteers

11 thousand athletes

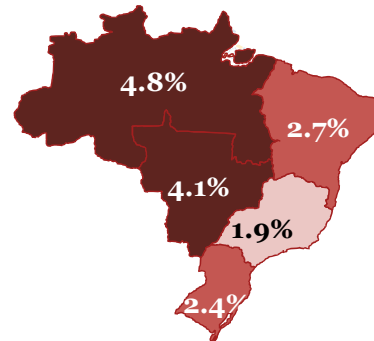
1st South American city to host the Olympic games

Brazil – Regional Dynamic

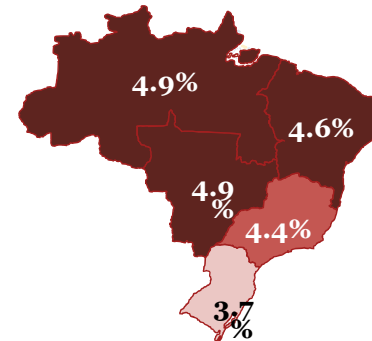
Over the last years, political and economic stability created the conditions for the socio-economic development of the North, Northeast and Center-west Regions of the country

Regional GDP – average annual rates

Average 1996-2005: 2.4%

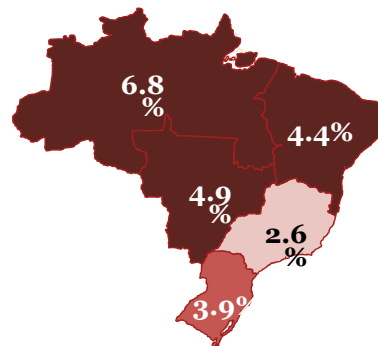


Average 2006-2010: 4.4%

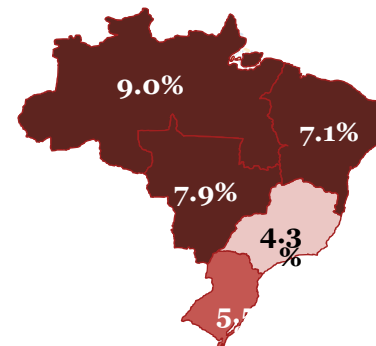


Regional income mass – average annual rates

Average 2000-2005: 3.5%



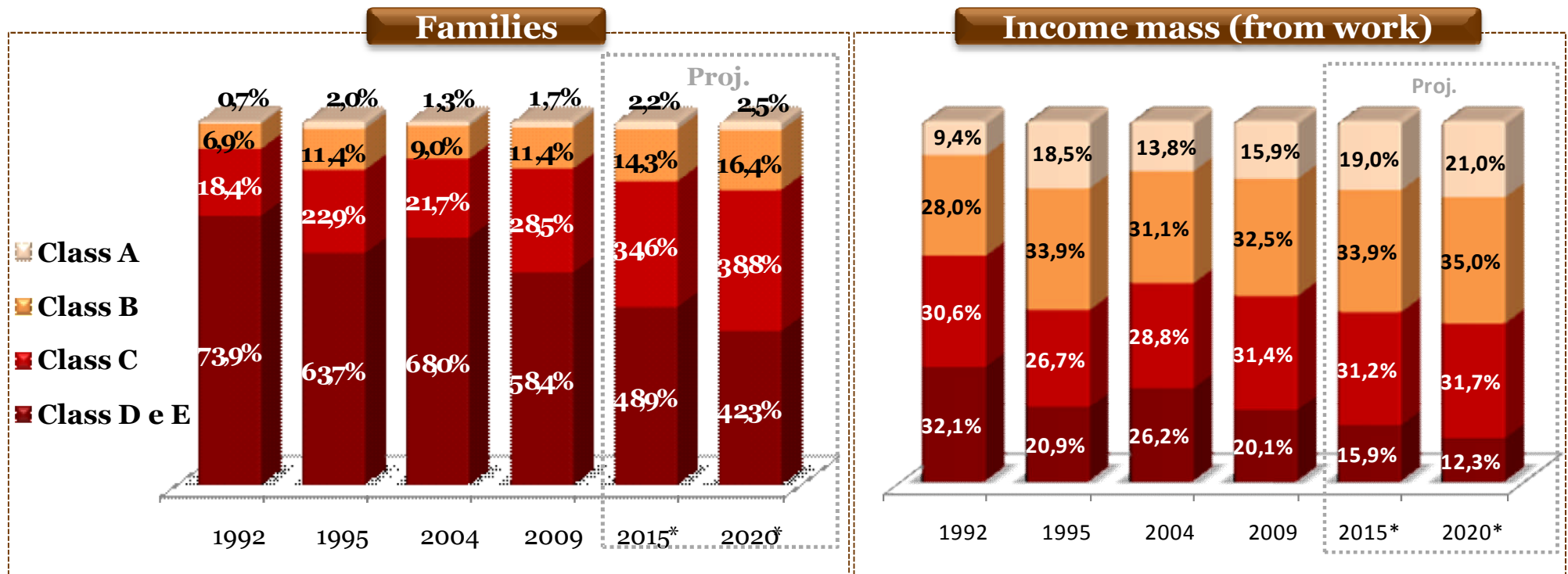
Average 2006-2010: 5.6%



Brazil – Social Mobility

The social mobility to higher income classes will guarantee the good perspectives on the consumption side

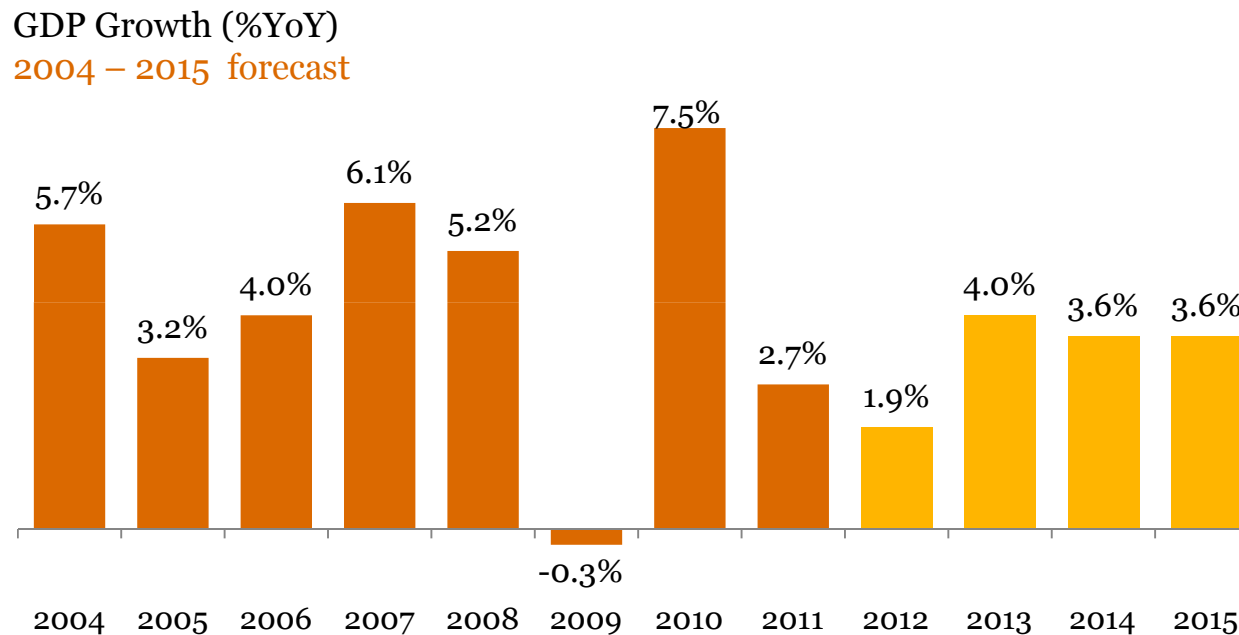
In 2020, classes A and B will represent 19,9% of the families and 56% of the income mass.



Brazil – GDP

Government stimuli to impact GDP on 2013

- The Brazilian economy had a poor performance in terms of GDP growth last year, despite a good performance of the families' consumption.
- This year performance will be worst. Investments are reducing and GDP even with a good recovery on the second semester will growth only 1,9%.
- A better picture should be reached in 2013, given all the stimuli given to the economy this year.
- Aspect to be emphasized: in our view, potential growth is around 3.5% because of structural constraints.

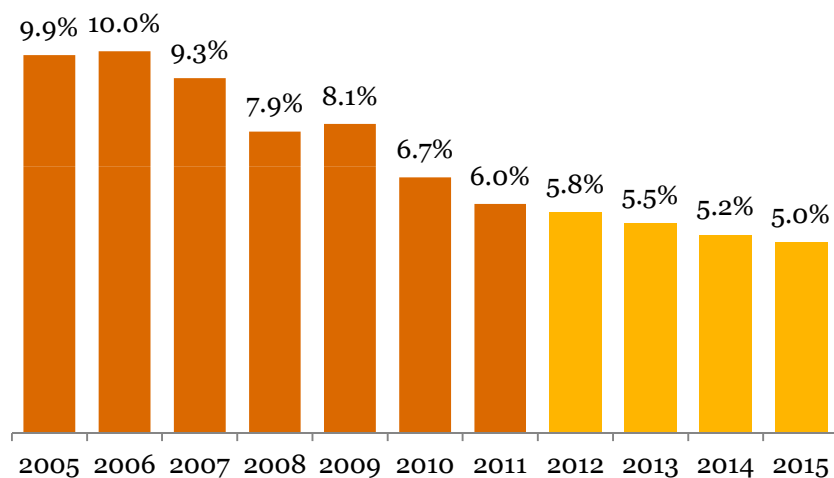


Brazil – Labor Market

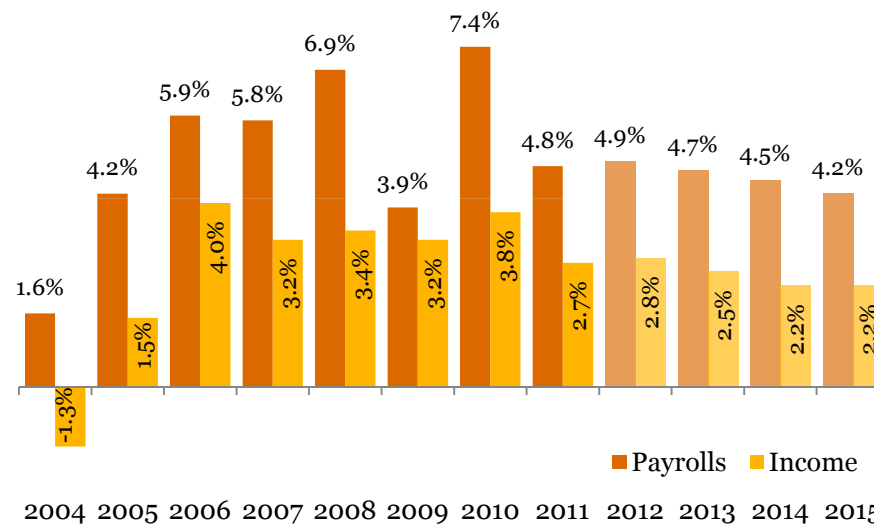
Job market performing as expected

- Despite the slowing of the economy, job market still shows good performance. Occupancy level is well above the pre-crisis level.
- Unemployment rate fell to 6.0% in 2011 and the currently level is at 5.6% (April , seasonally adjusted).
- We expect that the unemployment rate shows a more stable trajectory from now on, given the slowing of the economy and proximity to the neutral rate.
- But the narrowing between actual and natural unemployment implies real wage gains over the years.

Unemployment rate - IBGE
2005 – 2015 forecast



Payrolls x Income
2005 – 2015 forecast



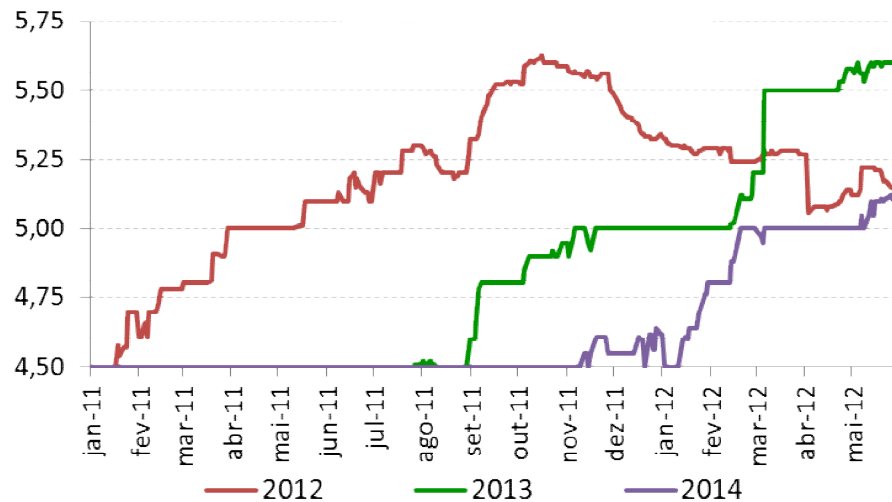
Brazil – Inflation

Inflation is not the main target

- The inflation reached 6.50% in 2011 (the ceiling of the target). The YoY CPI is slowing, currently at 4.99% (May/12).
- Core inflation measures show still high inflation, because of pressured services prices (8.63% in 12 months).
- The Central Bank focus is much more on growth. The restriction is that inflation stands below the target's top limit (6.5%).
- Our projection for 2012 CPI is 5.1% and for 2013 is 6.0%.

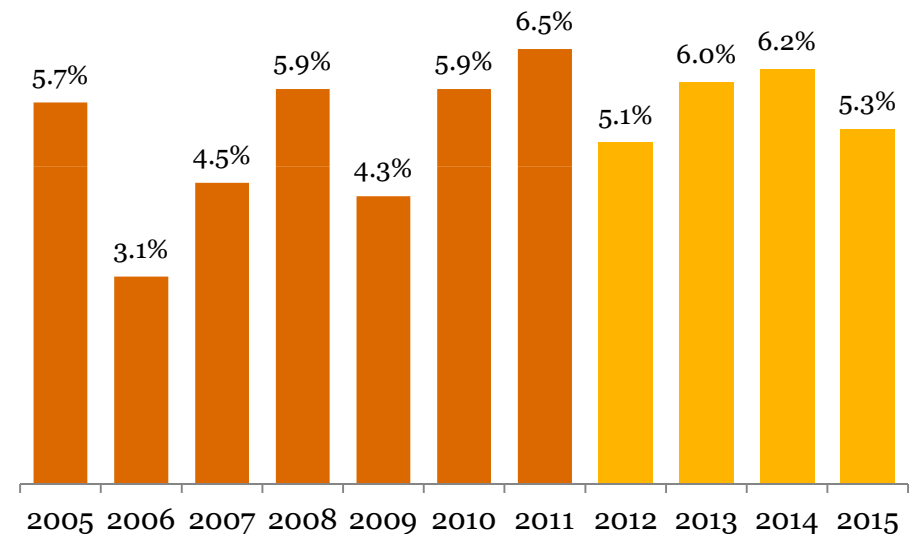
Expectations - CPI

2012 - 2014



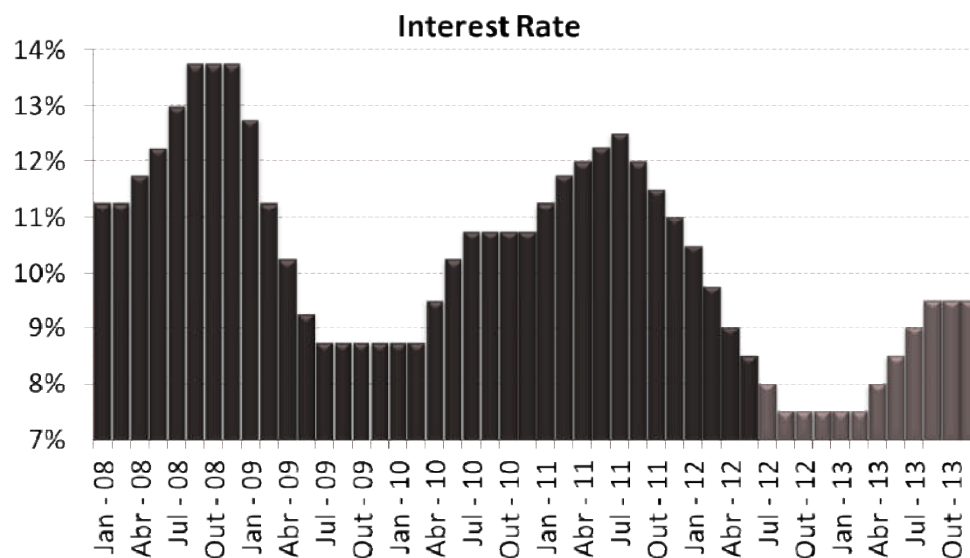
CPI

2005 – 2015 forecast



Brazil – Monetary Policy

- Due to the international crisis and slowdown of domestic activity, BCB is cutting interest rates in the last meetings
- BCB communication have been erratic, making predictions for the next steps harder. Our scenario includes Selic 7.5% in December.
- However, BCB should hike the rate once again in 2013 to avoid inflation to burst the 6.5% level

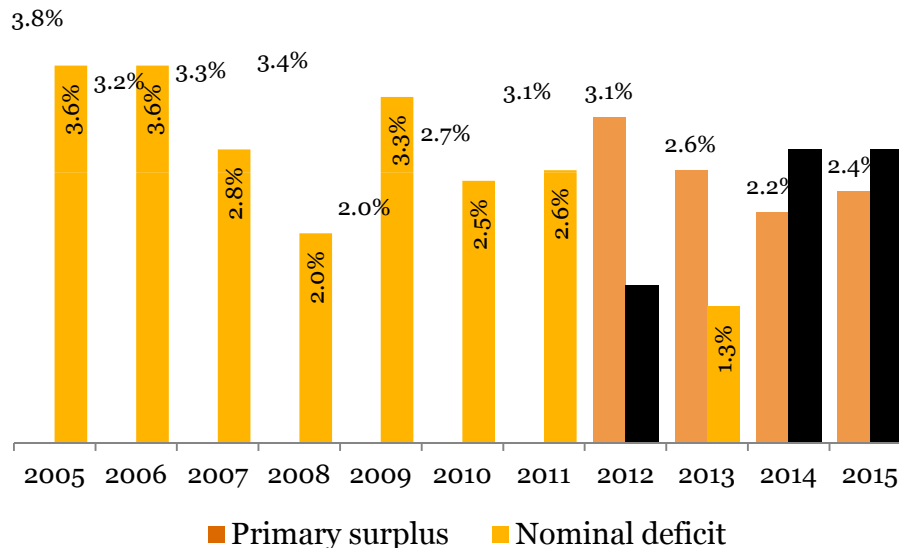


Meetings	Interest	Rate
Jan - 11	11,25%	0,50%
Mar - 11	11,75%	0,50%
Abr - 11	12,00%	0,25%
Jun - 11	12,25%	0,25%
Jul - 11	12,50%	0,25%
Ago - 11	12,00%	-0,50%
Out - 11	11,50%	-0,50%
Nov - 11	11,00%	-0,50%
Jan - 12	10,50%	-0,50%
Mar - 12	9,75%	-0,75%
Abr - 12	9,00%	-0,75%
Mai - 12	8,50%	-0,50%
Jul - 12	8,00%	-0,50%
Ago - 12	7,50%	-0,50%
Out - 12	7,50%	0,00%
Dez - 12	7,50%	0,00%
Jan - 13	7,50%	0,00%
Mar - 13	7,50%	0,00%
Abr - 13	8,00%	0,50%
Jun - 13	8,50%	0,50%
Jul - 13	9,00%	0,50%
Ago - 13	9,50%	0,50%
Out - 13	9,50%	0,00%
Dez - 13	9,50%	0,00%

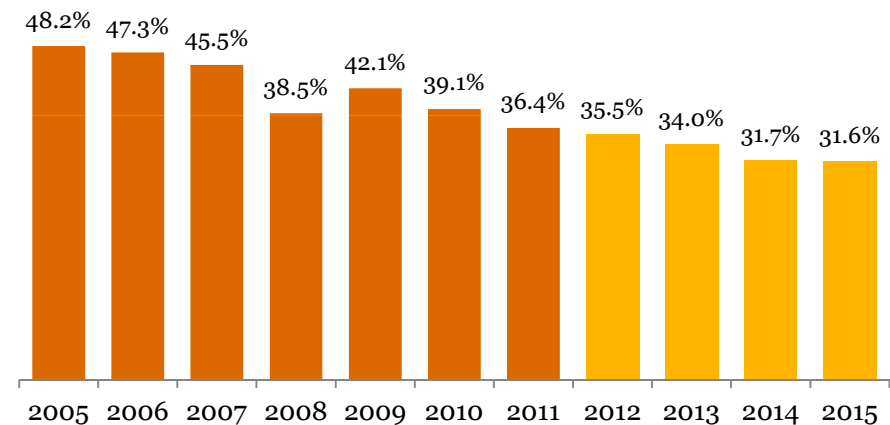
Brazil – Fiscal Policy

- Primary surplus target for 2011 (3.1% of GDP) was achieved without difficulty. But the government had to sacrifice investments to meet the target.
- For 2012, with extraordinary income of dividends (through BNDES) and cost containment we will have another year of compliance with goal.
- The spending contention on personnel is positive but should not happen in 2013 and 2014.
- The uncertainties in this field remains in a longer horizon, given the absence of structural measures which would result in a better fiscal management over the years.

Primary and nominal results – (%GDP)
2005 – 2015 forecast



Public sector net debt – (%GDP)
2005 – 2015 forecast

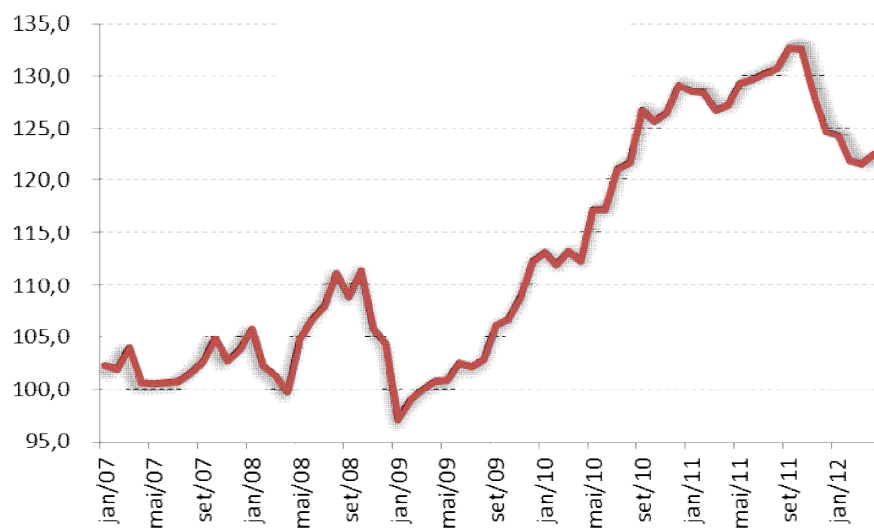


Brazil – Exchange Rate

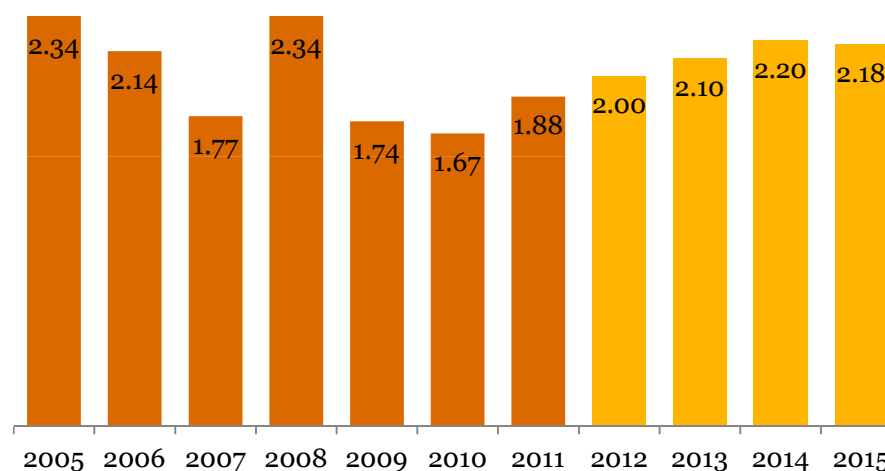
Real controlled depreciation to create competitiveness

- Devaluation of the BRL was higher than other currencies, given the government actions to weaken the currency.
- But in recent weeks government tried to avoid another round of depreciation of the BRL and seems comfortable with the level around R\$ 2,00/US\$.
- In the medium term the reversal of monetary policy in the U.S. and worsening terms of trade should weaken the BRL.

Terms of trade
2007 - 2012

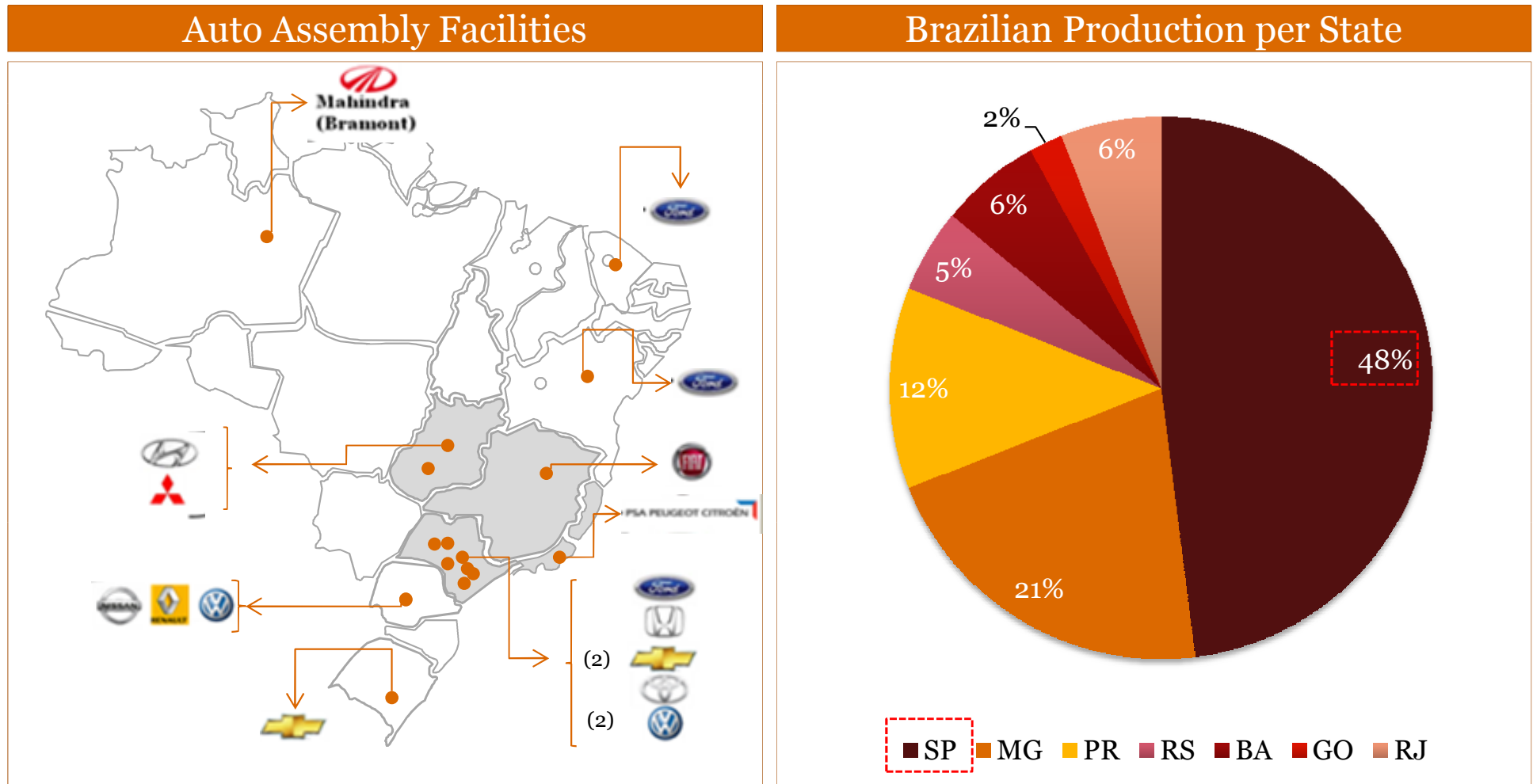


Exchange rate – (end of period)
2005 – 2015 forecast



Brazil – Vehicle Assembly Geographic Distribution

In 2011, over 48% of the vehicles were produced in SP

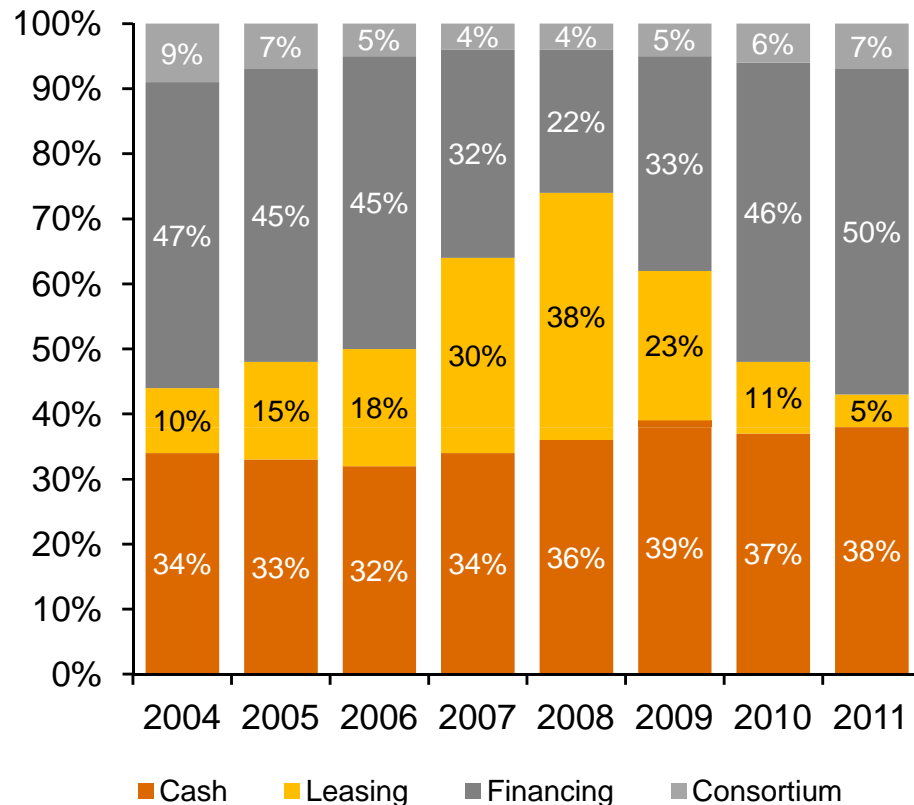


Market Overview – Brazil

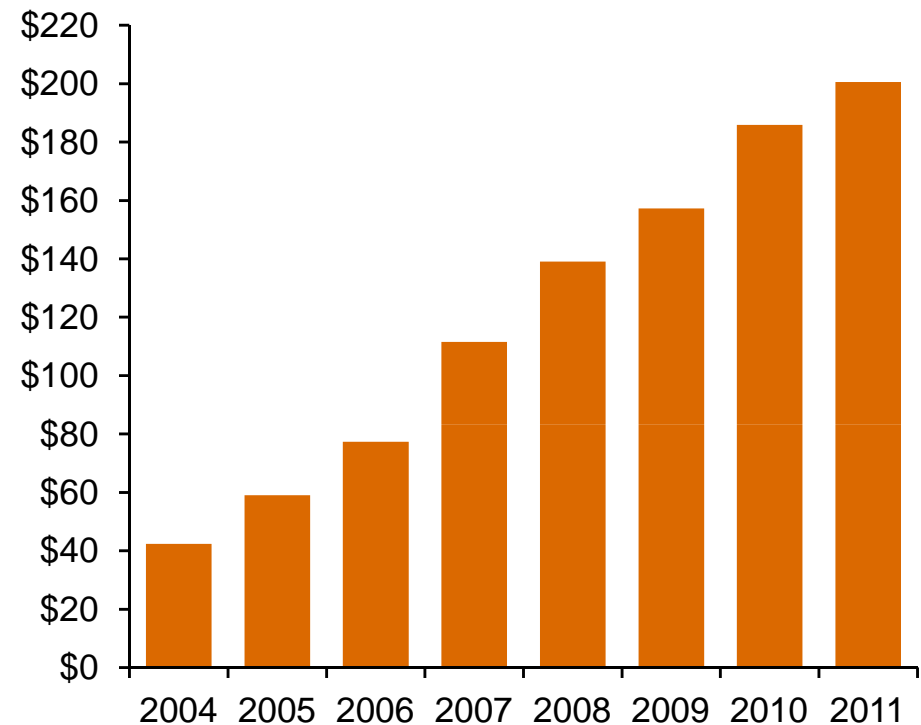
Let's make a deal

The growing amount of auto credit in Brazil has helped increase the number of vehicle purchases. However, Brazil still varies greatly from developed markets financing activity with high interest rates and dramatic swings in the availability of financing.

Brazil: Light Vehicle Financing Composition
2004 – 2011



Brazil: Net Value of Auto Financing*
2004 – 2011 (billions \$R) *includes leasing



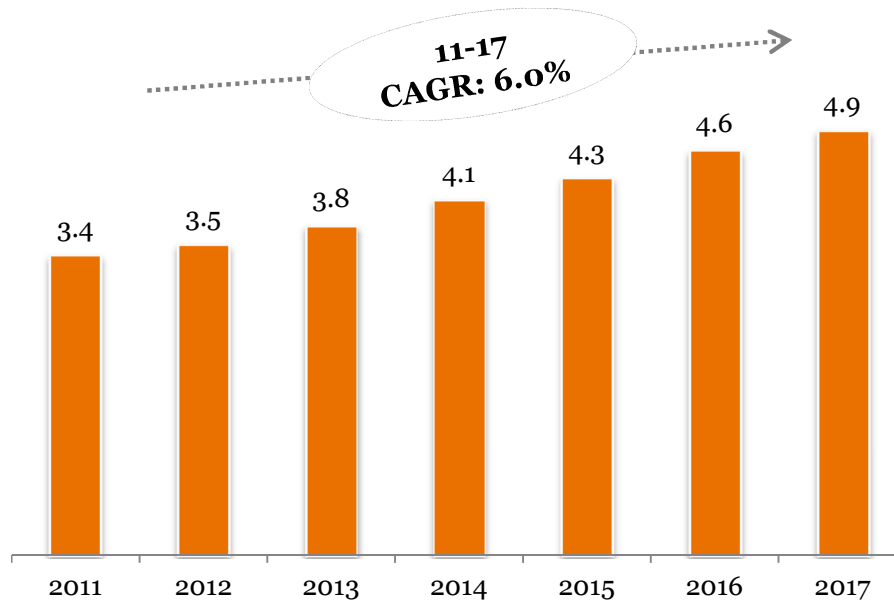
Brazil – Market Drivers

Variables that impact cars and light commercial vehicles sales in Brazil

Credit Supply	Supply of credit to families should remain relatively stable.		→
Price	Vehicle prices should fall by 1.5% a year in real terms - appreciated exchange rate increasing competition.	- 1,5%	↑
Income	Household income should continue to grow more than the GDP(4.8% pa x 3.8% pa) - competition for manpower.	+ 4,8%	↑
Interest rate	Despite the recent decrease, interest rate is expected to increase until 2013 - higher basic interest rate (SELIC)- with more consistent decreases from 2016.	- 1,6 p.p.	↓
Consumer confidence	Currently at very high levels (about 160 - scale of 0 to 200), with no margin to any consistent increase.	+ 9,2 p.p.	↑
Vehicle loan terms	Average terms in auto loans to settle at slightly lower levels than the record-breaking ones achieved in late 2010.	- 37 dias	↓
Other variables outside the model relevant to the understanding			
Default	Expected decrease in the short term due to easing in the monetary policy.	+ 0,8 p.p.	↓
Household indebtedness	The expected increase in interest rates start to worry, but household indebtedness still has room to grow.	+ 19,6 p.p.	↓

Brazil – Sales Forecast

Sales forecast
2011 – 2017(f) [million units]



Jan-May 2012 Brazil light vehicles sales were down 4.4%. However, measures adopted by the federal government to increase the competitiveness and stimulate the economy (Brasil Maior, SELIC decrease and Real depreciation) could have a positive impact on the market, beginning in the 2H12, which can increase of 3,6% in 2012

Major drivers:


- Robust increase in household income (4.8% pa)
- Intense flow of family migrations to classes C, B, and A - the ones with enough purchasing power to buy automobiles -, which should expand by 5% p.a. (after +7.3% from 2004 to 2011)
- Price decrease (by 1.5% p.a.)

Major constraints:

- Relatively tight monetary policy
- Interest and maturities should provide sizable extra gains

Brazil – Main Automotive Investments

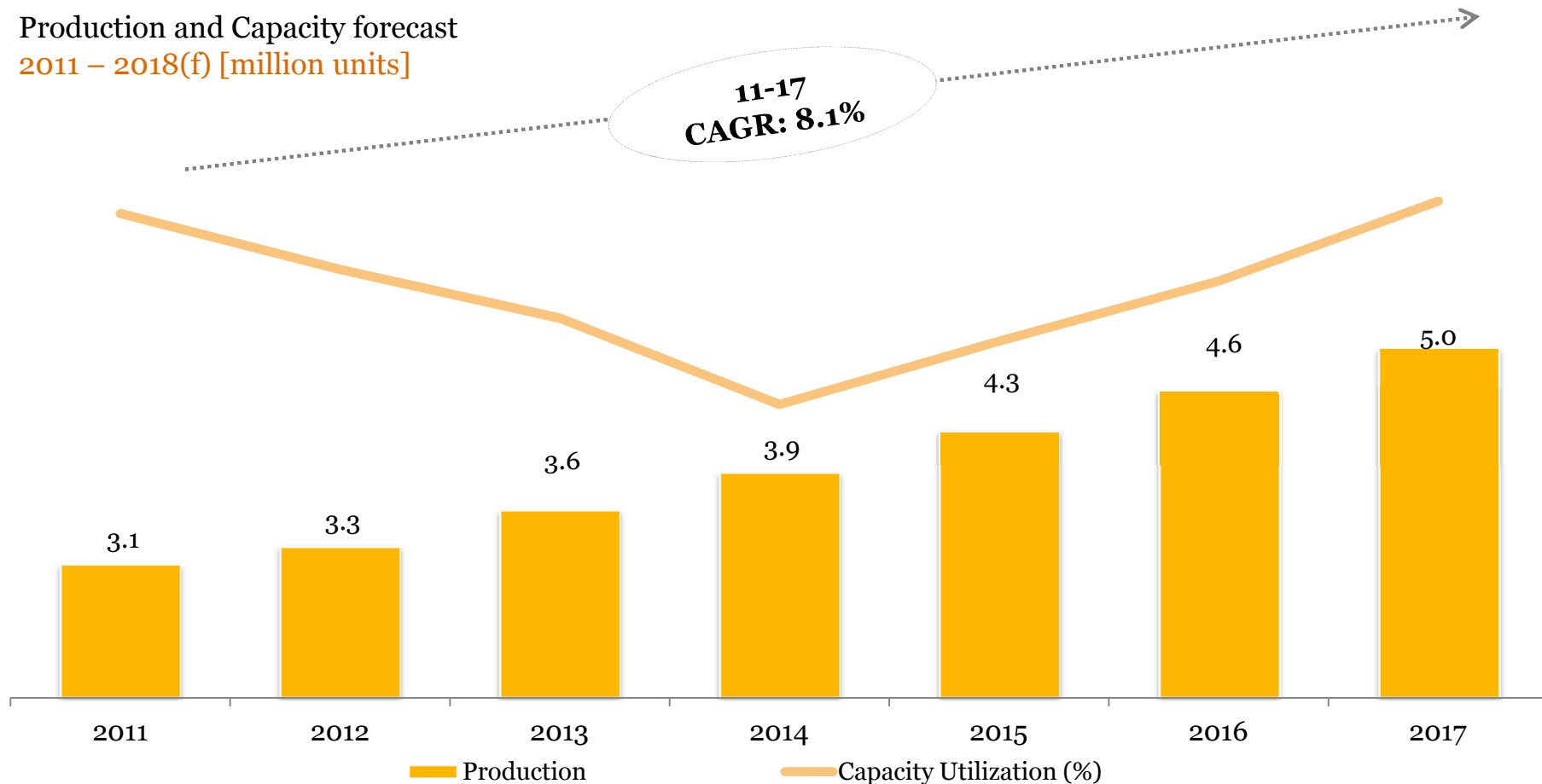
More than US 23 billions was announced in investments to increase capacity in more than 1.5 million units until 2015

Mark	Investment	Location	Conclusion	Investment (US\$B)
	Capacity Expansion	São Caetano do Sul, São José dos Campos, Mogi das Cruzes (SP), Gravataí (RS) and Joinville (SC)	2012	1.70
	New plant	Piracicaba (SP)	2012	0.60
	New plant	Sorocaba (SP)	2012	0.60
	New plant and Capacity Expansion	Goiana (PE) and in Betim (MG)	2014	5.90
	New plant	-	2014	0.53
	New plant	Resende (RJ)	2014	1.50
	New plant	Jacareí (SP)	2015	0.40
	Capacity Expansion	São Bernardo do Campo, Taubaté (SP) and Camaçari (BA)	2015	2.60
	Capacity Expansion	Porto Real (RJ)	2015	2.20
	Capacity Expansion	São José dos Pinhais (PR).	2015	0.88
	Capacity Expansion	São Bernardo do Campo, Taubaté, São Carlos (SP) and São José dos Pinhais (PR)	2016	5.20
	Capacity Expansion	Catalão (GO)	-	0.59
	New product	Itumbiara (GO).	-	0.06

Brazil – Production Forecast

Brazil will produce 4.3 million units in 2015, with 75% utilization.

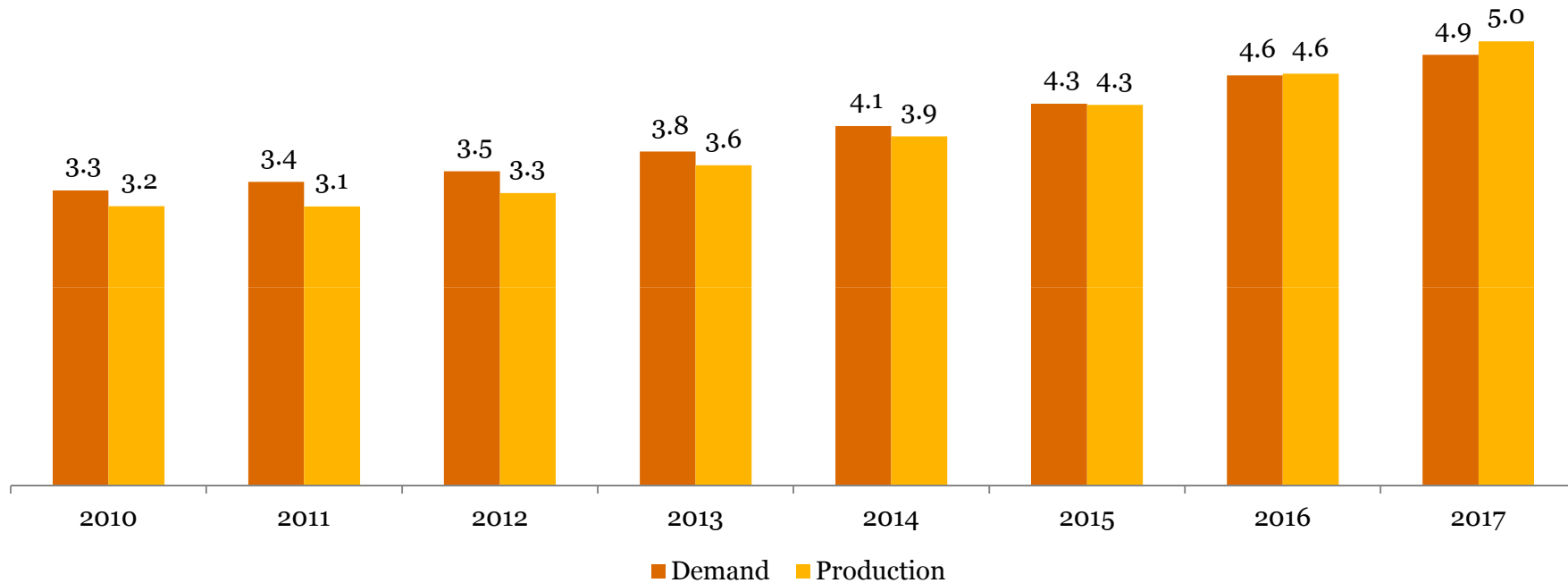
Production and Capacity forecast
2011 – 2018(f) [million units]



Brazil – Market x Production Forecast

Local production will attend the increase in the local market and a possible increase in exports as well.

Demand and Production forecast
2010 – 2018(f) [million units]

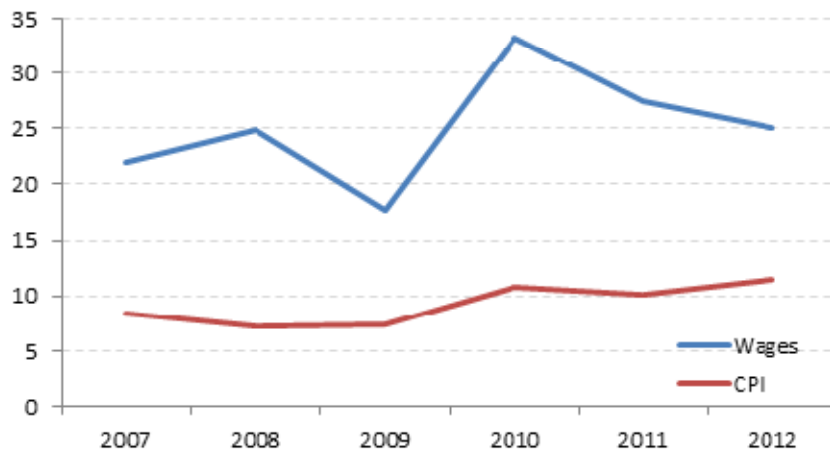


Argentina – Macroeconomic Overview

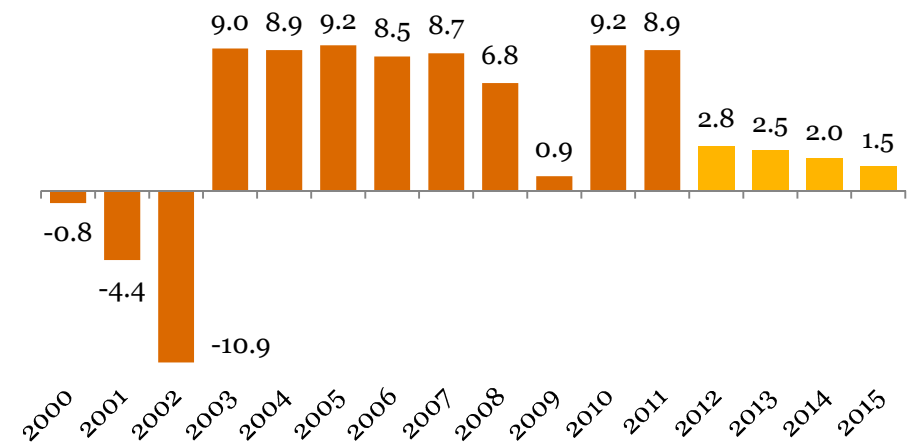
Government measures are the main issue

- The recent performance of the Argentine economy is based on two characteristics: a low base of comparison in years of severe crisis (99-03) and the soaring prices in the international market commodities.
- After the debt default (2001), the country has maintained a good record of fiscal data (revenue growth + cost control).
- But the Argentine model is at its limits:
 - Exchange rate appreciation in real terms (high inflation)
 - Reversal of public accounts (all the subsidies should be limited)
 - Energy constraints
 - Strong State interventionism limits private investments

Argentina: Nominal wages and CPI
(% change)



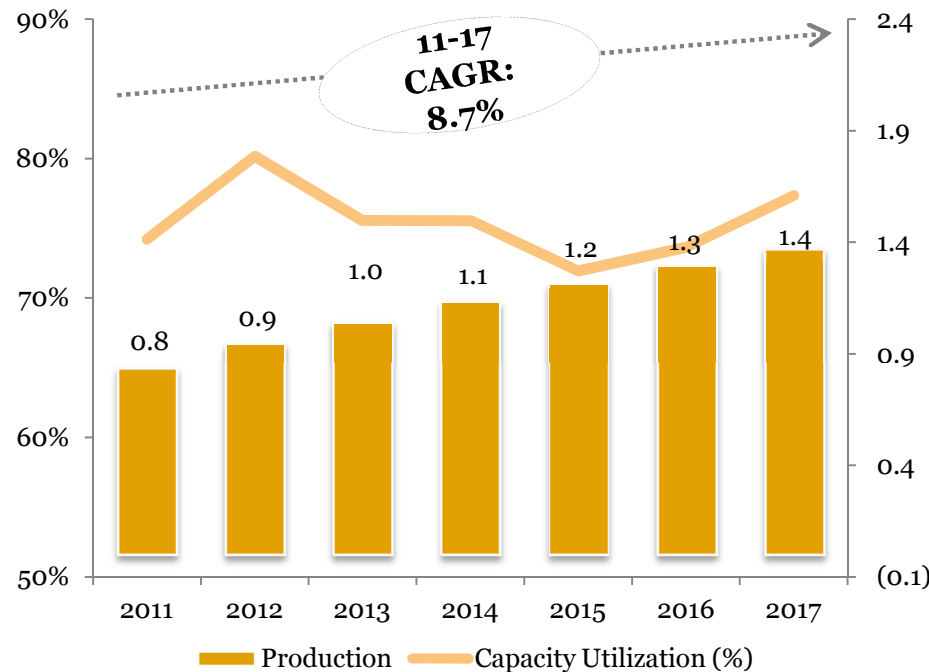
GDP Growth (%YoY)
2000 – 2015 forecast



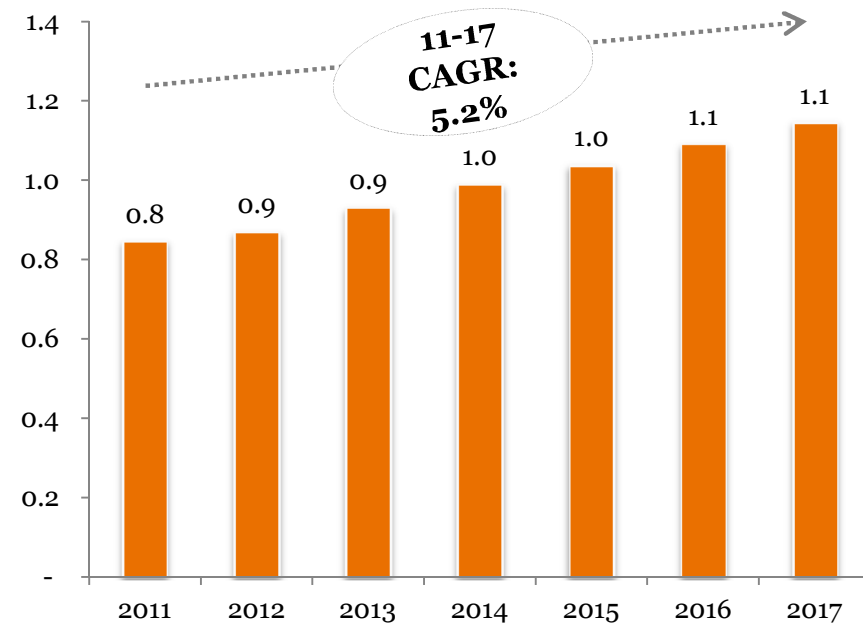
Argentina – Production and Sales forecast

After 24 months of impressive increase the market is presenting some signs of slowdown. In 2014 Argentina could reach the 1 million sales market.

Production and Capacity forecast
2011 – 2018(f) (millions units)



Sales forecast
2011 – 2017(f) (millions units)

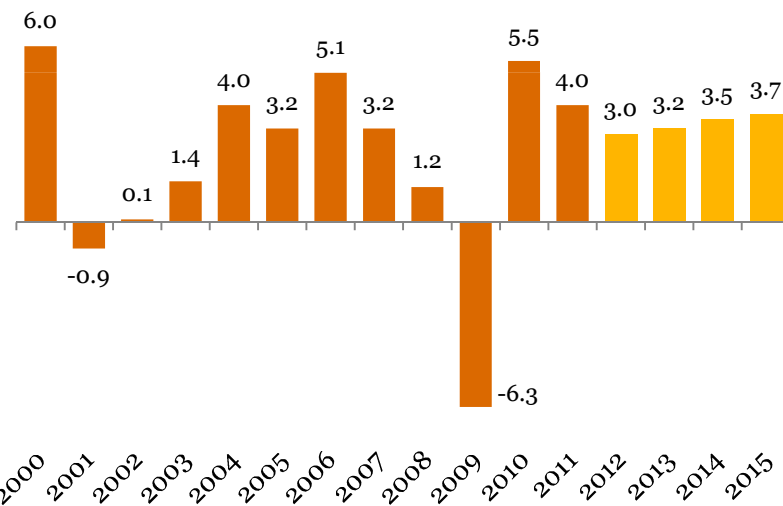


Mexico – Macroeconomic Overview

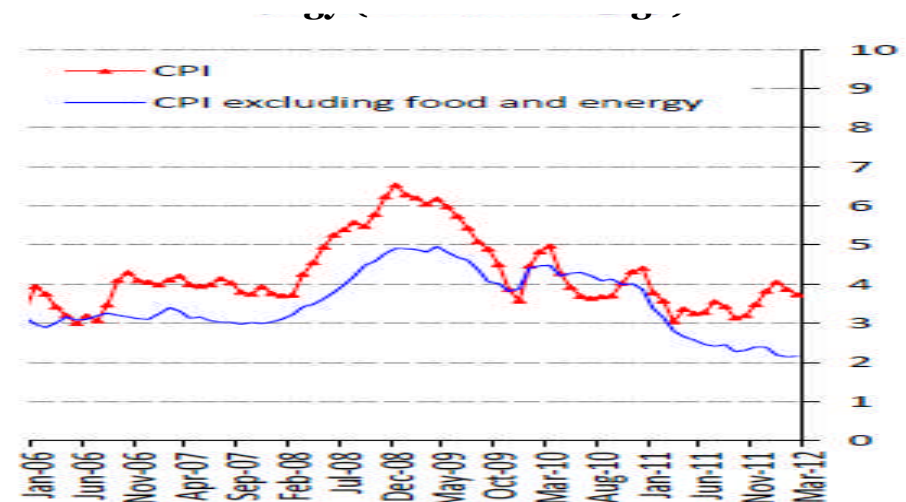
Goes along with US

- Economy is closely related to the US performance due to exportation channel (over 70% of total exports). Even though the outlook for US, compared to Europe, is better, it does limit Mexican economy's growth.
- Inflation is at 3.7% (target is 3.0% +/- 1%). The board of Central Bank agreed that the recent rise was caused by items outside of core inflation. Inflation expectations remain well anchored and consistent with expectations the central bank in its latest quarterly inflation report.
- Basic interest rate is at 4.5% since July/2009.
- Presidential elections occur in July. National Action Party (PAN), which governs Mexico, chose Josefina Vázquez Mota to contest Enrique Peña Nieto (International Revolutionary Party candidate - PRI) who is ahead in the polls on voting intentions.

GDP Growth (%YoY)
2000 – 2015 forecast



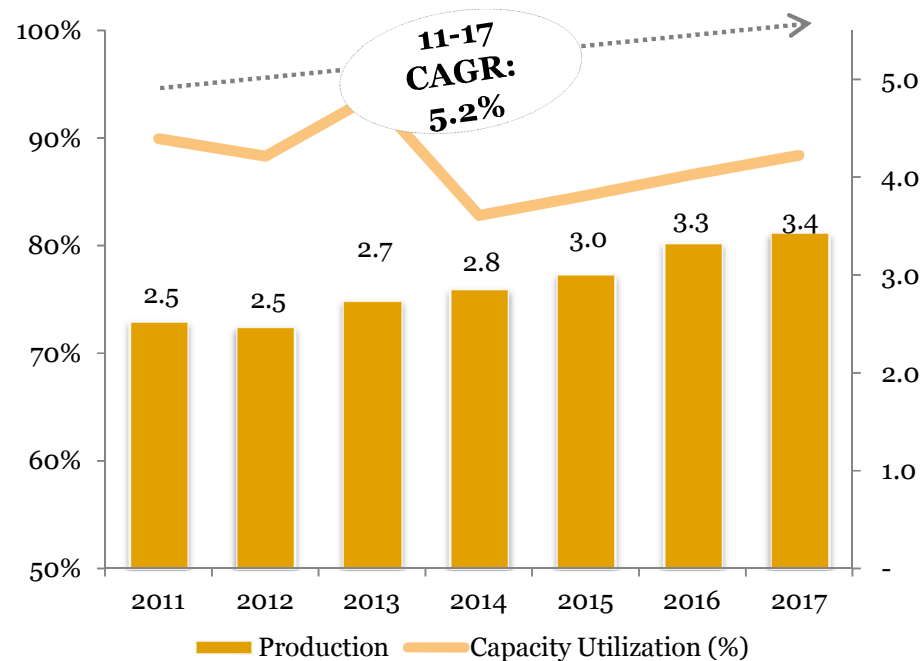
CPI excluding food and energy
(Annual % change)



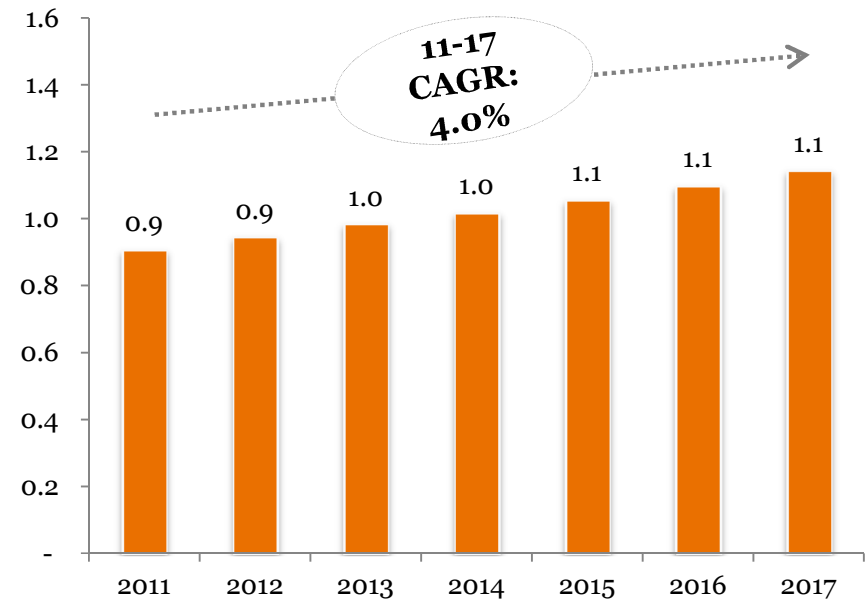
Mexico – Production and Sales forecast

More consistent growth is highly dependent on the USA economy recovery

Production and Capacity forecast
2011 – 2018(f) [million units]



Sales forecast
2011 – 2017(f) [million units]



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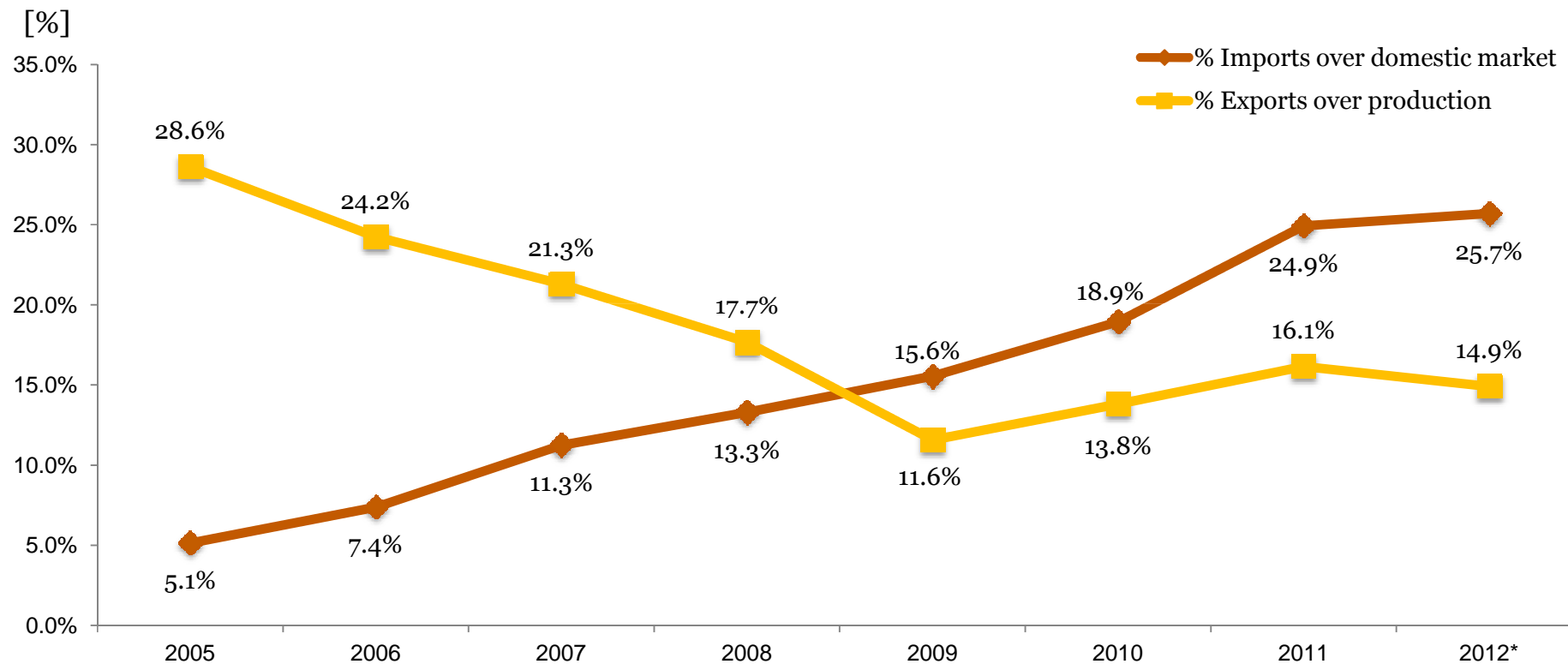


Brazil – Local Production Competitiveness

Giving the exchange rate and the competitiveness of the local industry, Brazil is unlikely to leverage its exports in the short term

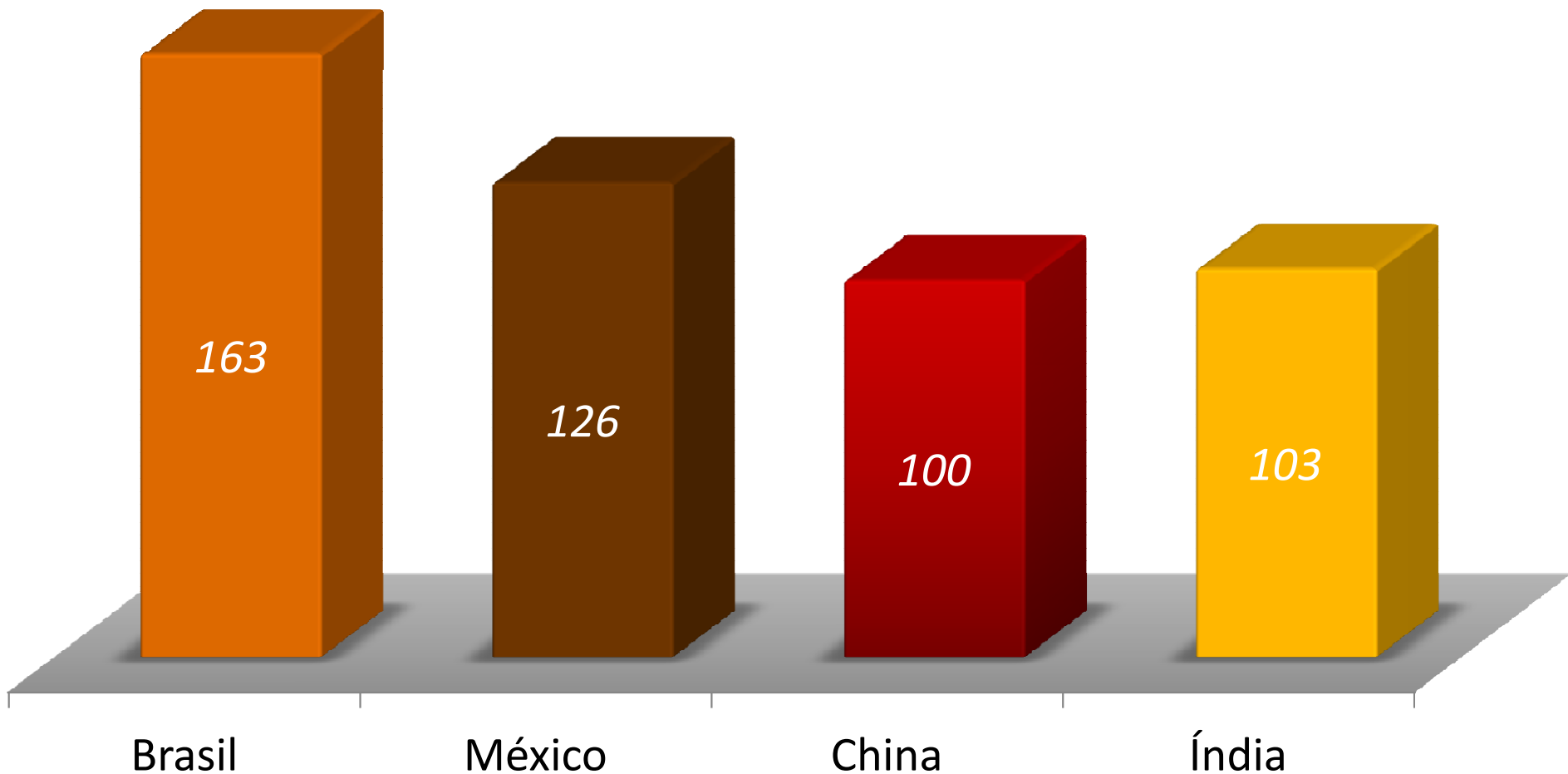
Between 2005 and 2011, the Brazilian market grew 12% per year, while imports grew 46% per year. In 2011 imports represented 25% of total domestic sales.

% Exports over production X % Imports over domestic market



Brazil – Production Costs of Vehicle

The production cost in Brazil is higher than China and India, with values approaching 60%



average models; base 100: production in china

Production cost based on dec/11

R\$/US\$ = 1.88

Brazil – Automotive Policy

Current legislation – Decree 7567/2011: December/11 the December/12

The decree change is a 30 p.p. increase across the board in Federal Excise Tax (IPI) rates on vehicles.

Engine Volume	IPI before 2011	New IPI
V < liter (Flex or Gas)	7%	37%
1 liter < V < 2 liters Flex	11%	41%
1 liter < V < 2 liters Gas	13%	43%
Above 2 liters	25%	55%

Local manufacturers will benefit from tax reductions that negate the IPI increase. Requirements include :

- 65% local content;
- Commitment to local R&D;
- Onshoring of 6 out of 11 production processes outlined in the decree.

For the purposes of calculating the level of local content, the decree expressly mentions that parts imported from Mercosur should be considered locally produced goods.

Brazil – Automotive Policy

New legislation - Decree 7716 /2012: 2013-2017

- Includes new conditions of license and incentives;
- Measures are intended to attract investments in new product and new capacity, and to stimulate R&D innovation within Brazil's borders .

Objectives:

- Increase the regional content measured by the volume of parts purchased from regional strategic suppliers;
- Increase R&D investment;
- Increase the volume spent on Industrial Engineering and Industrial Technology ;
- Development a local supplier;
- Intend to increase the energy efficiency of vehicles - vehicle labeling and reduction of CO₂ emissions.

Brazil – Automotive Policy

New legislation - Decree 7716 /2012: 2013-2017

INOVAR AUTO Qualifications & Incentives

Requirements	Qualification (3 out of 4)	IPI Incentive (+ 30 p.p.)	IPI Incentive (+2 p.p.)
R & D (Innovation)	✓		✓
Engineering, Industrial / Supplier development	✓		✓
Manufacturing Steps	✓		
Tagging	✓		
Strategic Suppliers Purchase		✓	

Brazil – Automotive Policy

New legislation - Decree 7716 /2012: 2013-2017

Transition rule for new investments:

- The investment project will be evaluated for new capacity and new models;
- During the construction phase: IPI collected on imported cars will generate tax credits (to be used after SOP);
- IPI Tax Credits: limited to 50% of the plant capacity;
- The requirements will increase gradually until 2017.
- The project need to be done according to the Legislation and Ministry of Development and Industry needs to approve it.

Brazil – Automotive Policy

New legislation - Decree 7716 /2012: 2013-2017

INOVAR AUTO Company Contribution

Criteria	2013	2014	2015	2016	2017
R & D (Innovation)	At least 0.15% of gross operating revenues	At least 0.3% of gross operating revenues	At least 0.3% of gross operating revenues	0.5% of gross operating revenues	0.5% of gross operating revenues
Engineering, Basic industrial and Supplier development	At least 0.5% of gross operating revenues	At least 0.75% of gross operating revenues	1% of gross operating revenues	1% of gross operating revenues	1% of gross operating revenues
Manufacturing Steps	8 of 12 steps - light 10 of 14 steps - heavy	9 of 12 – light 10 of 14 steps - heavy	9 of 12 – light 12 of 14 steps – heavy	10 of 12 – light 12 of 14 steps – heavy	10 of 12 steps - light 12 of 14 steps – heavy
Tagging	At least 25% of vehicles produced	At least 40% of vehicles produced	At least 60% of vehicles produced	At least 80% of vehicles produced	100% of vehicles produced

Brazil – Automotive Policy

New legislation - Decree 7716 /2012: 2013-2017

Strategic Suppliers Purchase (Starting 2013):

- In 2012 there will be no change in the IPI (based on the new legislation);
- The incentive for the reduction will depend on the innovation and local production efforts from 2013;
- The reduction of 30 percentage points will be calculated based on the local purchases within the country. The higher the local purchase, the greater the benefits, up to 30 pp;
- Further reduction of up to 2pp in the IPI: companies that meet higher R&D investments and Supplier development goals.

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Brazil – Auto Parts Overview 2011

494
Associated
companies

US\$ 91,5
billion
Sales

US\$ 11,1 billion
Exports
US\$ 15,8 billion
Imports

749
Industrial units
in 12 states, 43
systemists

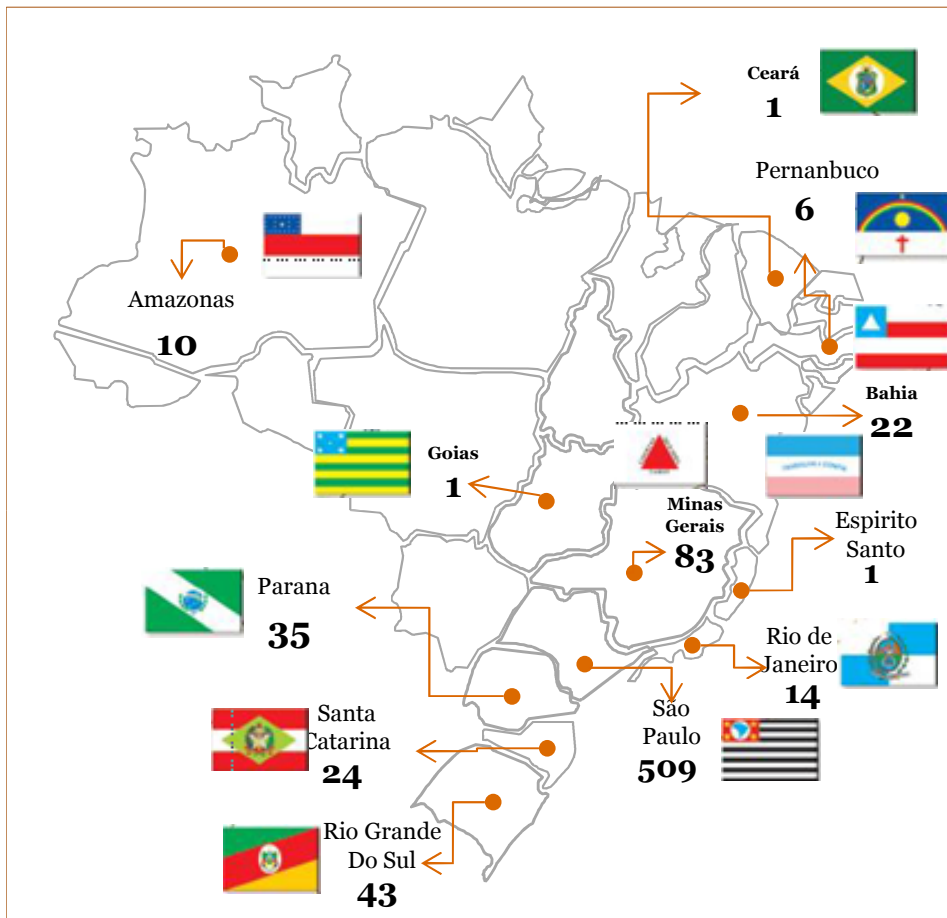
US\$ 2,4 billion
Investments

229,5
thousand
Employees

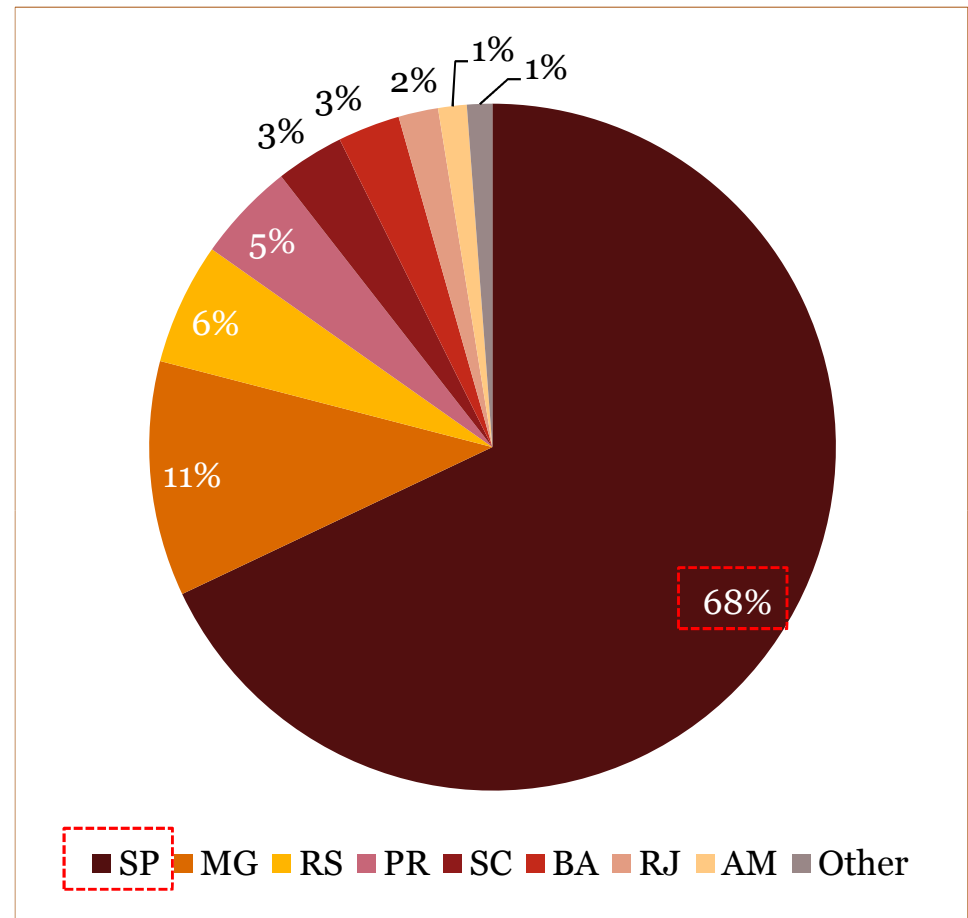
Brazil – Auto Parts Geographic Distribution

SP is also the major auto parts producer and exporter to other states

Brazilian Autoparts Industry



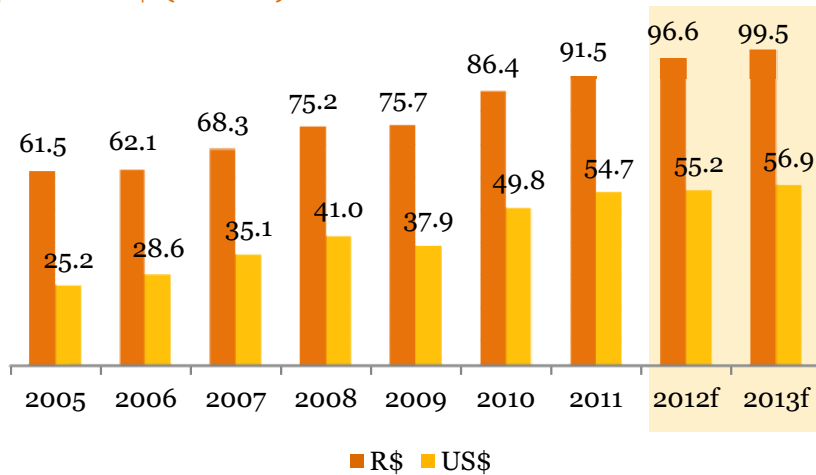
Autoparts companies



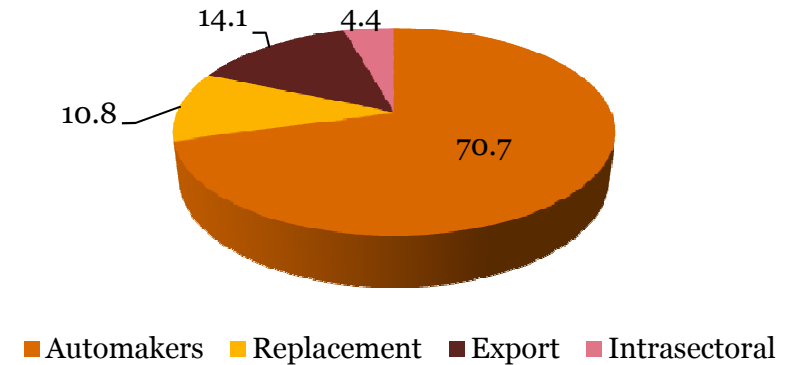
Brazil – Auto Parts

Main indicators

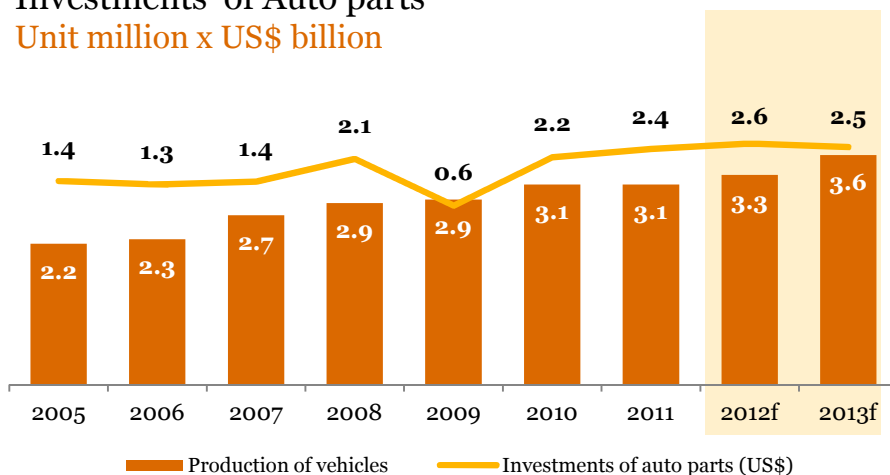
Revenue from the auto parts industry in Brazil
R\$ and US\$ (billion)



Revenue by destination
% - dec/2011



Investments of Auto parts
Unit million x US\$ billion



% Exports over production X % Imports over domestic market
US\$ billion



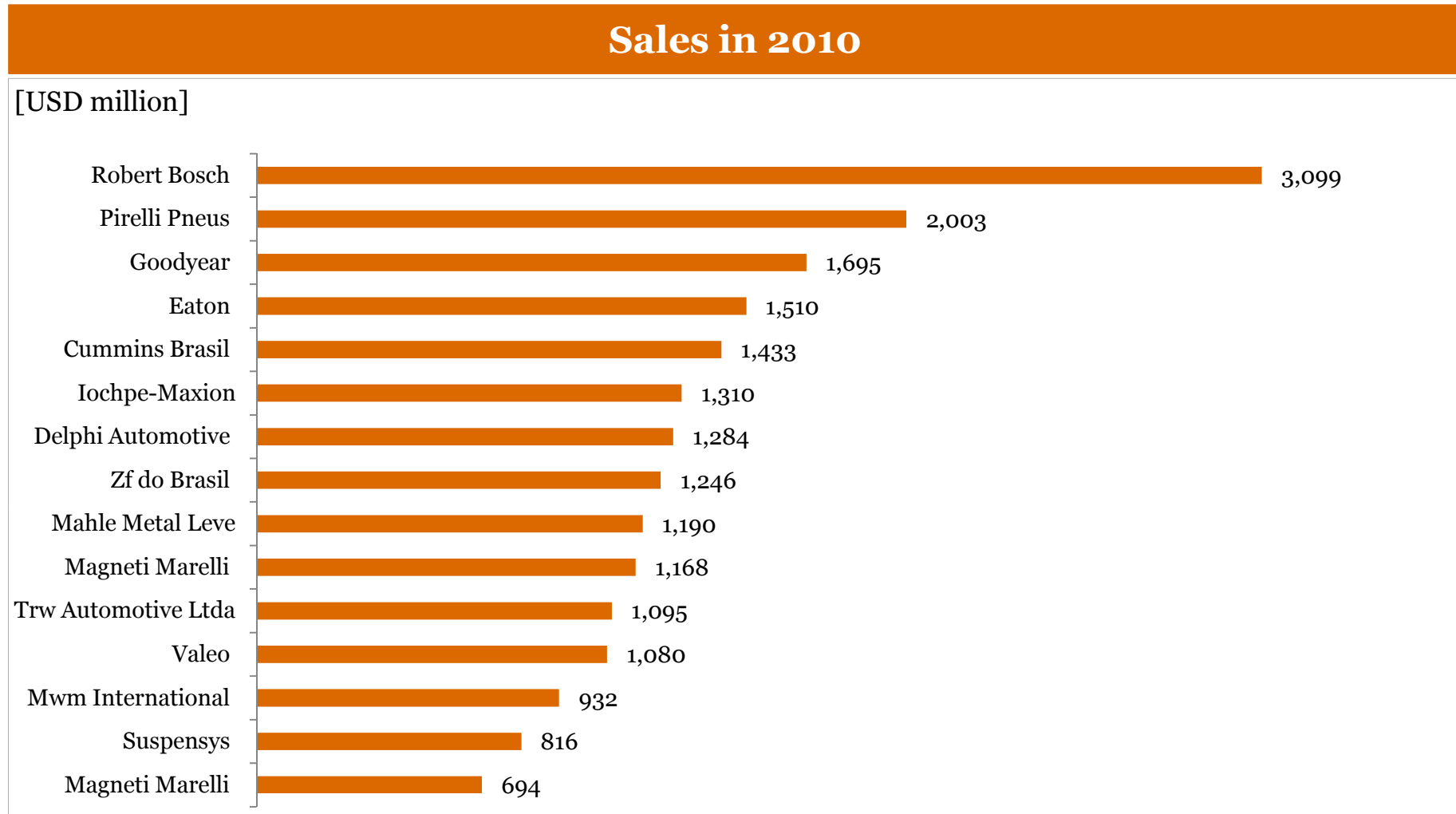
Brazil Auto Parts Market – Main Indicators

The good perspectives for automotive industry will guarantee the increase in Auto parts volumes. However, margins will be pressure to a lower level, making competitiveness and productivity major factors for the companies results

Indicators	2.009	2.010	2.011	2012 (p)	2013 (p)	2014 (p)	CAGR
Vehicle Production (in thousands)	2.911	3.148	3.149	3.301	3.613	3.940	6%
Average Production Index - Auto Parts (2002=100)	120	151	154	160	169	180	8%
Revenues– Auto parts (R\$ millions)	75.688	86.387	91.506	97.454	104.860	113.459	8%
R\$/vehicles	25,001	26,442	28,059	28,523	28,023	27,797	

Brazil – Auto Parts Market Overview

Main Producers per 2010 Sales Revenues



Auto parts – Main conclusion

- The outlook is positive for the Brazilian automotive market , stimulating the announcement of a series of new investments in capacity and products.
- The market and production scenario will also represent an increase in the autopart industry – assemblers supply and aftermarket.
- The current Automotive Policy (2011) requires 65% of regional content (Mercosur) in order to not increase the Federal VAT (IPI) in 30pp. This a great opportunity for local producers.
- Moreover, the New Policy (INOVAR AUTO) could lead the Brazilian industry to an innovation cycle and leverage exports in the short term.
- According to the new regulation the larger the purchase within the country, the greater the benefit (IPI – tax credit) the company will receive.
- The ultimate effect will be the development of a strong supplier park in the country.
- This will be an opportunity for the local suppliers to stand as leaders of this movement.
- And could also stimulate the entry of new players in the supplier segment.

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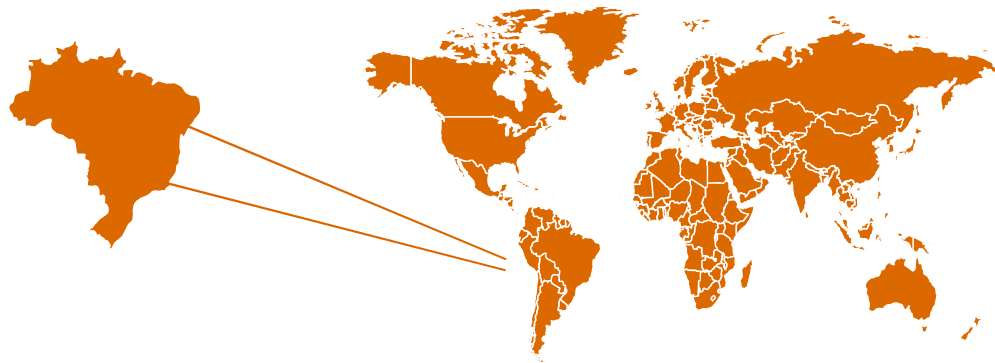


Vehicle power – Status of development

Brazil has prioritized biofuels in its energetic matrix

The new automotive policy will also demand an increase on the energy efficiency of the vehicles sold in Brazil. This movement will be focused on Brazil's currently energetic matrix: ethanol, biodiesel and natural gas.

Vehicle power - status of development



Fuels	Vehicles
Brazil	
Petroleum	Internal Combustion Engine
Biofuels	Based on biofuels
World	
Hydrogen	Electric Engine
Synthetical	Hybrid Engine

Brazil – Sustainability trends

Electric Cars - Potential for 1 million units by 2025 in Brazil

According to the sector executives, by 2025, around 20% of the Brazilian fleet (almost 1 million units) will be hybrid and electric vehicles.

The first step is the popularization of vehicles equipped with Start-Stop system that turn off the vehicle when stopped in traffic or semaphores, reducing fuel consumption and emission of pollutants.

Taxi Fleet

In 2012, was launched the first 100% electric taxi in the country, totaling 120 vehicles by the end of the year.

The pilot project is an initiative of the city of São Paulo and Eletropaulo

Rio plans a public rent system for electric cars

Giving the high tourist potential, the city of Rio de Janeiro presented a public call for the creation of rental stations for electric cars. The proposed of green mobility is based on the model adopted in Paris.

Olympic Games in Rio

In the Olympics 2016, athletes, delegations and authorities will use 4.500 vehicles with clean energy. The cars will be powered by ethanol or electricity. After the games, the cars will be donated to assist in public transportation.

CPFL Energia presents new technology for electric vehicle

In partnership with other companies, the company develops the first lithium battery.

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10. **PwC Brazil**



PwC - Presence in Brazil

In Brazil since 1915

17 offices

160 partners

4.700 staff

#1 in size and reputation



● *PwC offices in Brazil*

PwC - Consulting Services

- Forecast Outlook and Industry Advisory;
- Site Location, Negotiation with government (city, state and federal government);
- Human Resources, Organization, Processes and Change Management
- Supplier identification and certification;
- Operational planning;
- Logistic planning;
- Project management of the plant construction;
- Information Technology;
- Business Plan of the new business.
- Tax Planning;
- Tax Consultancy;
- Corporate Restructuring;
- Review of Procedures and Federal, Estate and Municipal Taxes;
- Transfer Pricing.



PwC - Supply & Demand Chain Management

- Market Intelligence
- Commercial Management and Productivity
- Loyalty programs
- Client Field Services
- Category Management
- Campaign Management
- Release Product
- Sales Force Automation
- Sales Cycle Management

- Site location
- Identify and quantify improve opportunities
- Strategy Plan
- Implement strategy
- Feasibility Study

- Integrated Plan
- Demand Plan
- Production Plan
- Material Plan
- Collaborative Plan



- Warehouse and Distribution Center Optimization
- Logistic cost reduction
- Inbound/Outbound process optimization
- Review Contract Model
- Increase Liability and flexibility
- Reverse logistic

- Lean Manufacturing
- Asset Management
- Quality and productivity
- Product Value Analysis

- Strategic Sourcing
- Master Data
- Procurement process
- Supplier Development
- Supply integration
- E-procurement
- ERP,APS,TMS

*Thank
you!!!*

Rio de Janeiro

