



THE AUTOMOTIVE INDUSTRY: THIRD QUARTER 2007

INSIDE THIS ISSUE

EXECUTIVE SUMMARY..... 2

GLOBAL TRENDS 4

Africa & Middle East 5

Asia 7

Europe..... 9

Latin America..... 12

North America..... 14

KEY COMPETITOR EVENTS

Africa & Middle East 16

Asia 17

Europe..... 19

Latin America..... 21

North America..... 22

NEW PRODUCTS 25

ISSUES 26

BUSINESS OPPORTUNITIES
..... 27

A WORD FROM THE FOUNDER AND CEO

From the day SIS International was established over 24 years ago, we have strived to provide insightful research to some of the world’s leading and most influential companies. Conducting research worldwide and developing intelligence networks in the majority of the fastest growing economies, SIS has earned a reputation as a powerful and nimble Market Intelligence firm.

In the current market, your competitor is no longer across the street, but rather more likely at the other side of the world. With the Internet and mass communications, corporations and management find themselves inundated with information. Undoubtedly, the key to making sound decisions in this market is receiving the right information at the right time. SIS International’s dynamic services and resources directly cater to these needs, transforming data into valuable intelligence. This is part of our mission to make SIS your company’s navigator in today’s global economy.

Today, SIS International achieves its vision by developing new ways to understand and succeed in the global economy. With our International Market Research Division, our Answering Service and our Global Research Media and Publishing Division, we provide timely, unparalleled access to vital information and intelligence worldwide.

On our website, colleagues now have access to numerous other innovative products such as the Global Market Intelligence Tracking Service (GMITS). This service, the only one of its kind, analyzes and tracks industry developments on an unprecedented monthly basis for many industries.

SIS WorldwideWebinars links customers to our analysts through online seminars on key market issues. Our clients can also subscribe to the SIS Answering Service, whereby they submit business intelligence queries to have them answered by our analysts.

SIS International promises to continue its mission to innovate and further develop the most effective products and services for our clients. On behalf of everyone from SIS, I encourage you to explore our many products and see how we can help you.

Ruth Stanat
CEO & Founder, SIS International



SIS International Research, Inc. 11 E 22 Street Floor 2, New York, NY 10010
T: +1.212.505.6805 Fax: +1.212.505.0284 research@sisinternational.com www.sisinternational.com

STANDARD RESEARCH DISCLAIMER: SIS International Research, Inc. makes no representations about the accuracy or completeness of the information provided through this report. Users who base investment, strategic or marketing decisions on the information contained in our reports do so at their own risk.



SIS International, Navigate the Global Economy and GMITS are trademarks and service marks of SIS International, Inc. © 2000-2007 SIS International, Inc. All rights reserved.

EXECUTIVE SUMMARY

North American car manufacturers reported weaker sales in the third quarter. DaimlerChrysler had predicted a general slowdown in the first half of 2007 in both passenger car and commercial vehicle segments compared to the second half of 2006. Demand in North America, Western Europe, and Japan markets is expected to continue to fall in the last quarter of 2007, while demand in the emerging markets of Asia, Latin America, and Eastern Europe for passenger cars and commercial vehicles will increase significantly. Total global demand in the automobile market is expected to grow by 3% in 2007 compared to 4% in 2006. Emerging markets demand for new vehicles is going to grow the automobile market to reach one billion unit sales in 2010. North American manufacturers have been hit by falling number of SUV places, because of higher fuel prices. In October, Japanese car manufacturer sales grew after falling in September. New car sales have fallen in September in many developed countries, but emerging markets are showing an increased pace of car purchases.

In the third quarter of 2007, Western European automobile demand rose by 1.6%. According to the European Automobile Manufacturers Association, new car registrations in September have fallen 1.5% to 1.42 million vehicles, due to weaker demand for Renault, Toyota Motor, and Volkswagen models. Almost all European carmakers are depending on the Asian, Latin American, and Eastern European countries to bring in profits.

All three automakers have almost finished negotiations with their labor unions. The recent contracts give the automakers flexibility to keep production in line with market demands. Both GM and Chrysler announced job cuts soon after the contracts were approved. Chrysler, which

is now owned by private equity firm Cerberus, recently announced 10,000 hour-based jobs layoffs and 1,000 salaried employee job cuts. Ford and GM might find it hard to cut down on staff like Chrysler. The labor costs of a new American car are from \$2,000 to \$2,500. Much of this is for healthcare, pensions, and benefits. Chrysler has pickup trucks as its profit engine and higher oil prices have dented growth for that segment, which has enabled management to announce drastic steps without much opposition from labor unions. GM, Ford, and Chrysler made an average of \$3,814 less per car than Toyota, Honda, and Nissan according to Stout Risius Ross, a Chicago-based advisory firm. General Motors is eliminating shifts at three Michigan plants. The Ford contract would free the company of \$23 billion USD in long-term liabilities. Ford intends to cut 44,000 jobs and close 16 plants. In contrast, Toyota is not faced by the problems the American workers face since it does not employ union workers. Moreover, Toyota is increasing capacity at its North American plants.

Governments the world over are enacting fuel economy regulations. The standards in Europe are stricter than that in the US. Europe is already at the levels that American manufacturers are proposing for 2015. Europe wants to increase standard levels beyond the current levels. Automobile manufacturers in the US specifically are faced with each state trying to enact its own laws according to a recent federal ruling. Manufacturers are protesting against it. In Europe and other countries, manufacturers are seeking time to abide by the emission standards. Either way, a huge developmental effort is underway in the near future to start with.

Localized Production:

All major automobile manufacturers are localizing production. The next couple of years will witness many production facilities coming up especially in emerging markets like India, China, North America, Middle East, Eastern Europe, and Latin America. Eastern Europe is being looked at as an alternative by European car manufacturers to low-cost Asian locations. Also the weakening dollar has hit exports in many countries that primarily export to North America. Manufacturers like BMW have decided to increase production in the US instead of importing from their other facilities to shy themselves from the weakening dollar.

GLOBAL TRENDS



- Asian cars global expansion and competing with market leaders
- China to be ready to export small cars to the western world within a few years
- Dollar decline hitting exports for top auto exporters to America
- Euro rise impacting European car exporters
- Foreign car penetration in India and other developing countries
- Growth of certified cars market
- Housing crisis, interest rate hike, higher mortgage payments, and credit tightening impacting car sales in North America and Europe
- Huge investments in developing countries in manufacturing facilities to cater to present and future demand
- Increase in car sales in emerging markets
- Increased sourcing of components
- Increasing market share of foreign brands in American markets
- Localized production of cars in developed and developing markets either to cash in on local demand or to avoid the dollar decline impact
- Manufacturers competing with each other to gain leadership in fuel economy in the future
- Manufacturing shifting to lower cost countries
- New inventions, research, and development concentrating on fuel economy
- Small, cheaper cars and SUVs driving sales
- States to regulate car emissions in the US. Manufacturers seeking federal ruling
- Successful labor negotiations might lead to increased efficiency and will help Big 3 focus on sales
- The Tata sub \$3,000 USD to become a reality soon. Many car manufacturers jumping into the race to produce similar cars
- Trend shifting towards fuel-efficient cars driven by government regulations
- Used car industry maturing in developing countries through entry of large players and manufacturers offering used certified cars as well as offering trade-ins

GLOBAL TRENDS: AFRICA & MIDDLE EAST

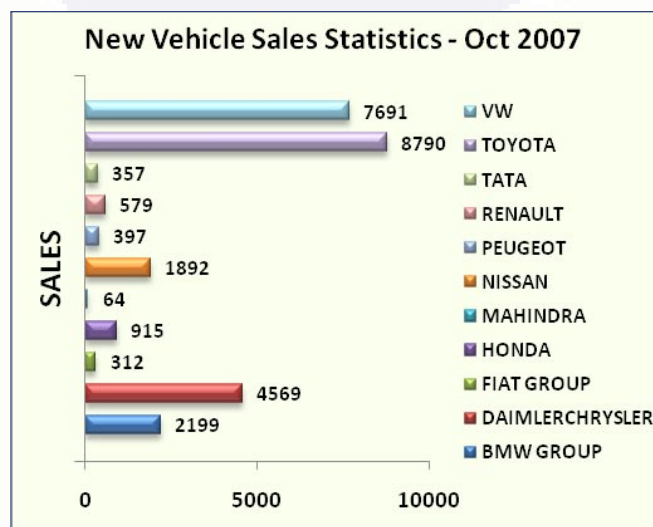
AFRICA:

According to the National Association of Automobile Manufacturers of South Africa (NAAMSA), total employment in the Q307 declined to 37,974 jobs. Production costs were higher due to disruption in the component supplier industry in South Africa. Rising commodity prices, especially oil-based products and aluminum continues to follow the global trends, thus increasing the costs. Average capacity utilization levels of the car manufacturing industry decreased to 64.2% in the Q307 compared to 70.5% in the Q207 2007 and 80.1% for the full year of 2006. Average capacity utilization levels of LCVs and MCVs increased to 86.4% and 96% respectively.

Passenger Car Sales



New Vehicle Sales Statistics



Source: NAAMSA

Financial Scenario:

Planned investments to date amount to \$0.86 billion USD compared to the actual \$0.92 billion for the whole year of 2006. Passenger car sales in the Q307 declined 12,199 units (a 10.7% decline compared to the Q306) to 102,145 units. Commercial vehicle sales reflected a strong trend while cars declined. Rising interest rates (3.5% growth in the past 15 months standing at 10.5%), the National Credit Legislation Act introduced in June 2007, difficulties with e-NATIS registration, and rising car prices, along with rising household debt have impacted new car demand, resulting in declined sales. The interest rates were raised to curb inflation. These conditions are expected to impact new and used car sales for the rest of 2007 and early 2008. The car market in South Africa is expected to reach a size of 517,000 units in 2010. South Africa's automobile sector contributed 7.5% to the country's GDP in 2006. South Africa's government will be completing its review of the Motor Industry Development Program (MIDP) by December 2007. Industry participants are requesting government to extend the program.

Exports:

South Africa is expected to export 105,000 units in 2007 compared to 119,171 units in 2006. The reduced figures are attributed to the closing of a Mercedes Benz facility in East London for five months to refurbish for production of new Mercedes Benz C Class.

Car Sales:

Passenger car sales declined 6.5% in October 2007 to 34,413 units. Aggregate new vehicle sales including commercial vehicles declined 5.9% in October 2007. For the first 10 months of 2007, aggregate vehicle sales were 3.5% lower than the same period in 2006, while passenger car sales declined 7.9% in this period. Nearly 78.5% of total sales are done through dealer/retail sales, while 14.1% sales reflect sales to the car rental industry, 3% to corporate fleets, and the rest to the government.

Vehicle sales in August fell 3% to 58,040 units compared to 2006, since higher interest rates and the National Credit Act have dampened sales. Commercial vehicle sales also declined in August after holding steady up to August in 2007. Passenger vehicles registered a 14.7% growth over July at 42,270 units in August, though they fell compared to August 2006. Light vehicle sales registered 18,195 vehicles

Labor Strike:

Fifty thousand union members of the National Union of Metalworkers of South Africa (NUM-SA) have ended their two-week strike, demanding a wage increase between 8-10%. The strike crippled work at Volkswagen AG, DaimlerChrysler AG, Nissan, Toyota, and Ford. Volkswagen lost production at the rate of 500 cars per day because of the strike.

MIDDLE EAST

Luxury cars: In the Middle East, luxury cars are the fastest growing segment. GM's luxury range, which includes Cadillac, Hummer, and Saab, registered strong sales growth of 166% over the previous year. In the Q307, Cadillac sales alone in the Middle East increased by 60%. Year to date by individual brands, Hummer sales increased by 11.5% while Cadillac sales grew by 45.3% and Chevrolet sales grew by 31.6%.

General Motors:

According to General Motors, Mercedes Benz had a market share of 24%, followed by Lexus with 18%, BMW with 17%, and General Motors with 14%. According to Gulf News, Arabian Automobiles has predicted that the UAE market would grow by 23% up to 2010 and that the sale of new cars will exceed 260,000 in 2007 and reach 320,000 units by 2010. The used cars market is also vibrant in the Middle East. Most of the GCC countries have currencies pegged to the dollar. The dealerships of many manufacturers like GM are upgrading their facilities. In the first half of 2007, Nissan's sales grew 21% in the Middle East. Chrysler sales in October in the Middle East have witnessed a growth of 65%. General Motor's Latin America, Africa, and Middle East region sales grew by 22% in the Q307.

UAE Market:

The UAE market, which has witnessed rapid growth, may reach 320,000 units by 2010. Arabian Automobiles is building a \$97 million USD logistics facility and spending a total of \$138 million USD on improving its infrastructure to capture a bigger market share of the domestic market. Its Dubai facility will have the capacity to hold 12,000 cars. The parent of Arabian Automobiles, AW Rostamani Group, will soon be starting a car leasing company. Arabian Automobiles recently launched the Nissan 2008 models, specifically Nissan Altima, Qashqai, Xterra, and Navara in the UAE. Arabian Automobiles is the exclusive dealer of Nissan in Dubai and UAE.

Oman:

Oman's used car market is maturing into an industry through big players entering the field to sell certified used cars and accepting old cars for new car trade-ins. Saud Bahwan Group Best Cars has become the prominent player in Oman's used car business. Mercedes' authorized distributor in Oman, Zawawi Trading Company, also has a used car division that sells cars less than six months old and have genuine warranty. Other facility like Al Khuwair also offers used cars.

Saudi Arabia:

In the Middle East, the used vehicles market in Saudi Arabia is expected to grow 32% to \$160 million USD, supported by 13,000 used car showrooms. Vehicles are primarily sourced from the US, Japan, Australia, South Korea, and Germany with GM, Ford, and Chrysler's Jeep brands being among the popular brands. Custom duty cuts have also contributed to an increase in imports. Close to 46% of owned vehicles in Saudi Arabia are used vehicles. Around 70,000 units are imported into the country with the average vehicle age being 6.4 years. Households with large family size prefer American brands, while smaller households prefer European brands. Lower strata prefer Korean brands. A large number of expatriates is also one of the reasons for used cars being favored. Asians in Saudi Arabia mostly prefer Japanese-used cars. Riyadh, Jeddah, and Dammam account for 75% of all used vehicles. Dammam has a higher share of American-used cars brands. Expatriates patronize European brands while locals buy American brands.

GLOBAL TRENDS: ASIA

India October 4-Wheeler Sales



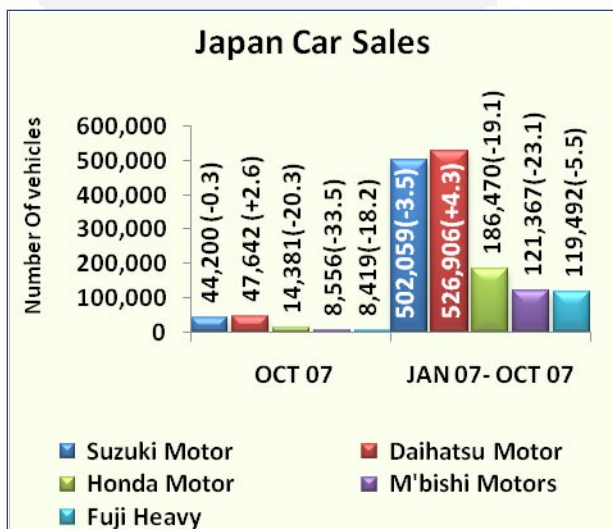
Source: The Hindu

BSE Auto Index



Source: BSE

Japan 4-Wheeler Sales



Source: Reuters

JAPAN

In Japan, total new car sales in the first ten months of 2007 declined 7% to 2,488,840 units compared to the same period in 2006 as per the statistics of the Japan Automobile Dealers Association (JADA). In October, driven by Toyota's new model introduction, total vehicle sales grew 2% to 269,221 units in October, out of which passenger cars grew 5.5% to 234,029 units. Toyota's sales grew 7.9% while Honda and Nissan sales declined 6.3% and 0.1% respectively. Total demand for auto vehicles is being projected at 5.63 million units in 2007. Imported car brands made up 6% of the market in 2006. In 2007, luxury brands are witnessing positive sales, while the rest of the imported brands are witnessing a fall in sales.

AUTO PRODUCTION

Japan's auto production declined 0.9% in the first half of 2007 (April-September 2007) to 5,479,089 units, out of which passenger cars increased 0.2% to 4,671,664 units. Domestic sales from April-September for passenger cars were down 6.4% at 2,021,893 units. In the same period, passenger car exports grew 6.7% to 2,777,835 units.

China:

In China, September car sales increased by 22.4% with GM leading the sales, followed by Volkswagen, Toyota, and Chery. For the first nine months of 2007, car sales grew by 23.8% to 4.58 million units. China is best known for sourcing components to the Big 3 manufacturers, but China's homegrown giants are also expanding overseas. China has 30 sedan manufacturers, nine of which produce more than 200,000 vehicles a year.

JD Power and Associates:

A recent study by JD Power and Associates has suggested that automotive sales growth in Asia-Pacific might outgrow Europe's growth by 2009,

netting 23 million sales, compared with 22.7 million sales in Europe. APAC might account for 28% of global demand by 2007 end. In the coming years, China will surpass Japan as the world's second biggest automobile market.

INDIA

SIAM:

According to the Society of Indian Automobile Manufacturers, car sales in India declined at 5% negative rate in the April-October period. However, the passenger vehicle, passenger car, multipurpose, and utility vehicle segments grew by 13.45%, 13.38, 20.08, and 11.31% in the April-October period over the same period in 2006. Though October sales are showing recovery, there is still the need for more growth.



The Bombay Stock Exchange(BSE) Auto Index has fallen from October to date due to weaker domestic car sales.

Car sales in India rose 13% in the first half of 2007 (April-September) to reach 569,621 units. There was a slowdown caused by interest rate hikes. Companies had to give incentives like old car buyback, zero financing, etc. to attract new car buyers. Companies though have been witnessing a sharp pickup in the certified used cars market. Compared to 22% growth in 2006, the current 13% growth will impact investments by large car manufacturers in India. The BSE Auto Index though is down in November compared to October since overall automobile sales fell in the first six months of the fiscal year 2008. Car sales are

rising, but higher interest rates and increasing fuel prices are impacting margins. Domestic car sales had crossed the 1.7 million mark in India in 2006.

Maruti Suzuki, the market leader, reported an 18% growth while Tata Motors saw its sales decline. Honda, Ford, and other foreign players, barring GM, also registered a decline in sales. GM grew its sales by 140% to 20,695 units, driven by strong sales in its new introductions, Spark and Aveo.

Investments:

Suzuki is investing \$1.65 billion USD to expand its annual production capacity to one million vehicles by 2010. Toyota is investing \$500 million USD up to 2012 to hike capacity to 200,000 units and to gain 10% market share. GM is investing \$300 million USD to produce 100,000 compact cars. Renault and Nissan are investing \$908 million USD in a joint venture with India's Mahindra & Mahindra to produce 400,000 vehicles by 2009.

Forecast:

The Indian Automakers Association is targeting a \$145 billion USD turnover by 2015 from the current \$346 billion USD. The targeted unit volume is around two million units by 2010. The Indian car market has been growing at 16% in the past four years, but might decline in the coming years. India's automobile exports have been growing at a compound average growth rate (CAGR) of over 40% per annum for the past five years. Many Indian firms are working on at least \$300 million USD worth of automotive engineering design services (AEDS) projects and expected to be \$1 billion USD industry by 2010.

CHINA

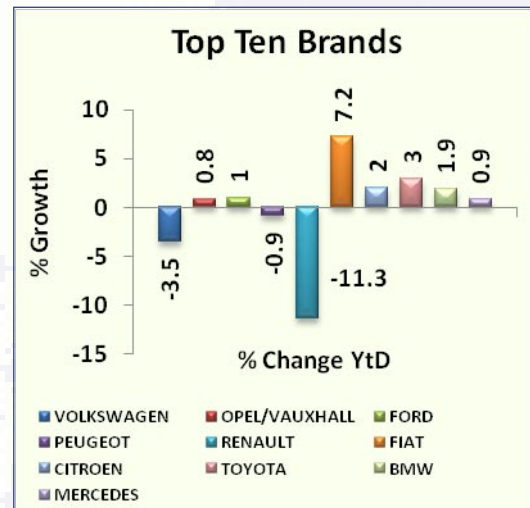
Car Sales: Domestic brands accounted for 27% of total car sales in the first nine months of 2007. A total of 3.44 million cars were sold in the first nine months of 2007, reflecting a 25.76% growth rate according to statistics given by the China Association of Automobile Manufacturers. FAW Volkswagen remained the top seller in the first nine months of 2007, followed by General Motors and Chery. Total auto sales increased 24.46% to 6.46 million units in the first nine months.

GLOBAL TRENDS: EUROPE

CAR SALES

In the Q307, the Western European automobile demand rose by 1.6%. According to the European Automobile Manufacturers Association, new car registrations in September have fallen 1.5% to 1.42 million vehicles, due to weaker demand for Renault, Toyota Motor, and Volkswagen models. Almost all European carmakers are depending on the Asian, Latin American, and Eastern European countries to bring in profits. Eastern Europe reported a 9.5% growth in sales, though Western Europe declined 2.1% in September 2007. The hardest hit have been mid-market brands. Registrations in Spain decreased 7.7% to 96,751, while Germany declined 11% to 265,473 units. In September 2007, Bulgaria registered a growth of 26.9% and Romania registered a growth of 19.5% in new car registrations

Top Ten Brands in Europe



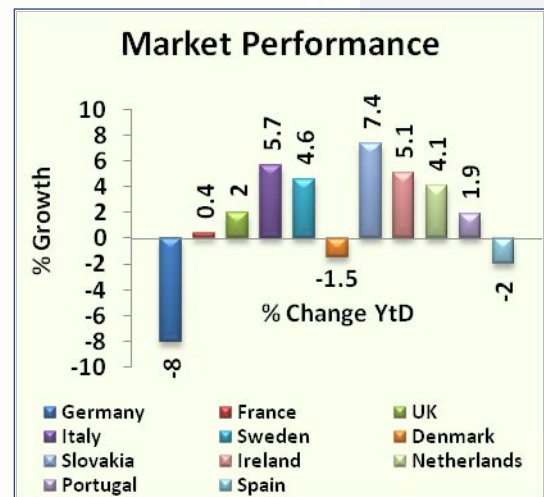
Source: ACEA

New Car Registrations in Europe



Source: ACEA

Players Performance in Europe



Source: FinFacts

In the first nine months of 2007, the Western European market demand grew by 0.4%. According to the European Automobile Association (ACEA), growth in the Central and Eastern European markets offset the slump in the first nine months of the year with a 0.7% growth in European passenger car registrations. A 14.2% growth in the European Union new member states in Central Europe led to this marginal growth. France reported a 9.2% growth in the first nine months of 2007.

Country	Q307 Demand over Q306 Demand	2007 1st Nine Months Demand growth over same period in 2007
Italy	+6%	+6.6%
UK	+2%	+2%
Germany	-5.6%	-8%
Spain	-2.9%	-2%
Poland	22.1%	+24.2
Brazil	28.6%	+26.8

CAR SALES BY COUNTRY

The Italy market grew, driven by government incentives for car park renewal. Volkswagen has opined that markets in Germany and Spain might remain subdued for the remainder of 2007. Germany sales have declined due to the value added tax introduced in January 2007. In October 2007, Germany registered a 4% decline to 282,000 units in new car registrations. In the ten months to October, Norway has grown 22.5% and 34% in October 2007 alone.

In Central Europe, auto registrations have been increasing steadily. Estonia new car registrations grew by 27%, while Latvia and Lithuania registered new car sales growth of more than 40% in the first nine months of the year. GM, Fiat, BMW, and Daimler demonstrated strong gains. Volkswagen sales in Europe decreased 3.9% in the first nine months of the year. Toyota sales in Europe declined 1.9%, while Honda grew 12.1% in the first nine months. Sales for Suzuki also grew, but Korean KIA and Hyundai car sales dropped in the first nine months.



BRANDS

Volkswagen remains the market leader, followed by Opel/Vauxhall, Ford, Renault, and Peugeot in the first nine months. The fastest growing brands in the first nine months in Europe are Fiat (sales growth of 50,000 units), Honda (sales growth of 31,000 units), and Dacia (sales growth of 22,000 units). Fiat increased sales 7.2% in this period.

According to JATO Dynamics, in the first nine months of 2007, the top sellers in the market were Peugeot (growth of 169.2%), VW Golf (growth of 0.5%), Ford Focus, Opel/Vauxhall Astra, Opel/

Vauxhall Corsa (growth of 50.6%), Fiat Punto, Renault Clio, Ford Fiesta (growth of 1.0%), BMW 3-Series (growth of 4.7%), and the Volkswagen Passat.

J.D. Power Automotive Forecasting has forecast 14.73 million units in 2007 and 14.52 million units in 2008 for the Western Europe market.

TURKEY

According to Turkey's Automotive Industry Association, completion of the election process will enable Turkey's economy to pick up. In the year to August 2007, vehicle sales have declined 18.5%, though in August, sales increased 16%. Turkey expects vehicle exports to increase 39% in 2007 to reach \$20 billion USD or 800,000 units. To date, Turkey's exports were at \$66.8 billion USD. Turkey has recently removed import restrictions and granted permission to three Asian manufacturers: India's Mahindra, Iran's Samand, and China's Chery Automobiles. All three companies have signed up or are in the process of signing up dealerships.

HUNGARY

Hungary is likely to benefit from becoming more central in the EU area, and there is optimism that the established automotive industry and other businesses may see growth opportunities stemming from these new markets.

GLOBAL TRENDS: LATIN AMERICA

BRAZIL

In Brazil, the auto industry is expected to \$15 billion USD until 2011 to expand production capacity to 5 million vehicles from the present 3.5 million according to the Brazilian Industry and Trade Ministry. Brazil's economy is expected to grow to 4.7% in 2007. Brazil is the largest automobile market in South America.

Car Sales:

Falling interest rates and booming economy has increased domestic sales of cars with car manufacturers resorting to extra shifts to push car sales. Retail consumer lending grew 23% to reach R\$229.5 billion. Auto vehicle sales in October 2007 registered a growth of 39.5% from October 2006 and 19.8% growth from September 2007. In the first ten months of 2007, car sales have crossed 1.98 million units with production rising to 2.48 million units. Production in October increased 31.6% to 299,300 units. Brazilian auto demand has been projected to grow to nearly 3 million units in 2007, according to various sources.



Exports:

Exports have been down by 6.4% in the first ten months, due to a stronger Brazilian currency and stronger domestic demand. In October, exports increased 9%. Nearly 80%-90% production is being absorbed by the domestic market. The Brazilian market is dominated by Volkswagen, Fiat, GM, and Ford, followed by Japanese and French carmakers.

Flex-fuel vehicles accounted for 86.5% sales in October 2007 at 200,999 units. Only 22,651 gas vehicles were sold in October. Brazil has a 2% biofuel mandate coming into effect in Janu-

ary 2008, which will be gradually increased to 5% by 2013. Brazil has more than 60% of its cars running on flexi-fuel engines. Brazil has less than 1% of its vehicles on diesel.

Brazil Investments:

Peugeot is planning an investment of \$500 million USD to increase production in its Brazilian and Argentinean production to 300,000 units by 2010. This will help it increase its market share to 11% by 2007. It is expecting to launch 12 new models by 2010, which will be domestically manufactured.

Ford is investing \$300 million USD in its Brazil and Argentinean plants to increase production. Brazil accounts for 60% of Ford's South American sales. Record sales for 2007 are being aided by low interest rates and longer period of repayments, which automatically decreases the EMI. South America contributed 4.1% of total revenue for Ford at \$1.8 billion USD. General Motors is also planning a \$500 million USD investment in Brazil and Argentina to increase production.

ARGENTINA

According to the Argentinean National Automaker's Federation (Adefa), Argentina domestic production in the first nine months of 2007 stood at 379,255 vehicles. Honda has received government approval to create a facility near Buenos Aires that will produce 30,000 cars, primarily targeted towards exports to Latin American countries. Volkswagen is planning a \$316.7 million USD investment in Argentina to manufacture pickup trucks at its commercial vehicles unit in Pacheco.

MEXICO

Mexico has Ford, GM, Nissan, and Toyota leading the market. Government estimates that around 17.2 million units will be in circulation by the end of 2007. Mexico auto production reached 1.7 million units up to October 14, 2007. Mexico's central bank had increased the benchmark rate to 7.5% from 7.25% despite rising food prices and increasing inflation. Inflation is expected to reach 4.5% in Q307 and Q308. The central bank also said that it might take two years for inflation rate to come down to the bank's 3% target. Mexico is concerned about the fallout of the US sub-prime crisis since a recession will hit Mexican exports to the US.

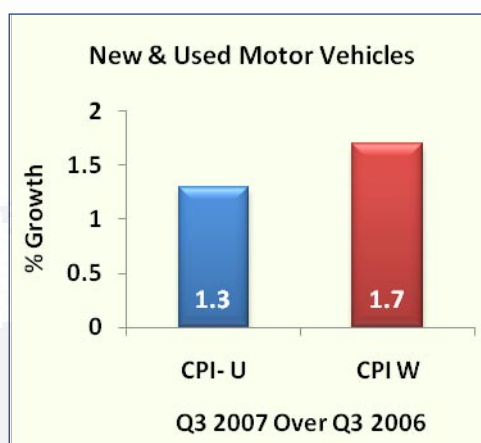
Volkswagen Bank:

In a first-of-its-kind model, Volkswagen is launching a direct banking operation leveraging its huge dealer network in Mexico. Volkswagen Bank SA will offer most of the banking functions without charging commissions. Volkswagen Bank is already operational in Europe. Though the bank will have in-house representatives at the dealer's location, most of the transactions will be done by phone and Internet. It has received government approval to start the bank in the coming months. Volkswagen expects to have nearly 94,000 clients by the end of 2008, starting with an initial capital of \$38 million USD.

GLOBAL TRENDS: NORTH AMERICA

The global automobile industry is expected to sell 70 million vehicles in 2007 compared to 67 million units in 2006, despite the weakened North American markets. In 2008, global automotive sales are expected to reach 72 million units according to GM estimates. GM estimates that 2008 US vehicle sales will be around 16 million units, while Ford estimates project US 2008 sales to be between 16.3 and 16.5 million units.

New and Used Motor Vehicles CPI US



Source: Bureau of Labour statistics

Automobile vehicles and parts contributed \$442 billion USD to real GDP in the Q307 compared to \$439.5 billion contributed in the Q306. All Big 3 companies are expanding aggressively in overseas markets to capitalize on the booming growth in American markets and also due to the weakened domestic market. The weakening dollar has also made US exports to other countries cheaper.

Higher oil prices have already shifted consumers away from the profit engines of American automakers, pickup trucks, and SUVs. Personal expenditure outlay already strained by higher mortgage payments and higher energy prices might not be budgeted for new car purchases. Even Toyota had reported a third quarter sales decline in the US though it posted 4.5% sales increase in October. In the third quarter, selling

was at 15.54, 16.27, and 16.23 million units, the lowest averages in recent times. Automakers expect the downtrend to continue until the first half of 2008.

GM's October sales grew 3.4% to reach 307,408 units, driven by strong Cadillac sales. Ford and Chrysler reported 9.5% and 8.9% decline in October sales. Though SUVs and pickup trucks are registering slow growth, GM reported positive growth in its utility vehicle sales. Toyota increased sales by 4.5% to sell 197,592 vehicles in October. For Toyota, Camry, Tundra, and Lexus drove sales. Ford reported a 38% sales growth in its crossover vehicles, through overall sales declined, due to a 26% decline in passenger car sales. Chrysler had positive car sales though utility vehicle sales decreased.

RISING LABOR COSTS

All three automakers have almost finished negotiations with their labor unions. The recent contracts give the automakers flexibility to keep production in line with market demands. Both GM and Chrysler announced job cuts soon after the contracts were approved. Chrysler, which is now owned by private equity firm Cerberus, recently announced 10,000 hour-based jobs layoffs and 1,000 salaried employee job cuts. Ford and GM might find it hard to cut down on staff like Chrysler. The labor costs of a new American car are from \$2,000 to \$2,500. Much of this is for healthcare, pensions, and benefits. Chrysler has pickup trucks as its profit engine and higher oil prices have dented growth for that segment, which has enabled management to announce drastic steps without much opposition from the labor unions. GM, Ford, and Chrysler made an average \$3,814 less per car than Toyota, Honda, and Nissan according to Stout Risius Ross, a Chicago based advisory firms. General Motors is eliminating shifts at three Michigan plants. The Ford contract would free the company of \$23 billion USD in long-term liabilities. Ford intends to cut 44,000 jobs and close 16 plants. In contrast, Toyota is not faced by the problems the American workers face

since it does not employ union workers. Moreover, Toyota is increasing capacity at its North American plants.

FOREIGN BRANDS MARKET SHARE

An Automotive News recent report suggests that the American top three brands market share stands at 51.2% at the end of the first nine months in September. American carmakers GM, Ford, and Chrysler are planning marketing campaigns to get and hold the attention of younger buyers by offering models that offer the features, reliability, pricing, and fuel economy witnessed in the foreign brands. Toyota has set a 2009 global sales target of 10.4 million vehicles for 2009, which reflects a 11.3% increase from 2007 targets

GROWTH OF CERTIFIED CARS MARKET

Despite certified used car premiums being \$1,680 USD (average pricing estimated by JD-Power and Associates); they form the fastest

growing segment (11.4% of all used car sales in 2006) of used cars.

TREND TOWARDS FUEL ECONOMY

Ford flexi-fuel vehicles are now available across Europe. Ford has sold more than 40,000 flexi-fuel vehicles in Europe to date. Land Rover is expecting to sell 200,000 cars in 2007. Land Rover is also introducing in 2009, fuel- and pollution-efficient technology to cut down emissions. GM has 22 vehicle lines globally with flexi-fuel capability lined up for 2008, with 12 specifically in North America. GM is also debuting in 2008, a 2-mode 6.0L V-8 hybrid system. At the

same time, GM is also trying to improve its efficiency in its traditional gasoline models. Recently, it demonstrated the homogeneous charge compression ignition (HCCI) in two of its models, 2007 Saturn Aura and Opel Vectra. HCCI provides a 15% fuel savings and meets current emission standards.



KEY COMPETITOR EVENTS: AFRICA & MIDDLE EAST

FERRARI

Ferrari has stores across Italy, Argentina, Las Vegas, Los Angeles, and China. Ferrari is expecting to open 40 more single brand stores in Europe, America, Middle and Far East in the coming years. It has upcoming stores in Moscow and early 2008 store openings in Singapore, Macau, and Honolulu. The Middle East's fourth Ferrari store and the world's 18th Ferrari store has been opened in the Marina Mall in Abu Dhabi by FADAR, which is a joint venture between Al Fahim Enterprises and ALDAR Properties. The gulf region has other Ferrari stores in Rashid Mall in Saudi Arabia, Umm Al Naar of Abu Dhabi, and the 3S Centre in Dubai. Ferrari in UAE sold 248 cars with Al Tayer UAE accounting for 68 retail sales. Ferrari is planning two more openings in the region in Oman and Lebanon in December. Ferrari is also contemplating a \$625 million USD automobile theme park spread over 62 acres. This park, expected to be open by 2009, will have a 230-foot-high G-Force Tower, a F1-branded twin rollercoaster ride, and 24 other attractions including auto schools and roller coasters, apart from a full racing circuit.



GENERAL MOTORS

For General Motors, UAE sales increased 16% in the first nine months of 2007 compared to the same period in 2006, driven by strong sales in Cadillac, Hummer, and Saab. GM dealers Bin Hamoodah Automotive and National Auto combined registered sales growth of 69% in the first nine months of 2007. Cadillac dealers reported a 35% increase while Saab dealers reported a 31% increase. In the first nine months, General Motors sales Middle East-wide declined by 1% to 98,635 unit, reflecting high fleet business. Chevrolet Suburban registered a strong growth of 238% in this region, reaching sales of 3,191 units out of total Chevrolet sales of 68,895 units. Chevrolet Tahoe registered a 203% growth in sales to 6,640

units. YTD Chevrolet sales stood at 2,408 units. GM is spending heavily on boosting its after-sales support, ensuring parts availability and also increasing its presence at the Middle East International Motor Show (MEIMS) in Dubai.

AL-FUTTAIM LOGISTICS

Al-Futtaim Logistics, which supplies logistics support to many major automobile companies like Toyota, Chrysler, Honda, and Volvo, is increasing its delivery fleet to meet increased demand. It will increase its car carriers to 37 trucks, reaching an average handling capacity of 900 units per day. Al-Futtaim also offers clearance and storage facilities. Al-Futtaim operates three distribution centers in UAE.

TOYOTA

For Toyota, nearly 5% of overall profit is generated from the Middle and Near East. Toyota has a robust distribution network in this region. Boosted by surging oil profits, the purchasing power of the region has increased, boosting Toyota's sales in this region. Vehicle sales in the Middle East grew 19% in the Q307. Toyota's exclusive distributor in the UAE, Al-Futtaim Motors, has launched the tenth generation of the popular Toyota Corolla. Toyota said that the ninth generation Corolla, sold in over 140 countries, has a 30 million production volume.

HONDA

Honda has launched the eighth generation of its popular model Honda Accord 2008 in Dubai. Reflecting the needs of its GCC customers, it has increased the exterior size, coupled with a sophisticated interior and V6 engine. Currently, Honda has sold 23,000 units of the 007YM Accord and it hopes to sell 35,000 units of the new generation model, which would equal 50% of Honda's sales in the GCC region. By 2010, Honda wants to double its 2006 sales to reach 90,000 units a year.

KEY COMPETITOR EVENTS: ASIA

GENERAL MOTORS

GM's Asia-Pacific sales grew by 16% in the Q307. GM is also poised to announce soon the first group to sell one million annual vehicle sales in China, reflecting a 20% growth. Cadillac sales in Asia-Pacific grew by 121.8% in the Q307. GM is planning to introduce five alternative fuel vehicles in China soon. GM is also planning a hybrid-technology-focused research center in Shanghai. In October sales, Shanghai GM came in second place in retail car sales

Ford: In the first nine months of 2007, Ford China has reported a 30% growth in sales at 149,455 units compared to the same period last year. Ford's China joint venture, Changan Ford Mazda Automobile (CFMA), Ltd. registered a 59% increase in sales at 150,365 units for the first nine months of 2007. CFMA's Nanjing plant has started mass production. Ford has been rapidly introducing highly competitive products and services, increasing its market share. Ford Focus alone registered 90,249 unit sales in the first nine months of 2007. CFMA ranks No. 7 in the top 10 passenger carmakers in China.



TOYOTA

Driven by strong sales in Asia, Middle East, the US, and Europe, Toyota recorded a consolidated 21.3% growth in operating profit of \$8.27 billion USD in the first half of 2007 (Asian Calendar Year). Sales grew 13.4% to reach \$114.24 billion USD, driven by strong global demand for cars despite weakened Japanese demand. Rising gas prices have increased sales of its hybrid Prius

model and increased volume of its smaller Camry and Corolla models.

Toyota's low-priced multipurpose vehicle witnessed strong growth in Asian, Oceanic, and Middle East countries. Toyota has projected a full-year target of \$223.9 billion USD and operating profit of \$14.9 billion USD. Toyota is keen to achieve annual 9.42 million annual unit sales. Despite a tightened credit market, Toyota sales in North America increased 2.3% to 1.497 million vehicles, though overall sales decreased 5% due to quality issues and its top executives quitting to join competitors. Due to rising interest rates and appreciation of the Australian dollar, Toyota is contemplating withdrawal from Australia.

HONDA

Honda increased its first half sales by 12.8% to reach 5,230 billion yen and net income grew 38.1% to reach 271.3 billion yen. Automobile sales grew 5.8% in the first half of the 2008 fiscal year to grow to 1,780 billion yen. Growth of BRIC countries and demand for fuel-efficient cars in the US drove sales despite a stagnated Japanese market. North American revenue grew 8.7% to \$27,207 million USD, due to increased automobile unit sales and currency gains. European revenue grew 24.4% to \$6,853 million USD due to increased automobile and power product business sales. Honda increased its China sales to 31.7% in the first nine months of 2007 to reach 297,536 vehicles.



Source: Company Reports

NISSAN

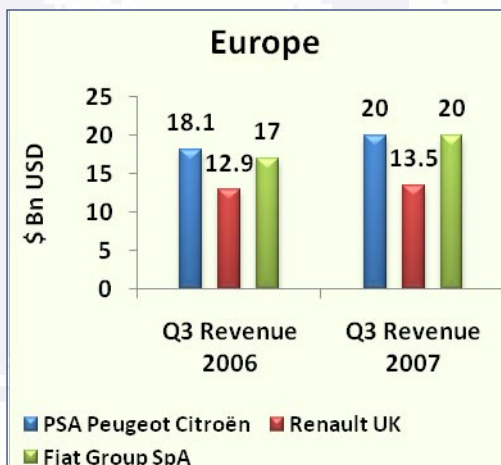


Nissan increased its global production by 6.5% in the first half of 2007 fiscal, resulting in a unit volume of 1,611,496 units despite a weakened 5% decline in domestic sales. Sales in North America grew 3.6% to 672,970 units, while European sales grew 7.1% to 303,632 units.

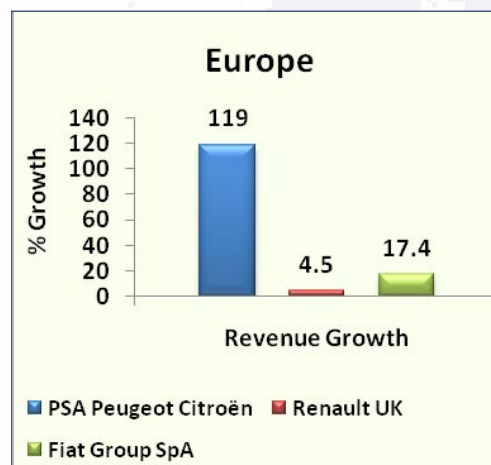
Region	YTD Growth over YTD 2006	Units
Mexico	30.7%	246787
Americas	3.9%	328549
UK	22.9%	176382
Spain	9.1%	105638
Japan	-10.3%	516608

The Nissan \$3,000 car expected to be launched in India in 2010 can also be exported into mature markets. For the first half of fiscal 2007, Nissan's revenues grew 11.7% to \$42.42 billion USD, while net revenue declined 22.5% to \$1.78 billion USD, due to higher taxes. Nissan sold 1,816,000 vehicles in this period, driven by strong demand for innovative products. For the full year of 2007, Nissan is expected to grow net income to \$4.10 billion USD.

KEY COMPETITOR EVENTS: EUROPE



Source: Company Reports



Source: Company Reports

DAIMLER

Daimler posted a net loss of \$21.14 billion USD, mostly associated with a one time write-off of \$3.7 billion USD linked with the disposal of Chrysler. Daimler is maintaining its full-year operating profit target of \$12.4 billion USD, driven by stake sale in European aerospace group EADS. Third quarter total revenue grew 6% to reach \$37.5 billion USD, driven by a 4% increase in volume to 537,000 vehicles.

Fuel Cells Alliance and Developments:

Daimler and Ford together are purchasing the auto fuel cell unit of Ballard Power Systems in preparation of mass production of fuel cell cars in the future. Ballard is transferring the division into a new company called Automotive Fuel Cell Cooperation, which will have 50.1% stake participation from Daimler, 30% from Ford and 19.9% from Ballard. Ballard has retained the right to pursue fuel cell bus. Currently, higher production costs have hampered the mass commercialization of this technology. The hurdles are expected to be removed in the coming years. New technological advancements at the University of Houston might soon make fuel cell more expensive and less expensive. A fuel cell is 2-3 times more efficient than the traditional combustion engine to convert

fuel into power. It converts energy into electricity. The expensive component of the fuel cell is platinum. The recent developments at UH have used a platinum alloy which contains less platinum. The current project is being sponsored by grants from the US Department of Energy, National Science Foundation, major automotive fuel cell developers, and NASA through the Houston Advanced Research Center.

MERCEDES BENZ

The Mercedes Benz division profit grew 56% to reach \$1.94 billion USD in the Q307. Daimler is also exploring partnerships with other car manufacturers, with a possible partner being BMW, GM, or Fiat. Mercedes Benz cars reported a 12% increase in October sales at 114,600 units compared to October 2006. For the first ten months of 2007, sales grew 2% to reach 1,056,900 units compared to 1,036,700 units in same the period in 2006.

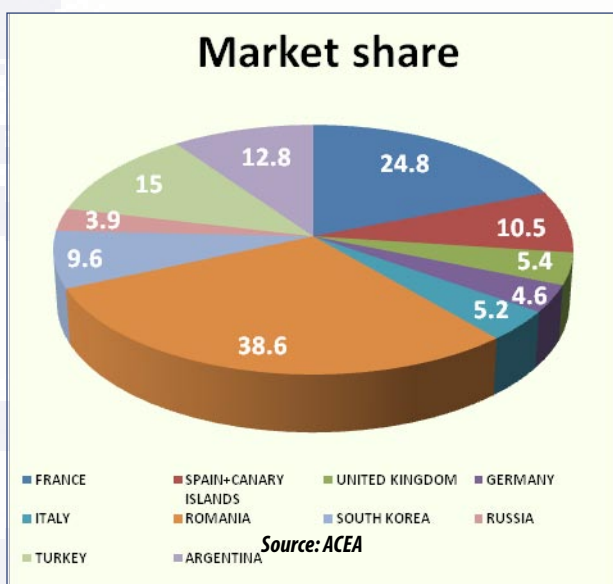
Mercedes Benz Sales by Region:

Region	Growth over October 2006	Units
Asia Pacific	27%	11400
USA	11%	22800
Germany	2%	31400
Western Europe	14%	37800

RENAULT

Renault Group revenues grew 4.5% in the Q307 and increased 0.4% YTD. Global sales grew 6.4% in the Q307 though they were down 0.7% YTD. Sales in France increased 11.3% while sales in Europe, excluding France, declined 7.8% in the Q307. International sales driven by strong sales growth in the Americas (+37.6%), Asia-Africa (+14.7%), and the Euromed region (+15.4%) grew 20.9% in Q307 and in the first nine months grew to 13.6% YTD.

Car Registrations in Europe



Region	YTD Growth over YTD 2006	Units
Asia-Africa	6.7%	140 439
Americas	30.2%	180 052
Euromed	8.6%	299 817
France + Europe	-6.6%	1 222 932

By region, Renault is hoping to get over 40% of group sales from international business by 2009. YTD, Dacia brand grew sales by 12%.

FIAT

Fiat's third quarter revenue grew 17% to \$19.76 billion USD, while net income grew 121% to \$615.7 million USD, driven by strong growth in its auto division and positive sales from truck and

farm machinery divisions. Consolidated revenues for the first nine months grew 12.5% to \$62,363 million USD, while net income grew 114%. The automobile division revenue grew 17.3% and net income grew 164% in the Q307 over Q306. Fiat attained 30.9% market share in Italy, 26.6% market share in Brazil, and 10.2% market share in Poland despite slowing auto sales in Italy and Brazil. For the first nine months of 2007, Spain, France, UK, Italy, Germany, Poland, and Brazil grew by 17%, 7.8%, 6.9%, 6.4%, 1.1%, 23.7%, and 31.8% respectively. In Q307, Fiat also announced steps to increase penetration in China, India, and Russia.

VOLKSWAGEN

Volkswagen's revenues grew 5.1% in the first nine months of 2007 to reach \$116.8 billion USD, driven by 8.2% increase in global deliveries volumes. Net profit grew 71% to \$4.24 billion USD in the first nine months of 2007. Positive demand in Europe, China, and South Africa drove global sales to 4.6 million vehicles. Net profit more than doubled \$4.24 billion USD. The Audi, Bentley, and Skoda brands registered strong growth. Volkswagen expects to sell 6 million vehicles and generate a pre-tax profit of \$7.4 billion USD in 2007. Up to September 2007, it had already reached \$6.86 billion USD. Third quarter sales grew by 3.8% to reach \$38.1 billion USD. Porsche has a 31% stake in Volkswagen and speculation is abounding that it might take over Volkswagen.

PSA PEUGEOT

PSA consolidated sales for the first nine months grew 7.7% to \$65,486 million USD over the first nine months of 2006. Volumes grew 3.4% to 2,547,700 units. PSA reached a market share of 13.9% market share in Western Europe, driven by 2.5% growth in unit volumes to reach 1,740,900 units. Nine-month sales in Central and Eastern Europe grew 21.6% to 134,100 units. Mercosur sales grew 24.3% to 152,900 units. It improved its Argentinean penetration rate to 14.9% and Brazilian sales grew by 23.8% to 91,300 units, resulting in a 5.4% market share. PSA had a 3.9% market share in China, driven by 3.8% unit volume growth. It also experienced strong growth in the Russia region with 31.9% unit volume growth.

KEY COMPETITOR EVENTS: LATIN AMERICA

GENERAL MOTORS

Latin America, Africa, and Middle East region sales grew by 22%. In the Q307, General Motors increased its Brazil sales by 29%. Colombia and Venezuela reported strong sales. General Motors plans to invest \$500 million USD up to 2011 in Brazil and Argentina to develop small vehicles for South America. In Latin America, Africa, and the Middle East, GM will be increasing production in the Q407 by 42,000 vehicles. General Motors expects to sell around 470,000 vehicles in Brazil in 2007.

FORD

Ford South America reported a 19% growth in sales and a 30% growth in revenue in the first nine months of 2007. Ford South America reported a 36% growth in the Q307 revenue at \$2.064 billion USD, while net income grew 28.6% at \$386 million USD. For the first nine months, Ford South America reported a 30.1% growth in sales at \$5.174 billion USD and a 37.8% net income growth at \$547 million USD. Unit volumes grew by 15% at 116,000 units. Ford witnessed a 0.8% decline in market share in the first nine months of 2007 at 10.8% compared to 11.6% in the same period of last year. Dealer inventory also declined 8% primarily due to capacity constraints. Ford had recently signed an agreement with UGT to manufacture 350,000 vehicles per annum across three shifts. It will introduce new small and medium segment models.

PSA PEUGEOT

PSA Peugeot improved its Argentinean penetration rate to 14.9% with sales of 59,800 units and Brazilian sales grew by 23.8% to 91,300 units, resulting in a 5.4% market share. PSA Peugeot Citroen is planning to invest \$500 million USD in Brazil and Argentina to increase its production by 2010.

HONDA

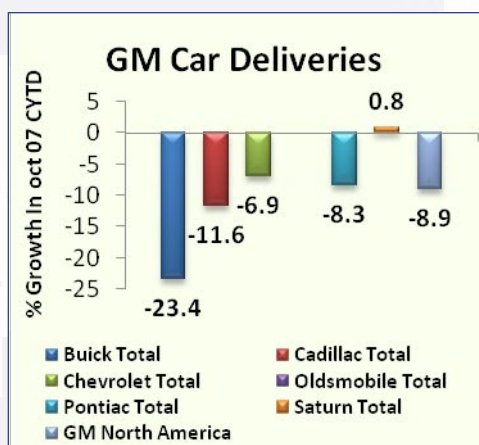
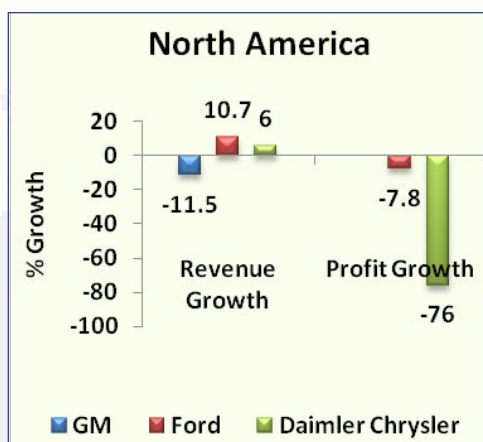
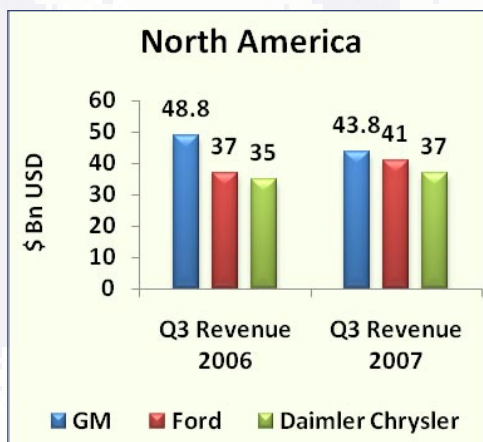
Honda has received Argentina government approval to build a manufacturing plant that will produce 30,000 cars annually, some of which will be used for Latin American export as well.



VOLKSWAGEN

Volkswagen wants to increase its investment in Brazil by 28% to reach \$1.8 billion USD up to 2012, boosted by strong sales driven by lower interest rates. Nearly 75% of the investment will go into developing and marketing new vehicles. Eighty percent of this investment will be financed by the Brazilian unit, while the rest will be invested by the corporate headquarters.

KEY COMPETITOR EVENTS: NORTH AMERICA



Source: ACEA

GENERAL MOTORS

General Motors recorded a 4% growth in the Q307, driven by strong sales of 2.38 million cars and trucks globally in the Q307. International sales contributed 56% to GM's sales. Latin America, Africa, and Middle East region sales grew by 22%, while Europe region sales grew by 15% respectively. Brazil recorded a 29% strong sales growth in the Q307. Sales in the US market declined by 6%, driven by weakened rental sales and increasing fuel prices. Supported by the St. Petersburg' Opel Antara production commencement, Russian sales grew 75%. In Latin America, Hummer registered 415% growth in the Q307. Globally, Opel registered the highest 10% growth in sales in the Q307 compared to the Q306. GM though reported a net loss of \$38.01 billion USD in the first nine months of 2007, resulting from a \$39 billion USD tax-related charge. The actual loss of \$42 billion USD was offset by a \$3.5 billion USD gain in sales of the transmission unit. Weakening credit market caused GMAC to report losses.

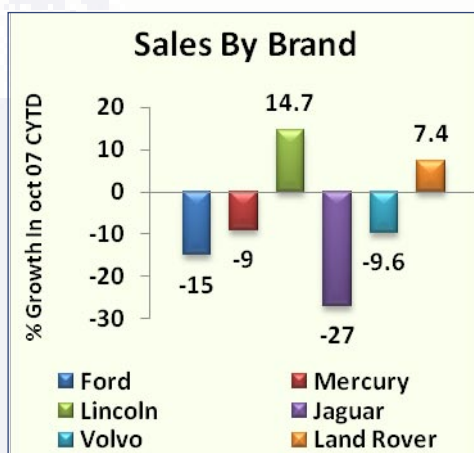


Source: Company Reports

General Motors exceeded Toyota sales in the first nine months of 2007. Toyota sold 7.05 million units while GM sold 7.06 million units. In the Q307, GM sold 2.38 million vehicles compared to Toyota's 2.34 million vehicles.

FORD

Ford reported a 10.7% growth in automobile sales in the Q307 over the Q306 to reach \$41.1 billion USD. Net income declined \$380 million USD due to a loss in continuing operations in the Q307. Ford is contemplating the sale of Jaguar and Land Rover and is in discussions with interested parties. It is also undertaking a strategic review of Volvo with the objective to enhance Volvo's positioning as a manufacturer of premium vehicles and also to improve its financial performance. Ford South America, Ford China, and Ford Europe reported 19%, 27%, and 5% growth in sales in the year to date respectively. It reduced personnel by 6,800 in the Q307. In North America, though revenue was slightly up, Ford reported a net loss in the Q307. Ford expects to turn profitable in 2009 and achieve its \$17 billion USD cash outflow target.



Source: ACEA

Ford's Land Rover sold 26,000 cars globally in September 2007, up 34% over September 2006. YTD, Land Rover sales increased 15.7% to reach 167,400 units. In Russia, sales grew by 105% and 249% in China.

Ford is cutting down 2008 spending and trimming budgets in many divisions, such as sales, marketing, and perhaps engineering. Ford October sales fell 9.3%. Rising commodity prices have increased production costs for Ford and, coupled with stiff competition, sales have declined.

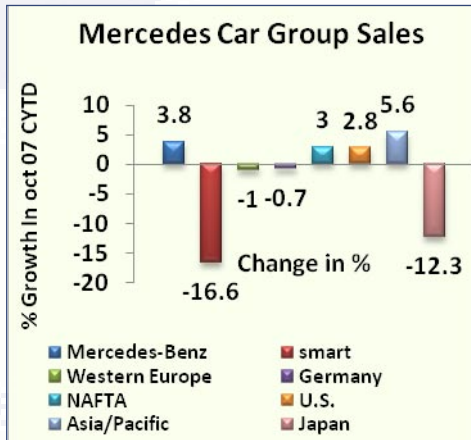
MAGNA

Magna registered a 12% sales growth to \$6.1 billion USD for the Q307 over the Q306. It increased its production in North America by 3% while Europe production grew by 5%. Vehicle assembly sales declined 16% to \$859 million USD, while net income increased by 64% to \$155 million USD. For the nine months of 2007, Magna reported strong sales despite reductions in complete vehicle assembly sales. North American and European sales grew by 10% and 18% respectively. Net revenue grew by 27.5% to \$635 million USD. Magna expects 2007 sales to be between \$25-\$26.3 billion USD.

CHRYSLER

Expecting the economic downturn to continue into 2008, Chrysler is eliminating shifts in six plants in North America, resulting in nearly 10,000 hourly jobs apart from 1,000 salaried job cuts. New labor contracts allow Chrysler to cut production based on market movements. Chrysler now majority-owned by Cerberus Capital Management is trying to become profitable in 2007. It will not adopt the traditional method of offering huge incentives nor will it encourage low profit sales to rental fleets. Chrysler will also discontinue slow-selling models and reduce overall inventory by 100,000 vehicles. S&P has affirmed its "B" corporate credit rating on Chrysler, based on a recent labor contract negotiation that will give Chrysler flexibility in reducing workforce and move to a competitive wage structure. In October, Chrysler's Jeep brand sales in Asia-Pacific, Latin America, and the Middle East have

registered growth of 17%, 25%, and 65% respectively. Growth in BRC countries has contributed significantly to the international sales growth. In the US, Chrysler reported an 8.9% decline in auto sales for October 2007. Chrysler is expected to launch more debate schemes to cut down dealer stocks with the steepest discounts being offered for slow-moving models.



Source: Company Reports

NEW PRODUCTS

GENERAL MOTORS

GM has launched a line of hydrogen fuel cell vehicles as part of a large-scale market test called "Project Driveway." As part of the test, they will be loaned to common people and their feedbacks will be noted. These vehicles contain three carbon fuel tanks with a storage capacity of 9.24 pounds, which provides a mileage of 150 miles. These vehicles provide all the benefits of fuel cell power train besides being faster and environmentally friendly.

GM Daewoo Auto & Technology has introduced Gentra X, the successor to its previous hatchback Kalos. The new car, with a new 1.2-liter DOHC engine, produces a maximum output of 85 per second at 6,200 rpm. The new car is sportier, younger, and more stylish than its predecessor and offers much more than one would expect of a conventional small car. Gentra X, with a 1.2-liter engine and manual transmission, comes in two trim levels: the SE retails for \$9,045 and the SX for \$9,275. A new model with a 1.6-liter engine will be available starting next year.

FORD

Ford Brazil has launched an automatic Eco Sport in Brazil, Argentina, and Mexico. Eco Sport is available in a flex-fuel model (Flex 1.6L) that can run on gas or ethanol. The active urban youth is their target. Eco Sport is very spacious and is highly stable and features some practical gadgets.

CITROEN

Citroen has launched a new version of its C5 Saloon positioned between the C6 and C4 models. The new C5 is longer and heavier than the current model and consists of a boot. With C5, Citroen offers customers the choice between its own suspension system and a general mechanical suspension system. The C5 is made in the Rennes factory in Brittany, which specializes in the top of the range models. The C5 is going to strike the market in March 2008.

New Kangoo Express has launched a range of engines available in three versions, rated at 70hp (50kW), 85hp (63kW), and 105hp (78kW). These engines are robust, reliable, cost-effective, and environmentally conscious. The 70hp (50kW) runs with very low running costs and offers high performance; the 85hp (63kW) is highly versatile and delivers peak power at 3,750 rpm; and the 105hp (78kW), with a special camshaft design, provides good drivability.

HONDA

Honda has launched its fully remodeled Fit. The platform is newly designed to increase the car's interior space and ease while maintaining its usage and handling. The front pillar is moved forward, the surface area of the door mirrors is expanded by 30%, and 15-inch aluminum wheels and large headlamps are employed. The new Fit also provides three "ultra luggage" modes. Pricing ranges from \$10,375 USD to \$16,150 USD (including consumption tax).

NISSAN MOTOR

Nissan Motor Co., Ltd. has introduced the world's first Around View Monitor in Japan, which provides the driver a bird's eye image of the vehicle and its surroundings from four ultra-wide-angle (180-degree) high-resolution cameras fixed on the front, sides, and back of the vehicle. It is mainly helpful to the driver to steer effortlessly and accurately into a parking space. The technology will also be offered to the US market on the all-new Infiniti EX35 scheduled for launch in December 2007.

TATA MOTORS

Tata Motors has launched Indica V2 Turbo with a turbo-charged inter-cooled engine and safety features like dual front airbags and antilock braking system. The Indica V2 Turbo DLX car meets with European standards, for full-frontal, offset-frontal, and rear crash for passenger survivability. The new variant comes with the 1405 cc turbo-charged inter-cooled diesel engine that delivers a power of 68 PS at 4,500 rpm and a torque of 130 nm at 2,500 rpm.



USA EMISSION STANDARDS

California is pressuring the EPA to give a decision soon on the state's request to give it a waiver to impose its stricter emission standards. The state's attorney general has even threatened to sue EPA to hurry up its projected December 2007 decision. Eleven other states are keen to follow California if it gets the waiver. Car manufacturers are trying hard to block the standards from taking effect since that would entail redesigning existing models and increase the cost of car production. Car manufacturers insist on federal standards instead of state standards.

A recent federal ruling gave states the authority to set their own fuel economy standards. The Alliance of Automobile Manufacturers, which includes the major automobile manufacturers, have filed a appeal against this ruling asking that fuel economy standards be left to federal regulators. A federal judge had earlier blocked the automakers' move to restrict Vermont from adopting California's emission standards, citing the industry's inability to prove that the rules were unsafe or not attainable. Twelve other states have now adopted the rules, covering almost 50% of new vehicles if they are allowed to continue. California's laws would force automakers to generate a fuel economy of 43 miles per gallon. This will involve huge financial investment by carmakers to attain those standards. GM has stated that even if it spent \$25 billion USD in upgrading its vehicles, it still would have to avoid selling in some states. Since the rules start in effect from 2009 models, the alliance is seeking quick resolution. The alliance was joined in this cause by another similar appeal filed by the trade group for foreign automakers.

EUROPE AUTOMOTIVE STANDARDS

While American carmakers resist the fuel economy standards of reaching 35 miles per gallon by 2020, Europe, which is already at 35 miles per US gallon, is raising the standards to 44 miles per gallon by 2015. Global insights report that transport accounts for 26% of Europe's total CO2 emissions. Most of European cars are small, unlike America where large cars are preferred. There are other groups seeking 69 miles per gallon by 2020. Some European car manufacturers feel that they can find solutions to reduce CO2 emissions, but that would add to the cost of the car, which is not acceptable since consumers are looking for average costs to come down every year.

A recent Lehman Brothers study also attests to the fact that the cost of producing cars meeting the regulatory norms would add to the overall cost of the car, since new models would have to be built involving huge capital expenditure. The Lehman Brothers study also pointed that European automobiles account for only 1.5% of global emissions and have the lowest emission rates globally. Barring Germany, with its marked preference for larger cars, most of Europe prefers smaller cars from Renault, Fiat, and PSA Peugeot. Toyota has stated that meeting the European Union standard would be hard, though it can meet 140 grams by 2009. Italy has introduced a two-year vehicle ownership tax exemption if a vehicle has emissions under the 140g/kms limit. Also, there is a 800 USD subsidy for replacing old polluting cars with new emission regulations efficient cars.

BUSINESS OPPORTUNITIES

EMERGING MARKETS

Emerging markets are accounting for the growth of all major automobile markets since markets in the US and Europe have been witnessing slow growth. The strongest growth for top automobile companies came from nondomestic markets in 2006. Fifty percent of GM's unit sales came from outside in the US in 2006, and GM expects these sales to grow at a faster pace. Towards that end, GM is dedicating more spending to its Latin America, Middle East, and Africa divisions.

VIETNAM

The Vietnam Automobile Manufacturers' Association (VAMA) has reported 125% growth in October domestic car sales compared to October 2006. A total of 9,081 vehicles were sold last month with Toyota growing its sales by 50% to 2016 cars in October. State-owned Vinamotor came second with 1,268 units, followed by Truong Hai Auto Company registering a 149% growth to 1,029 units.

Car Sales:

In the first ten months of 2007, VAMA members have sold 58,320 vehicles which reflects an 88% increase over the same period in last year. There have been bookings for 10,000 more vehicles. The Vietnam market is witnessing strong demand for Honda Civic, Toyota, and Captiva which recently set new sales records. Honda is expecting to sell 5,000 Civics by the end of 2007. Mercedes sold 66 cars in October and Ford sold 345 Everest units.

Imports:

Vietnam has already witnessed a 62.2% increase in car imports at 14,000 cars in the first nine months compared to the first nine months of 2006. Vietnam spent \$271 million USD on imported

cars, which is up 92.5% compared to last year. The car imports may increase further with the government reducing import duties to 60% from the January highs of 90%.

Cars will be cheaper if the government reduces luxury tax rate. BMW and Mercedes Benz have reduced their car prices after the import duty cut. Almost all major car manufacturers have been launching new models in the market. The Ministry of Industry and Trade has estimated domestic car production to reach 80,000 units in 2007. Foreign joint ventures have been

steadily making progress in Vietnam. Toyota Vietnam has a localization ratio of 33% in its Innova brand and it is expected to increase it to 45% in 2008.

MALAYSIA

Malaysia, Iran, and Turkey are planning to produce Islamic cars for the global market. These cars will have Islamic features such as a compass, kiblat reading, and compartment for keeping the Al-Quran and scarves. Malaysia's vehicle sales in the nine months up to September 2007 decreased 6.9% to 358,234 units. Total production in the nine months up to September 2007 declined 18.1% to 327,340 units.

THAILAND

Ford and Mazda will be investing \$500 million USD in a new small car production facility in Thailand. This would elevate the production capacity at the Auto Alliance Thailand joint-venture plant to 275,000 vehicles from the current 175,000. Ford will start initial production with the low-cost compact cars in 2009 for domestic and export to Asian and African markets with the target of 80% export. The joint venture has invested so far \$1 billion USD in the domestic auto industry.



YOUNGER GENERATION SHIFT TOWARDS IMPORT BRANDS IN NORTH AMERICA

Recent statistics from the Power Information Network (PIN) suggest that Toyota's (TM) tiny Scion tC gets its maximum sales from the youngest buyers between ages 22-23 years and the oldest average age being 48. Younger buyers prefer the import brands, while the Detroit brands are more popular with buyers with an average age above 60. Foreign brands not only attract, but are retaining the brand loyalty among younger buyers. The Scion division was created focusing on younger buyers. PIN data also suggests that the Ford Lincoln models have an average buyer age of 69. PIN's data source is the millions of auto loans and leases across dealerships in the US in the period January-September.

Ford and GM are launching new versions of Ford Focus and Saturn Astra to compete in the small cars market, of which 76% is dominated by foreign brands. Toyota Corolla and Honda Civic control 30% of the small car market. Younger buyers are demanding noise-free cars, sleek body styles, stylish interiors, and fuel economy. Ford has incorporated Microsoft Sync in the new version. American carmakers are also exploring crossover vehicles in the small car segment. Toyota is launching a new version of Corolla next year. With China and other Asian countries keen to start exporting small cars to the Western world in 2009, American carmakers have to act fast before other countries further erode their position in the US market.

SMALL CAR MODEL

Tata Motors, Nissan, Toyota, Honda, and Renault are all in the race to create the \$2,500 car in India. Renault has announced that it would make a car for \$3,000 USD in partnership with Bajaj possibly. Honda will also produce small cars in another factory that it would be opening in 2009, but priced higher than the Tata or Renault.

CAPACITY ALIGNMENT WITH DEMAND

Excess capacity was reported in American Majors and Europe to the tune of 17% and 15% respectively in 2006 by CSM Worldwide. We feel that it is mainly because production was not aligned with demand and also because companies did not anticipate slowing down of the economy. American major car manufacturers have reduced production in many of their plants to keep production aligned with demand.

LOCALIZED PRODUCTION

BMW is planning to increase production in its South Carolina plant to 240,000 units annually by 2012 from the current 140,000 vehicles. The US is BMW's single largest market where it sold 30,510 X3 units in 2006. The South Carolina plant currently produces X5 and the Z4 sports car, M Roadster, Z4 Coupe, and M Coupe. In 2008, this plant is expected to start production on X6 sports activity coupe and in 2010, on the next generation X3. X3 is also produced in Austria.

BMW prefers to localize production to shield itself against the dollar decline. BMW is targeting a savings of \$8.5 billion USD by 2012 and expects to sell a million more vehicles. It aims to achieve these savings through cost efficiencies with 10% margins targeted by 2012 from the 2006 6.3%, while at the same time increasing dividends. BMW has not announced any closure of its seven German plants since it is targeting two million vehicles by 2020 and 1.8 million vehicles by 2012. BMW is looking at localized production and component sourcing in the US as a way to overcome the strengthening euro. It would be increasing its UK plant at Oxford to 260,000 cars per year and capacity in China to 44,000 units. It is also targeting an increase in mini production to meet Euro carbon emission norms. From 2010, BMW is expecting to launch the next-generation X-branded range.

DOMESTICITY

A Recent Chicago Federal Reserve report released on October 1, 2007 studied the domesticity of cars sold in the US. The Detroit 3's market share has fallen to less than 50% after the first half of 2007. Currently, 25% of all components used are imported while the other 25% are produced by foreign carmaker factories in the US, while the Detroit 3 rely on more imported parts. The Federal Reserve report suggests that some of the Detroit 3 models have lower domestic content than the foreign companies. The Federal Reserve cited the example of Ford Mustang and Chevrolet suburban, which had only 65 and 67% domestic content compared to 70% in Honda Accord and 80.3% in Toyota Camry. Overall though, the Detroit 3 had a local content of 79.4% in 2006, compared to the foreign car makers 66.2%. Foreign carmakers have increased production in North America thus resulting in increased domestic content, while the Detroit 3 have been decreasing production and increasing their global sourcing to cut down costs.

According to the report, Ford and GM, who have in the past used in-house parts, had an 80% domesticity rate while Chrysler had a 71.3% domesticity rate. BMW, which is planning to localize production in its South Carolina plant, currently has only 31.7% compared to 62% by Mercedes, 76.3% by Toyota, and 18% by Hyundai. Foreign automobile component suppliers have been increasing their production facility capacities in tune with the growth in demand of the foreign automobile manufacturers, and in 2006 accounted for 88 of the 150 large part suppliers in the US.

ASIAN CAR MANUFACTURERS' GLOBAL EXPANSION

China is set to inundate Europe with its cars in the near future. Car dealers experienced with dealing with Japanese and Korean models are signing up Chinese cars as well. The weakened dollar has helped them since they purchase in dollars and sell in Euros. Pricewaterhouse Coopers estimates that China will export 54,000 cars to Russia in 2007 compared to 31,000 in 2006.

China is on target to sell 500,000 cars this year. Korean exports to Western Europe are decreasing gradually since Hyundai has been localizing production in Western Europe, but Korean exports to Eastern Europe are increasing rapidly.

Honda is waiting for the Indo-ASEAN free trade agreement (FTA) to come into effect; this will make sourcing engine components from India cheaper. Once tariffs are lowered, Honda, which currently sources from Indonesia, Thailand, and Malaysia can increase sourcing in India through its Indian subsidiaries. Honda will have a capacity of 350,000 units once its \$460 million USD facility in Rajasthan becomes operational by 2009. Honda needs minimum sales of 300,000 units to consider local sourcing. Honda's August sales in India fell 7% in August to 4,879 units, though cars sold in the year to August remained high at 41,638 units, compared with 35,853 units in 2006. Honda City led sales followed by Civic and Accord models. Honda's new engine plant in Ogawa is expected to be operational in 2009, and will have a production capacity of approximately 200,000 environmentally friendly engines, which will be used domestically as well as exported.

FOREIGN CAR MANUFACTURERS PENETRATION IN INDIA

Volvo:

Volvo expects India's luxury car market to double by 2009 at the current 30% annual growth rate and is targeting 10,000 car sales by 2010. It recently launched its S80 sedan and XC90 SUV and is currently expanding its dealer network. The units are currently being imported as completely built units from Sweden. Based on demand, Volvo will take decision to localize production or continue to import. Ford already makes 60,000 vehicles in its Chennai facility. Volvo will introduce S40 in 2009 in India. Volvo has witnessed a 121% growth in premium cars in Russia and is targeting a 100% growth rate in China at 15,000 units in 2007. Volvo is appointing more dealers in the Middle East, another promising market, apart from Latin America. Volvo has started selling its car models, Volvo S80 luxury sedan and Volvo XC90 SUV in India. Volvo will be selling



these cars in late 2007 through dealerships in New Delhi, Mumbai, and Chandigarh. Volvo already sells trucks in India.

Volkswagen:

Volkswagen has launched its Passat model in India and is working on a new small car model exclusively for the Indian market, which is currently dominated by compact car manufacturers. Tatas are currently working on the \$2,500 USD car. The new car will be launched in 2009 from Volkswagen’s Pune facility. They would also be bringing in the VW Polo powered with a 1.4 lt diesel engine in 2009 and priced between 5-7 lakhs and the Jetta car into the Indian market. Volkswagen is expecting to source more components locally.

Hyundai India:

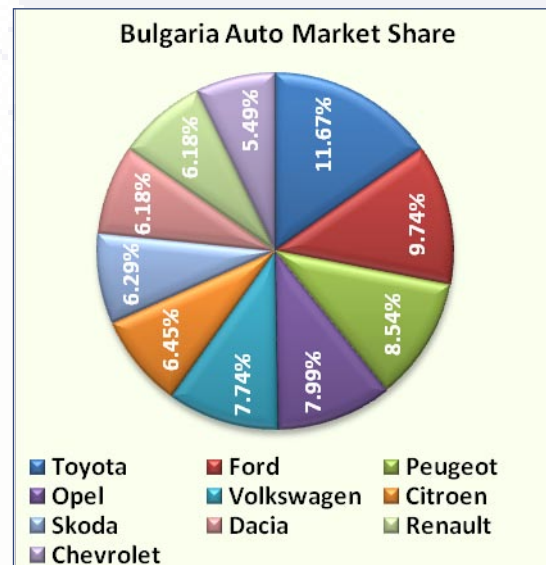
Hyundai India will be introducing its successful Santa Fe model to India in both the manual and automatic versions with diesel/petrol options. Santa Fe will replace the phased-out Tucson and has already been launched in the US and Europe. There is strong demand for SUVs in India with a targeted 7,000 units. Hyundai is also planning a new SUV model in mid-2008. General Motors’s Captiva, Mitsubishi’s Outlander, and Mahindra’s Scorpio are competitors to Hyundai in India, while future competition is expected from Nissan’s Livina, Renault’s Megane, and Skoda’s Roomster models. Hyundai Motor labor has successfully closed a labor negotiation. Hyundai recently launched the 15,00,000th car in India since the start of production in 1998. Hyundai is expanding its dealership base to 250.

Renault:

Renault will be commencing production in its India assembly plant by 2009. This power train plant and engineering center is being built jointly along with Nissan and Mahindra. Production is due to start in 2009. Renault Design India, based in Mumbai, will expand its operations to become Renault Design’s fifth satellite center.

BULGARIA

Bulgaria has been witnessing strong growth in automobile sales since joining EU, easing imports of cars from other EU members. According to the Union of Importers of Automobiles in Bulgaria, in the year to August 2007, Bulgaria witnessed a 25% rise in vehicle sales over 2006 at 33,726 new vehicles, out of which dealers sold 31,920 vehicles reflecting a 24% increase over 2006. Toyota, Ford, and Peugeot import dealers occupy the top three places respectively. Dacia Logan sold the most cars in the country with 1,698 units. In the year to August 2007, Toyota led the market with an 11.67% market share, followed by Ford (9.74%), Peugeot (8.54%), Opel (7.99%), Volkswagen (7.74%), Citroen (6.45%), Skoda (6.29%), Dacia (6.18%), Renault (6.18%), and Chevrolet (5.49%).



Source: Union of Importers of Automobiles in Bulgaria

Vehicle sales for 2007 are expected to meet or exceed forecasts compared to 2006 sales. The used cars market has been also steadily gaining ground due to the lifting of VAT taxes on imported cars. The average age of a Bulgarian car today is more than 19 years now, which will position replacement market rates high.