

Most of the automotive suppliers in Slovakia expect revenues to grow this year. A lack of skilled labour is already seen as a potential limiting factor to achieve growth targets. It is more difficult to succeed in this industry – as much as 77% of respondents plan to improve overall effectivity of production in the near future.

Automotive Suppliers Survey

Slovakia, 2016



Consultancy firm PwC in co-operation with the Automotive Industry Association of the SR (ZAP) and Slovak Automotive Institute (SAI) surveyed the current situation, key factors and the outlook for the coming years in the automotive suppliers industry in Slovakia.

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Dear Friends and Business Partners,

Global business leaders voice concerns about economic and business growth. At the same time, they see a world where technology is transforming the expectations of customers and other stakeholders. The results of the 19th Annual Global CEO Survey conducted by PwC have been published and discussed in Davos and show a diverse picture.

Automotive CEOs believe that government responses to national debt could negatively affect their business and increase tax burden. Two-thirds of automotive CEOs say that governments and regulators will have a high or very high impact on strategy. Big regional differences in sales activity increase the complexity for automotive companies. Russia, Brasil, China slowing down, on the other side growing focus on US and Europe that is catching up the backlog from prior years.

Automotive executives recognize the need to strengthen customers' trust. 58% of automotive CEOs are concerned that lack of trust in business could threaten their growth prospects. At PwC, we believe that ultimately it is about the purpose – the why of what you do, not the what. In addition, customer demand has become very dynamic, creating significant challenges for automotive operations and strategy. Demographic shifts, urbanisation and technological advances are reshaping customer needs in fundamental ways. Skilled and engaged people are needed to turn the purpose into reality and to respond to the challenges and opportunities that technology offers.

Talent and availability of skilled labour stays a key topic also for Slovakia, this has now been recognized, and there is a lot to be done to ensure Slovakia moves forward in this respect. This is the fourth Slovak Automotive Suppliers Survey and the results have been published in May 2016. Generally, Slovak automotive suppliers are positive about their growth prospects. It seems that Slovakia continues to be a sunny island for the industry, and recent investments confirm the future potential. Take a look at the survey and find out what the Slovak suppliers believe the critical factors are to make sure that Slovakia stays competitive. I trust you will find the results value added.

Jens Hörning
Partner, Slovakia and CEE Automotive Industry Leader
PwC Slovakia





The one million cars from the production lines must be surpassed by values

It might be thought that 2015 brought exceptional changes to the Slovak automotive industry. Car production reached seven digits and Jaguar Land Rover decided to build a new plant in Nitra, which opened the door for further growth for the “Made in Slovakia” brand. However, the greatest changes are yet to come.

The automotive supplier survey conducted by our member and partner, PwC, together with the Slovak Automotive Institute is a valuable tool providing valuable information about trends and requirements of the manufacturing companies. The Automotive Industry Association of SR is committed to be a leader in initiating and implementing conditions for the sustainable competitiveness of the Slovak automotive industry.

Last year, production output was a record 1,038,503 cars, which represents more than 40% of Slovak exports. Almost 126 thousand people are employed directly in the automotive industry. Together with supporting activities, the industry provides 250,000 jobs and has an influence far beyond the cars it produces.

As Slovakia is a typical industrial country, it needs to act appropriately. Therefore, the current and future needs of the automotive business should become part of national industrial policy.

A major challenge is presented by the Industry 4.0 concept. However, it is difficult to introduce a new philosophy into a car plant. Therefore, we consider it important to make sure that firms are aware that future success will require an acceleration of the innovation cycle, more flexible adjustment of production lines, and more sophisticated operations. This will require highly qualified people. The transformation of our educational system to meet the needs of industry, which is one of key themes of the study, is therefore our priority. Changes are required to the system, starting with elementary schools and ending with university education.

The respondents confirmed that one third of employee fluctuation occurs during the trial period and only slightly less people leave during the first year. Changing the educational system so that it better reflects employers' needs, is one part of the solution. Ideas about working in a firm and their confrontation with reality show that it is important that people are informed and public opinion is changed in favour of industry. If this is done, not only interest in working in industry will grow – but young people will also be encouraged to study technical and natural science subjects. An increased number of students studying mathematics and physics is not an end in itself – it will help students to learn, and graduate or obtain a diploma in a technical field.

The coming generation must learn to be curious. Since currently less than a sixth of automotive companies in Slovakia have some type of R&D, this figure will need to be much higher in the future. In order to respond rapidly to changes, the industry will need better assistance in the form of applied research than it has had so far and Slovak scientists will have their part to play.

This will need to function throughout Slovakia. Due to the growth rate, it is clear we must eliminate discrepancies between the distribution of the automotive industry in Western and Eastern Slovakia. We need to create a supplier database and attract firms from the Eastern Slovakia to join it. We need new forward-looking companies in Slovakia who will be engaged not only in production, but also in the R&D of far more than just the one million cars manufactured in Slovakia. The success of Slovakia must not be dependent on the numbers produced on the production lines, but on the values produced by the Slovak people.

Juraj Sinay
President

Automotive Industry Association of the Slovak Republic

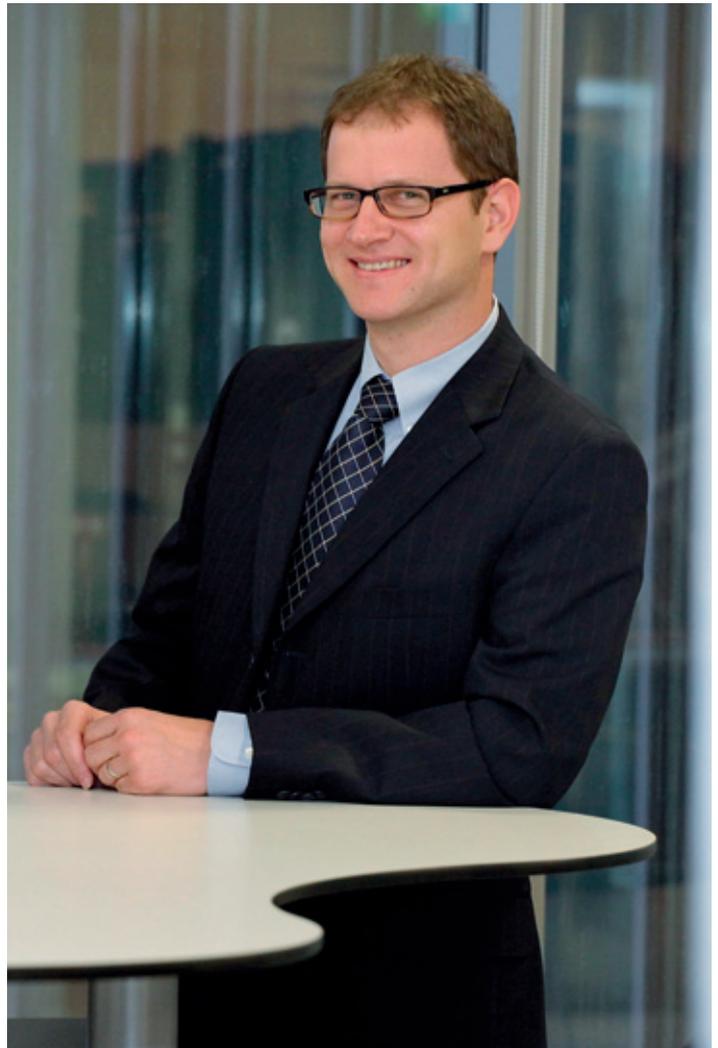
The automotive industry in Slovakia had another record year in 2015. The 3 car producers increased their assembly volume to over 1 million vehicles, and suppliers in Slovakia increased their sales. This was driven by the volume of existing products and the launch of new production. Our 2016 Automotive Suppliers' Survey shows that the successful results achieved in 2015 are likely to be replicated in 2016. However, the continuous growth of the industry is creating new challenges which are rapidly becoming major issues for many suppliers. As a result, the companies may need to pay more attention to those challenges than to potential opportunities.

In the 2016 issue of the Automotive Suppliers Survey, conducted by PwC in cooperation with the Automotive Industry Association of the Slovak Republic and Slovak Automotive Institute, we have expanded our set of questions to examine the opportunities and challenges in more depth. We also asked suppliers about operational efficiency, Industry 4.0 and the arrival of a new car manufacturer. We are glad to report a substantially increased number of participants y/y which demonstrates that our survey has become a representative analysis of the suppliers' network.

The key observations of this year's survey:

- Suppliers located in Slovakia are achieving excellent results as regards to productivity, quality and timeliness of deliveries and rank among the best in their groups.
- As the localization of supplies for OEMs in Central Europe remains strong in 2016 – according to 33% of suppliers, they have to focus on manufacturing improvements (e.g. production and labour efficiencies, production planning, data analysis, product quality).
- Further, the labour market for suppliers is very tight – every fifth company needs more than 50 new employees per year – and therefore one third are redirecting their focus to foreign applicants.
- In spite of these challenges, suppliers remain positive, and predict revenue growth in 2016 and increased staffing levels.

Finally, the suppliers' thoughts on the arrival of a new car manufacturer are about new opportunities for expansion, but also on labour force availability.



“As for last year, more than 80% of suppliers confirmed that the availability and quality of labour is a major problem for production and other divisions. Almost 40% of suppliers stated that this is limiting their ability to win new production contracts. Even if suppliers succeed in finding new hires, the turnover rate within the trial period and in the first year is significant and has a big impact on companies' costs. According to the survey, there are numerous reasons for the high turnover of new employees but some, e.g. distance to work and no interest in a long term job, may require special attention at the national level in the form of increased support for workforce flexibility/reallocation or incentives for long-term employment.”

*Peter Mrnka, Director
Automotive Industry Specialist*

Diverse dynamics in the global automotive industry and future expectations



Over the past few years, the automotive industry has recorded several turnarounds around the globe. High growth rates in emerging markets and stagnation or falling sales in mature economies have reversed. In 2015, the overall output of almost 91 million cars – up around 1% from 2014 - was driven by accelerated growth in the EU, North America and stimulus measures in China, but offset by declines in major developing countries. Whilst the trends for production volume in these key territories varied over the past years, the revenues of the Slovak automotive industry almost doubled between the low in 2009 and 2015. This gives Slovakia a strong position in the European automotive industry and the outlook remains optimistic.

Western Europe (EU15)

EU 15 vehicle assembly was positively affected by increased demand, low inflation rates and falling oil prices but limited by fiscal problems, the refugee crisis and the slowdown of demand in emerging markets. The 2015 production output was higher by 7% compared to 2014 with a major contribution from Italy and Spain, which both added over 300 thousand vehicles to the total output growth. After 2 strong years of production recovery, PwC Autofacts forecasts a 3.3% increase in assembly volume for 2016.

New car registrations were the main driver of production increase as almost every territory reported record sales (total 9% y/y), and 8 of them achieved a double digit growth. UK sales exceeded the pre-crisis level, which was the only top 5 market to achieve this. Strong sales continue for the past 30 months with very high demand for crossovers and SUVs (+0.5 million y/y). The forecast for 2016 is a further increase of around 5.5%.

New EU member states (EU13)

Car production in EU 13 increased by 3% with a major impact of V4 countries of approx. 200 thousand additional cars. The announced future capacity increases will generate additional assembly volume in Poland (VW, 2016), Slovakia (JLR, 2018) and Hungary (Daimler & Audi, 2018+) and represent an overall assembly output of more than 4.2 million vehicles per year.

Car sales were up in all of the main territories and the biggest increases were in the Czech Republic (+21%), Romania (+20%) and Poland (+10%) and this positive trend is expected to continue in 2016.

Eastern Europe

The main drivers of the automotive market in Eastern Europe are Russia and Turkey, which recorded opposite trends during 2015. Due to low oil prices, the depreciation of the rouble, the EU embargo and other factors, car sales in Russia fell by 45% in 2015 and have fallen by 57% since 2012. This downward trend is likely to continue in 2016 (forecast: -14%). In the assembly area, car volumes fell by 27% in 2015 after a 14% decrease in 2013/14, which represents a 40% utilization of production capacities. In contrast, Turkey reported positive results for sales and assembly. Production in 2015 rose by 16% and given the likely launch of new vehicles this year by several OEMs, the rise is likely to continue beyond 2016. Car sales were up by 26% in 2015 and may fall slightly in 2016.

North America

The three North American markets achieved all-time sales records in 2015 and a similar record is predicted for 2016, but this may be the end of the high point of the cycle. Sales in the US and Mexico grew by 6% and 19% respectively in 2015 and production volumes increased by 4% and 6% respectively as more than 600 thousand extra vehicles were produced. Mexico's current assembly volume of 3.4 million vehicles output increased by 50% over the last 5 years and will increase by a further 50% in 2020 (estimated volume – 5.3 million cars). Growth is expected to continue due to a combination of existing plant expansions and new plants opening in 2018 and 2019.

China

Although the Chinese economy experienced a slowdown of its growth in 2015, its automotive industry recorded still a positive assembly growth of some 3%. Thanks to continuous governmental incentives introduced in late 2015 and effective till end of 2016, it is expected that increased demand will also push for higher car assembly by 6% in the current period. PwC Autofacts predicts China's light vehicle assembly to further develop by 6% annually between 2016 and 2020. Total car sales were up by 5% in 2015 primarily driven by an almost 60% annual growth in SUV segment but offset with a drop in major sales category - passenger car.

Production – all vehicles (in thousand of units)	2013	2014	Change	2015	ZChange
EU15 & EFTA	12 766	13 484	6%	14 442	7%
EU13 (new members)	3 418	3 644	7%	3 736	3%
of which: Slovakia	988	971	-2%	1 000	3%
Russia	2 175	1 887	-13%	1 384	-27%
USA	11 046	11 661	6%	12 100	4%
Mexico	3 055	3 368	10%	3 565	6%
Brazil	3 740	3 146	-16%	2 429	-23%
China	22 117	23 732	7%	24 503	3%
India	3 881	3 845	-1%	4 126	7%
Japan	9 630	9 775	2%	9 278	-5%
All other	15 472	15 374	-1%	14 218	-8%
Total production	87 300	89 776	3%	90 781	1%

Sales – all vehicles (in thousand of units)	2013	2014	Change	2015	Change
EU15 & EFTA	13 182	13 913	6%	15 223	9%
EU13 (new members)	913	1 085	19%	1 243	15%
of which: Slovakia	75	82	9%	90	10%
Russia	2 950	2 592	-12%	1 438	-45%
USA	15 884	16 523	4%	17 471	6%
Mexico	1 101	1 135	3%	1 352	19%
Brazil	3 767	3 498	-7%	2 569	-27%
China	21 984	23 499	7%	24 578	5%
India	3 241	3 177	-2%	3 425	8%
Japan	5 376	5 563	3%	5 047	-9%
All other	16 995	16 936	0%	17 242	2%
Total Sales	82 393	87 920	3%	89 678	2%

Source: OICA, World Motor Vehicle Production, by country 2013–2015

Firms set to grow in 2016



In this year's survey almost none of the firms had a negative outlook. Although slightly less firms expect double-digit growth, almost a quarter of respondents expect growth exceeding 10%. More than half of respondents believe their revenues will grow by at least 5% y/y, and 76 % of respondents expect growth. Almost 15% of respondents expect their revenues will be little changed and 9% expect a fall in revenues. This is why Slovakia and the neighbouring region are currently

considered to be a good location. Suppliers have followed the manufacturers by locating assembling facilities in Slovakia and in neighbouring countries, as the region is enjoying a car manufacturing boom. Expectations are similar as regards headcount changes, although they are slightly more moderate which shows that effective growth and increased labour productivity is reliant on new hires and applying modern technologies.

Chart 1: What do you expect the development of your revenues will be in 2016?

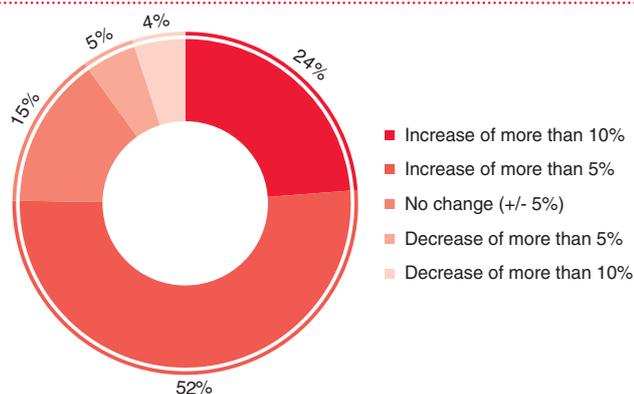
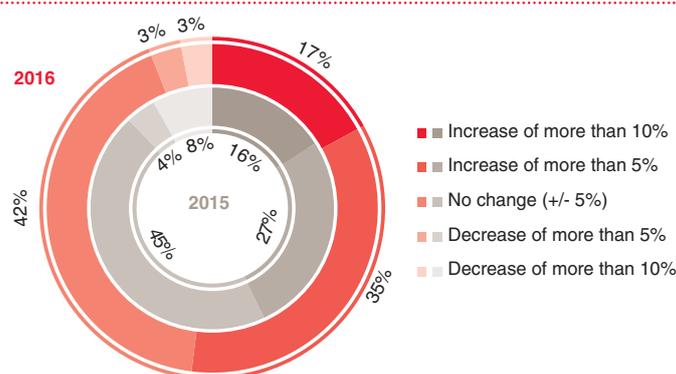


Chart 2: What do you expect the development of the total staff number will be in 2016?



The influence of strong growth in important markets is reflected in suppliers' concerns. Compared to last year, firms are looking to grow by focusing on growing markets. Concerns about weaker growth in developed countries have lessened. Local suppliers are also less concerned about foreign competitors. However, they feel that it is becoming more difficult to succeed in the sector: 45% of respondents consider the continuing pressure from car manufacturers to increase productivity to be a threat to growth.

Chart 3: How concerned are you, if at all, about the following threats to your growth prospects? Respondents could mark all that applied.

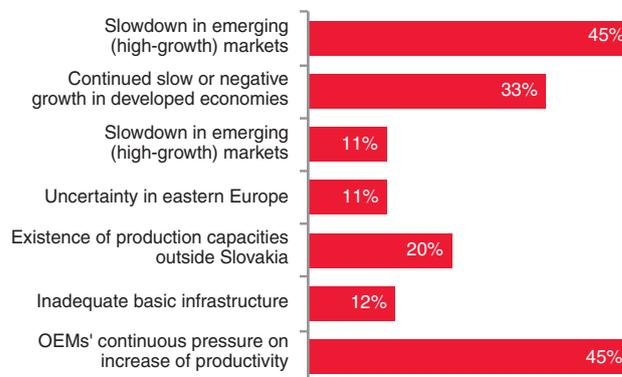
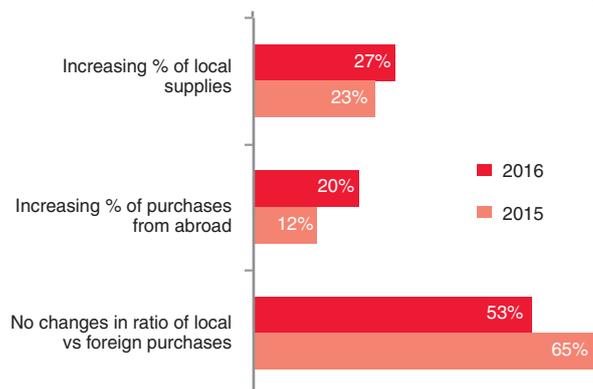


Chart 4: What is the trend of localisation of purchases (of materials and services) in Slovakia?

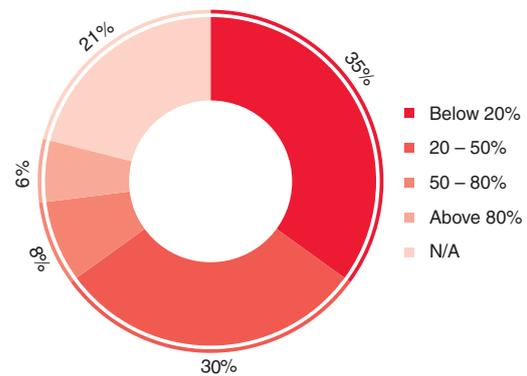


This is also causing changes to the sourcing of supplies from Slovakia. The number of firms who did not record any changes in the proportion of material and service purchases dropped markedly. The share of supplies from local producers increased by 4% to 27%. The number of respondents making increased purchases from other countries grew from 12% to 20%.

17% of respondents stated that share of strategic components purchase from abroad comprised of 50% – 80% and more than 20% of respondents stated that more than 80% of components are imported. This represents an opportunity to relocate manufacturing to Slovakia.

It is worth noting the degree of control suppliers have over their purchases. More than one-third of respondents stated that car manufacturers determine less than one-fifth of their suppliers of materials and components. 30% receive recommendations for up to one half of their contractors. More than half of contractors are recommended to 14% of respondents.

Chart 5: What is the extent of your component/material suppliers nominated directly by OEMs.



The arrival of a new car manufacturer Jaguar Land Rover has had a significant effect on suppliers' expectations. Almost three-fifths of survey participants expect that the new arrival will provide an opportunity for growth and supplies to the new company will result in increased production. A number of respondents also consider that the new car plant will affect the market situation. Around 12.5% of respondents welcomed the new car plant for reasons other than increased business – it will also focus public opinion on the needs of the automotive industry and will be a factor that will accelerate the necessary changes.



“The production plant in Nitra belongs to “The best in class” within the Group mainly due to global project of operational KPI improvements at all levels and due to use of employees professional potential. Vision for Company’s further competitive advantage must be based on implementation of new technologies, expansion of customers’ portfolio and steady development of R&D competencies. Last but not least, we focus our priorities on improvement of employees satisfaction.”

Jana Bogyóová
Plant Manager
Reydel Automotive Slovakia s.r.o.

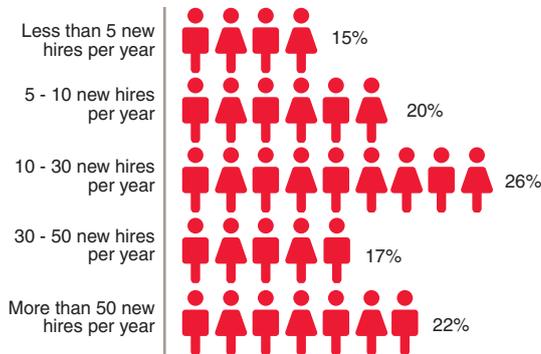
“The Miba plants in Dolný Kubín and Vrábľe have experienced exceptional growth. They are both growth drivers of the Sinter and Friction Division via productivity growth and planned investments in top technology. We want to further develop the local potential and believe in a bright future for Slovakia, where we currently employ more than 1,800 people. Together with several important business partners in Slovakia, we support the dual education system as the only effective model for ensuring stable growth via active participation in preparing our own ‘cadres’. However, it is not only people who make our strategy successful but also technology and R&D, and these are the challenges Slovakia faces up to 2020.”

Ing. Peter Chudoba, MBA
Managing Director Operations, Miba Friction Holding GmbH

Supplier growth held back by labour shortages and educational limits



Chart 6: What is the number of new hires you need in your company per year?



With such demands on the labour market, it is not surprising that compared to 2015, the availability and quality of labour is a factor affecting suppliers' growth targets. This is considered not to be a problem only by 12.5% of firms. However, four fifths of respondents considered this to be a factor limiting production development. A number of respondents are experiencing difficulties with recruiting staff for their non-production divisions. Many employees must make longer commutes, often receiving support from the employer. One-fifth of respondents stated that 11% - 30% of their staff travel more than 50 km to work. Almost 80% of firms reported a one-digit number of longer commutes.

Automotive suppliers are looking to hire new staff. Two-thirds of firms expect they will need a double-digit increase in staff numbers. 17% of respondents believe the number of new staff needed will be 30 – 50. More than one-fifth of firms will need at least 50 new hires.

Chart 7: Do you consider the availability and quality of skilled labour an issue of your business?

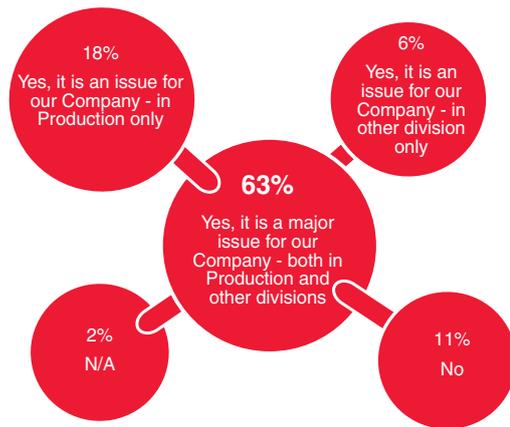
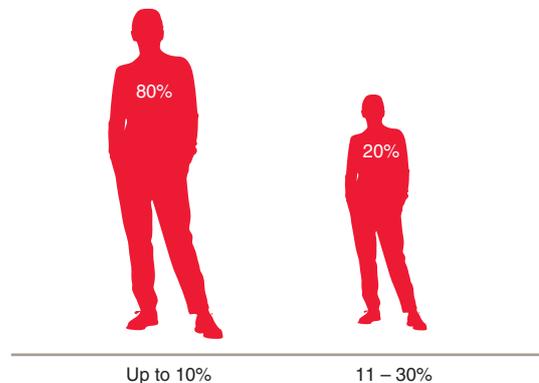


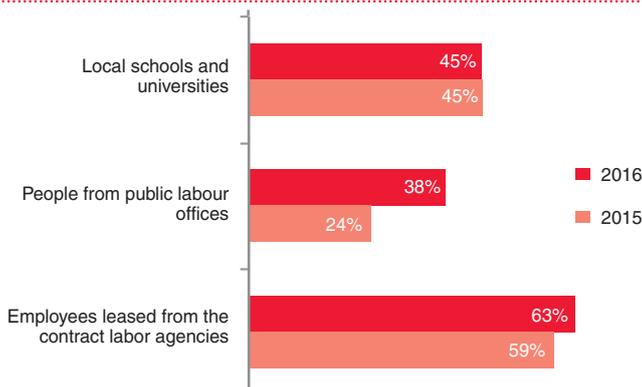
Chart 8: What percentage of your staff commute to work from a distance more than 50 km?



A new finding was the change regarding information about the sources of new hires. The share of university and high school graduates of new hires has not changed and the need to engage personnel agencies has increased. The number of firms using the Labour Office as a source of new hires has increased significantly to almost two fifths. The use of other methods of finding new staff indicates that the lack of qualified staff is increasing. Businesses are having to employ less qualified staff, and firms will have to learn to cope with acute staff shortages. One third of suppliers are redirecting their focus to foreign applicants.

Efforts to ensure a sufficient workforce for automotive suppliers is resulting in firms pushing for the labour market to be opened to non-EU countries, for social benefits to be made more motivating and increased public funding for colleges and universities. More attention is also being given to industrial development in less developed regions.

Chart 9: What are the key local sources of new labour (own or external)?
Respondents could mark all that applied.



Education and cooperation with schools and universities



The situation on the labour market clearly shows that, at present, industrial companies cannot expect substantial assistance from schools and universities by generating more qualified graduates. Improvements are expected from dual education, which will increase the number of graduates with theoretical knowledge and the relevant practical technical experience. The good news is that firms are well informed about the dual system and are aware of its potential benefits.

However, concerns still persist about to what extent this system will be able to solve the lack of qualified staff. Almost three fifths of respondents stated that their participation in the system is hindered by a lack of internal sources, i.e. materials and professional teachers. There is also lack of finance and analyses are not available giving the cost for firms to participate in the system. The survey results show many firms are not confident about whether the graduates of the dual programme will remain with the firm after graduation. Even the optimists expect that improvements to the numbers of potential hires with practical experience will not be seen for at least 3 years.

Chart 10: How well informed you feel, concerning the dual education system (vocational training) launch?

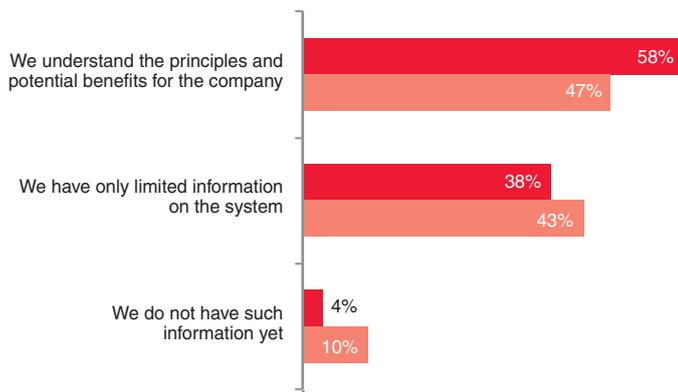
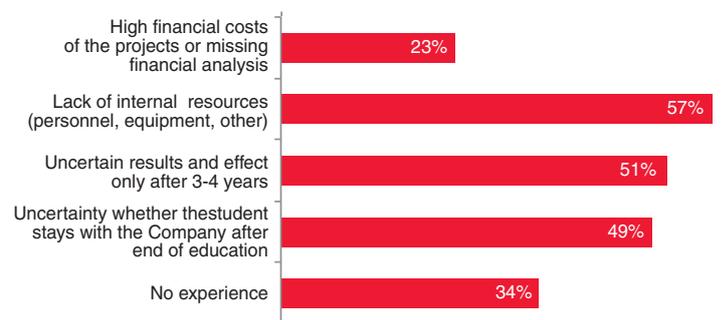


Chart 11: What, in your opinion, are the key barriers of participation in the dual education system, for companies? Respondents could mark all that applied.

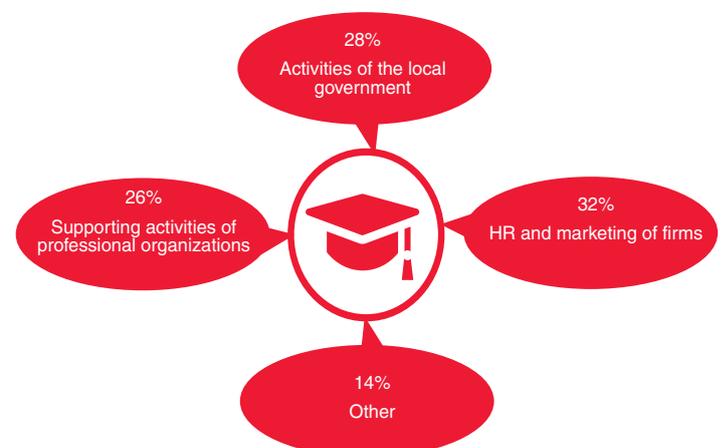


“Slovakia is already full of foreign investments based on cheap labour. The time has come to create an environment which offers highly qualified labour and excellent motivating conditions.”

Ing. Martin Morháč
 CEO, SOVA Digital a.s.
 Chairman of the R&D Commission
 at the Automotive Industry Association of the SR

In addition to the type of education, the interest of young people in studying the fields applicable to the sector is another persistent problem. Therefore, firms are considering a number of activities to make dual education more attractive. Respondents' views indicate that it would be beneficial if more initiatives were undertaken by all the interested parties, including municipalities, professional organisations, and to a large extent also the firms. Along with active HR marketing, various activities focused on informing parents are considered important, as parents influence the selection of school and university and the career plans of young people.

Chart 12: What, in your opinion, would help increase the pupils' interest in dual education?



Not only the necessity for, but also the results of the active engagement of firms are reflected in individual cooperation projects with colleges and universities. The projects include activities supporting young peoples' interest in a career in industry and opportunities to gain practical experience. Practical education, internships and thesis writing support graduates' interest in working with a particular firm and, in some cases, also offers a connection with science and innovation.

Research, development and innovation as a factor influencing competitiveness



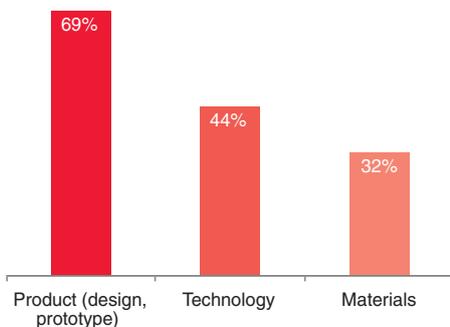
Current trends in the automotive industry include a transfer of the development of components to suppliers, and a change in the character of local suppliers. The pressure for accelerating the innovation cycle and adapting production to the increasing diversity of products using the latest technology is considered to be an important factor. The development of innovation in the sector is reflected in the demand for new hires, developers, technicians and engineers.



Since 2013, when the concept of Industry 4.0 was introduced at the Hanover trade fair for the first time, this initiative has been developed further. Firms are investing in Industry 4.0 solutions and these activities are starting to produce real results. Awareness of Industry 4.0 has increased in Slovakia, which is evidenced by the fact that this year only 32% of respondents were unable to state when they will start using Industry 4.0 technology. Last year, this figure was more than half of surveyed companies. In accordance with the PwC Slovakia CEO Survey, as many as 73% of CEOs believe that the introduction of new technologies is the most important global business trend and the Global Digital IQ Survey conducted by PwC found that almost 49% of companies see digital technologies as a source of future income.

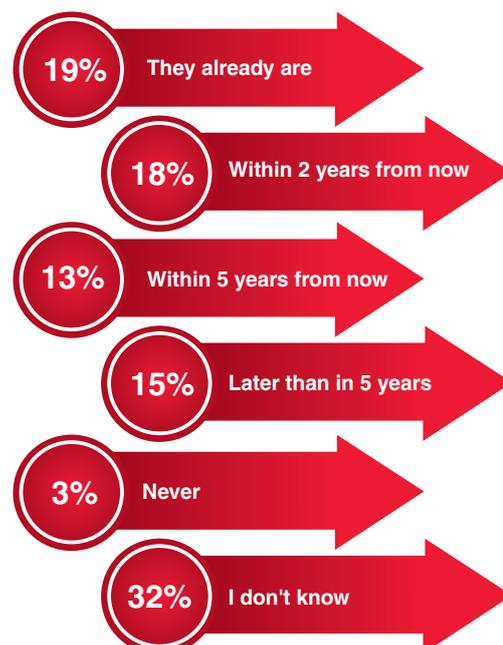
Respondents involved in R&D in Slovakia are most often committed to product improvement. 70% of local firms stated their R&D activities include improvements to product properties or design. Almost 44% make use of local capacities and nearly one-third of respondents are looking at better use of materials.

Chart 13: Which areas of R&D are you giving attention to in your company?



Industry 4.0 has growing impact. Compared to last year, the number of companies reporting that they already use Industry 4.0 solutions increased significantly (by 15%), and the number of companies that plan to invest in this concept within two years increased by 12%. In contrast, the number of respondents who plan to start using these technologies in five years' time dropped by 8%. The number of respondents considering introducing these technologies in the longer term was unchanged. The majority of firms are still waiting until the relevant technology is further developed, but their number is significantly smaller than last year.

Chart 14: Within what time frame do you expect solutions or components for Industry 4.0 (Smart Factory, Internet of Things, Connected Cars, etc.) to be subject of your activities (any of R&D, production, logistics, etc)?



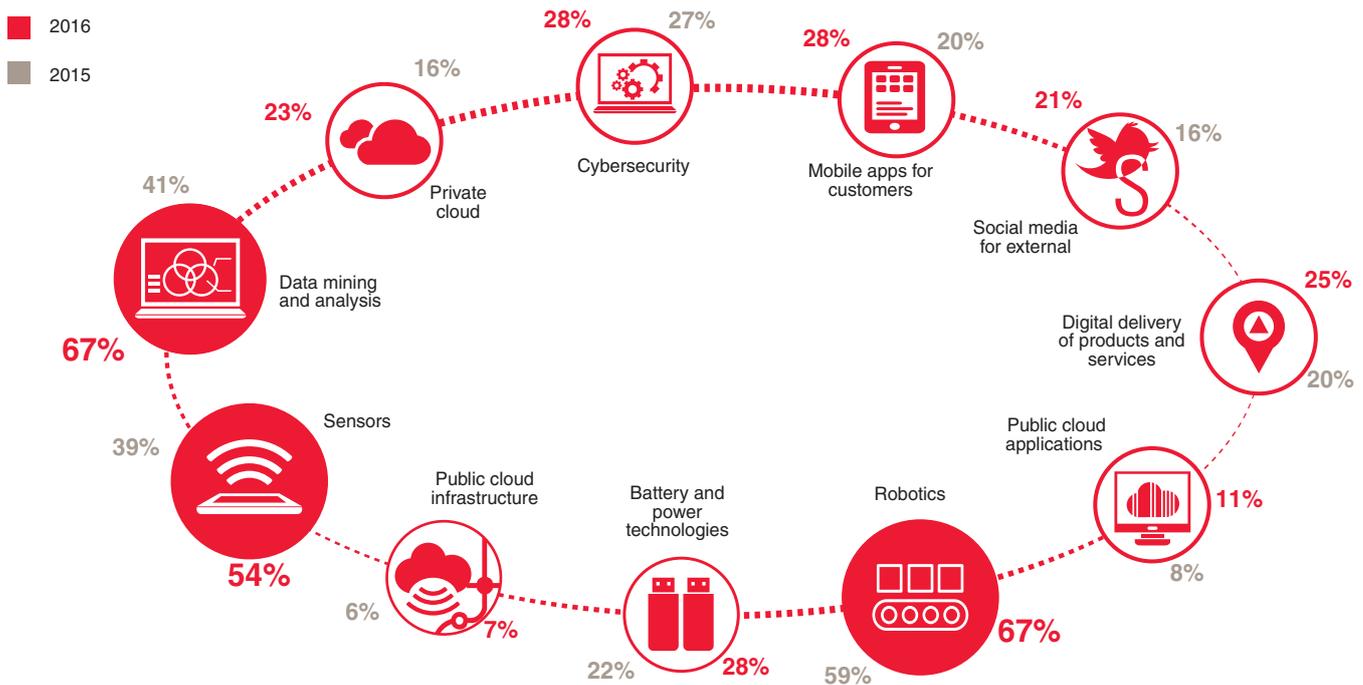
“In c2i, we are always trying to search for new and more effective approaches to the production of car components and their design. Via strategic development of new production technologies and designs, we want to significantly reduce the weight and production costs of car components. We shall focus on a smart design, innovative materials, and a high degree of automation.”

Patrick Hessel, CEO
c2i s.r.o.

The use of data is the cornerstone of Industry 4.0. However, the massive increase in information from a growing number of sensors, devices, applications and information systems is of little value without proper analytical techniques. This fact is confirmed by the increasing strategic importance of data analytics in the automotive industry. The Global Industry 4.0 Survey conducted by PwC shows that 50% of respondents use data analytics for important management decisions and, in five years' time, this number is likely to increase to 83%.

67% of companies consider data analytics to be technology that will be of the greatest strategic importance for the automotive industry, an increase of 26% compared to last year. The second biggest climber is the sensor area (up by 15%) ranking even ahead of the expected growing trend of robotics (8%). The increased use of smart devices, many of which operate autonomously, will increase the importance of innovations in power systems and batteries.

Chart 15: Which of these technologies will be of the highest strategic importance to your organisation over the next three to five years? Select 5 technologies from the following list.

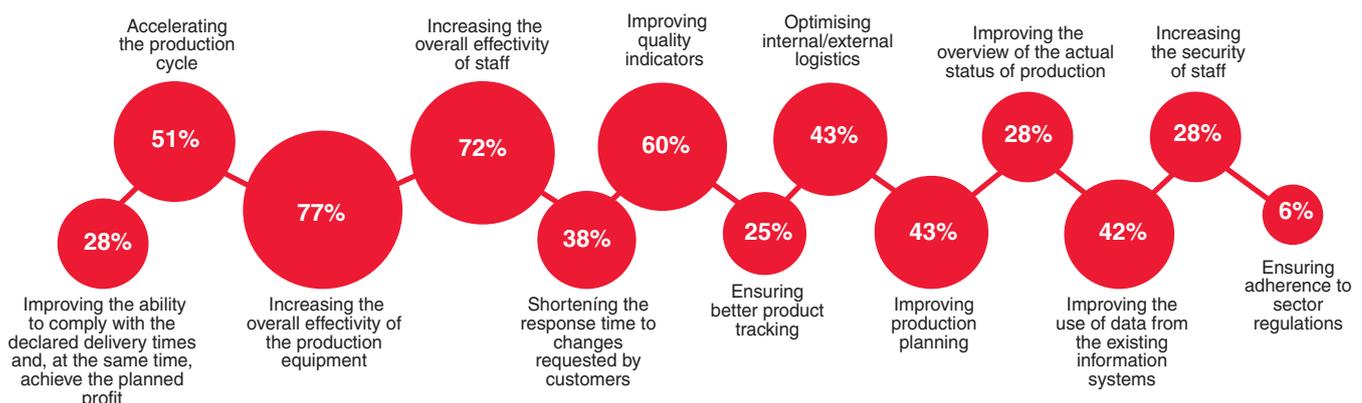


The use of digital technologies associated with Industry 4.0 is likely to have a significant impact on the improvement of indicators, and respondents placed the greatest emphasis on an increase of the efficiency of production facilities and staff. Almost 80% of respondents see the greatest room for improvements in this area. The second important group of indicators includes quality, logistics, production planning, and the acceleration of the production cycle (43% to 60%). The importance of making better use of data from existing information systems is considered important by 42% of respondents.

"With the foundation of new centre for applied research of robotic technologies and manufacturing processes we have become an important player in this segment in the EU. Our focus on innovation and new technologies has significantly strengthened our position in the automotive area."

Ivan Vallo, CEO
robotec s.r.o.

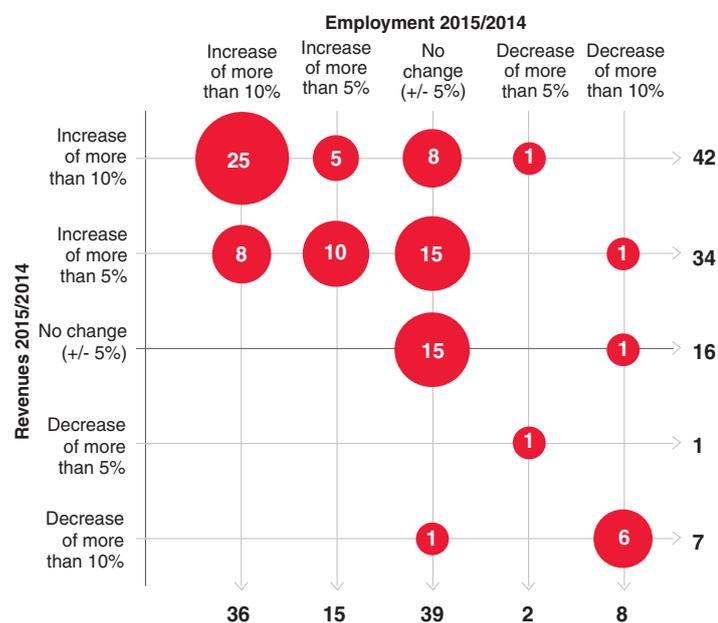
Chart 16: Improvement in which areas do you consider most important in your Company in near future?
Respondents could mark all that applied.



2015 economic results – on the growth track

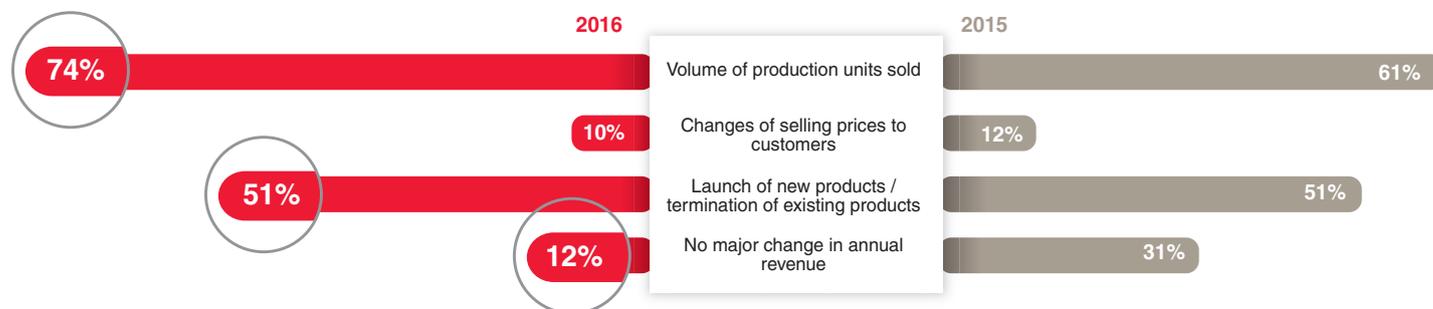


Chart 17: Relationship between changes in revenues and changes in employment (in %)



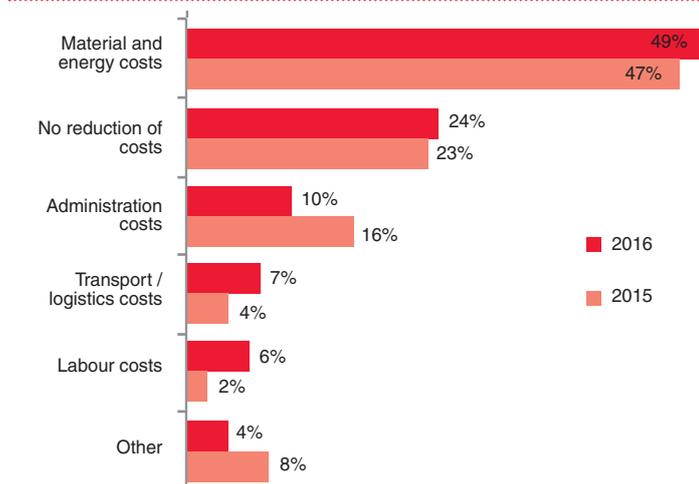
The 2015 results showed that Slovak automotive suppliers are enjoying boom times. The number of companies with double-digit sales growth increased y/y and their share was 42%. The number of respondents with single-digit growth increased and there were significantly less companies with unchanged results. The share of companies with a reduced volume of business decreased by several percentage points – they accounted for only 8% of respondents. A similar development, with minor differences compared to 2014, was reported for new hires. The dynamics, however, were smaller than for sales revenues, which reflects a combination of pressure for effective growth and increased productivity and the difficulties of finding new staff.

Chart 18: What is the main reason for the improvement / worsening of your annual revenue? Respondents could mark all that applied.



The reasons for changes in the financial situation of the survey participants results from growth. Volumes increased, and the impact of production prices slightly decreased. The significant impact of the introduction of new products in the market remained unchanged, which indicates that innovation may be required. Overall, however, the number of companies whose sales did not change y/y was lower and their share was around 12%.

Chart 19: If you reduced the costs of your business in 2015, which of the following areas was most affected?



Only minor changes were recorded to respondents' opinions on potential sources of savings. Traditionally, the highest share has been achieved by savings of material and energy, savings on labour and logistics costs increased slightly. The almost unchanged share of respondents who are not considering cost reductions (almost a quarter) indicates that companies focused on cost reductions in the post-crisis period and currently they have switched their focus to development.

Characteristics of respondents



Compared to 2015, the number of medium-sized companies with 100 to 250 staff more than doubled (up to 35%) to the detriment of smaller players. This finding shows, inter alia, that the growth of the automotive industry relates to companies of all sizes, including middle-sized firms. This is a positive fact, as most Slovak suppliers fall into this category. Despite their decrease in number, large-sized companies with more than 500 people have retained a one-third share of respondents.

Chart 20: How many people (own staff and external) work in your plants?

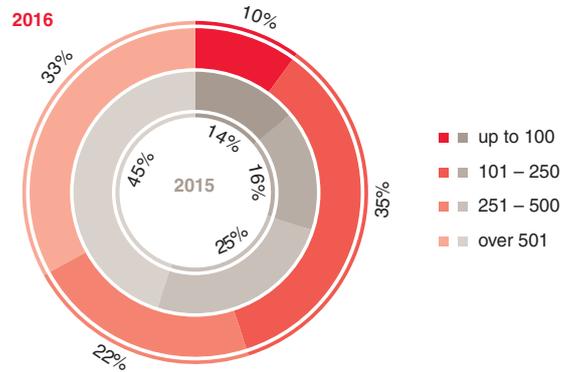
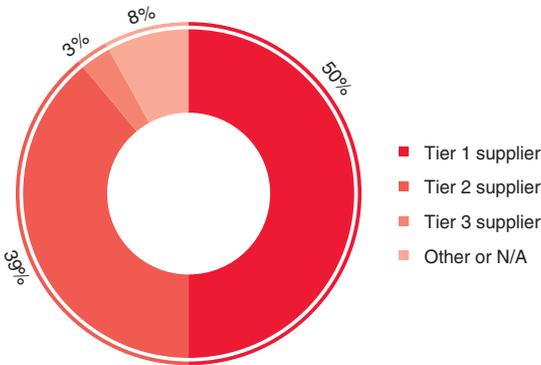


Chart 21: Based on the supply chain, what is your Company considered to be?



This is reflected in the categorisation by supply chain where four-fifths of survey participants consisted of Tier 1 and Tier 2 companies. Direct suppliers, i.e. Tier 1 companies, constitute one half of respondents.

The overview of the final customers of survey respondents represents good news. Unsurprisingly Slovak car manufacturers, particularly Volkswagen and PSA Peugeot Citroën, are significant final customers for the participants. Based on responses, more than one fifth of respondents have already been contracted as suppliers to the new arrival, Jaguar Land Rover. The positive news about the diversification of local production of components is that over 70% of respondents are able to locate their production outside the V4 region.

Chart 22: What are final OEM customers for your products.
Respondents could mark all that applied.

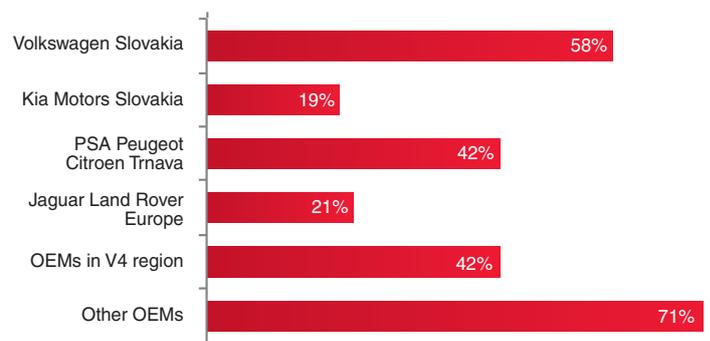
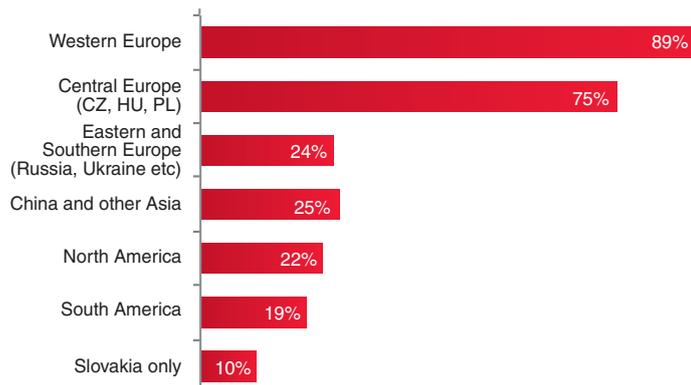


Chart 23: What are the key final foreign markets for your output?
Respondents could mark all that applied.



Since the growth of car manufacturing in Central Europe is one of the most rapid, it was an encouraging result that suppliers have also been able to benefit from markets experiencing slower growth. This is reflected in the location of customer territories for the firms participating in the survey: along with traditionally strong sales in Western and Central Europe, one fourth of respondents are active in the Asian market, particularly China. One fifth of respondents have activities in South America and are also considering alternative markets, due to the situation in the region and more than one fifth of companies have customers in North America, where the market is currently strong.



From 1 May 2016, new customs legislation was introduced at EU and national levels. This new “start” will affect all member states, so everyone will start from the same position. The survey results show that firms are open to changes and do not oppose the introduction of new rules and systems, however they would appreciate more information. There is a degree of mistrust as to whether the start-up of the new customs systems will be problem-free and one-fifth of respondents are taking a cautious approach and will wait to see how the new system of electronic imports will function. However, the interest of companies in pilot testing is a good sign that the prepared changes in customs procedures are appropriate and that businesses are interested in this change.

Position of Slovak plants within the group (compared to other plants in the group)



Well-established forms of co-operation with universities and schools

- ✓ internship, 6 months practical training for university graduates;
- ✓ co-operation of more than 1-year with 1 month at school and 1 month at the company;
- ✓ after-class practical training;
- ✓ dual education in co-operation with a local school, own system for training apprentices;
- ✓ apprentices are taken on for production training at our cost;
- ✓ diploma theses, controlling, open-door days for students, co-operation with universities on projects.

expect revenues to grow this year



plan to relocate additional production to Slovakia

see a problem in a lack of, and the quality of, skilled labour



experience problems to win new projects due to a lack of skilled labour

observed the highest staff turnover in the first year as regards the employment period



hire skilled labour from other countries

plan to increase the overall effectivity of production capacities in the near future



consider robotics and data mining and analysis will have the greatest strategic importance in the near future

About Survey

The Survey was conducted by consultancy firm PwC in co-operation with the Automotive Industry Association of the SR and Slovak Automotive Institute. Addressed automotive suppliers replied via an on-line questionnaire or printed questionnaire from 3 March to 6 April 2016 and 75 car suppliers operating on Slovak market participated in the Survey.

This report looks at the key findings in the car suppliers market, gives a comprehensive analysis of the business model, and provides an assessment of the 2014 results and its key factors, and an outlook for the coming years.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com/sk.

About ZAP

The Automotive Industry Association of the Slovak Republic (hereafter "ZAP SR") is an open, influential, and unifying organization defending the interests of its members and representing a key sector of the Slovak industry. The vision of ZAP SR for the years 2016-2020 is to be a leader in initiating and forward-ing optimal conditions for permanently sustainable competitiveness of the automotive industry. Its main strategic objectives include to promote the requirements for creating the economic strategy for Slovakia's development, to define and promote the requirements for making skilled labour available, to support the development of the environment for applied research and innovative capacities of businesses, to define and promote the development of subcontractors, to minimize negative environmental impacts within the life cycle of a motor vehicle and to initiate the support for selling cars with alternative energy sources in the Slovak market.

About SAI

Slovak Automotive Institute is an independent think-tank, providing business intelligence services and analyses, relevant to the automotive and related industries and transport.

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