



The Rough Road Continues: Update on the current crisis in the global automotive industry

KPMG INTERNATIONAL

Contents

Overview of the past six months	1
Current assessments by region	3
Looking forward	5
Possibilities of a mild recovery	5
Consolidation	6
New emerging players	6
Cost cutting through innovation and R&D	7
Vehicle age and the aftermarket	7
Green technology	8
M&A investments	8
Greenfield investments	9
Conclusion	9

The Rough Road Continues: Update on the current crisis in the global automotive industry

The automotive crisis shows few signs of improvement, but companies are finding new ways to adapt through innovative strategies that seek to balance risk with opportunities.

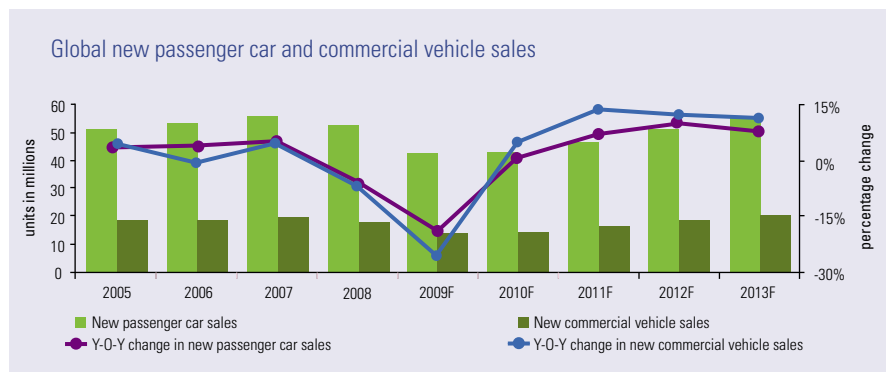
At the end of 2008, KPMG published "A Rough Road: the effects of today's financial crisis on the global automotive industry." The report described a deepening crisis throughout the industry, spurred by the collapse of credit markets, a decline in sales in many regions, the threat of bankruptcies or foreclosures and general economic stress across the industry.

Now, six months later, conditions have not improved, and in many cases the situation has deteriorated. Only time will tell when the industry will fully recover, but one thing is certain: the industry that re-emerges will be significantly different. Changes will occur in its technology, product focus, regulatory obligations, supply chain structures and market leadership.

Overview of the past six months

The severe plunge in auto sales that began in the later part of 2008 gathered speed and intensity as we entered 2009. This, in turn, drove equally steep reductions in production and employment, accompanied by bankruptcies and closures across the supply chain and among dealerships in many markets.

Global new light vehicle sales volume fell to about 61.5 million units in 2008, down 5.6 percent over the sales in 2007.¹ Key automotive markets such as the US, Western Europe and Japan



F – Forecast

Source: EIU accessed on 8 June 2009

have posted significant declines. Even traditionally strong markets such as the BRIC countries (Brazil, Russia, India and China) show a slower rate of growth. CSM Worldwide predicts that new light vehicle sales will further decline by 8.7 percent in 2009, dropping to a level of 56.1 million units.²

Overcapacity has become a serious problem. Although auto sales in 2009 are expected to drop to 2004 levels, more than 19 million units of production capacity have been added over the same period. Not surprisingly, global capacity utilization will remain poor through 2020, and the recent surge in the closure of facilities is expected to continue at least in the near term.³

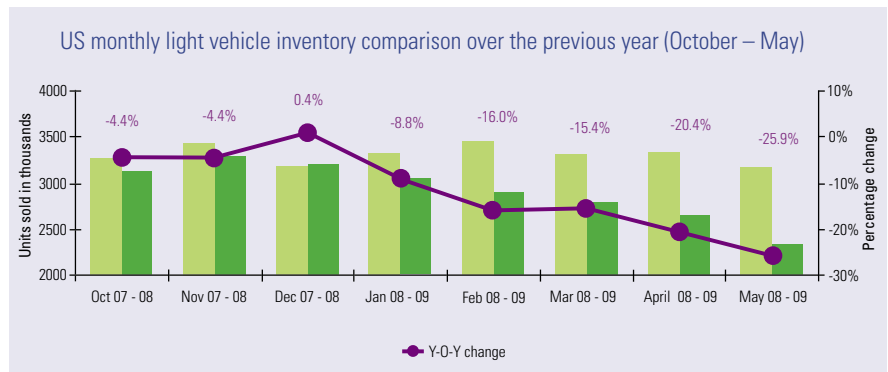
Source: (1 and 2) Global Sales: How Low Will They Go?, CSM Worldwide, First quarter 2009

(3) Global Auto Contraction Ahead, Wall Street Journal, 13 December 2008

In response to plummeting sales and mounting losses, many automakers continue to reduce working hours, extend holidays and shut plants. Honda, for example, announced its fourth North American production cut in 2008, decreasing production by an additional 119,000 units by the end of March 2009.⁴ Passenger car production in Germany decreased approximately 16.5 percent year-on-year in Q4 2008, as automakers such as BMW, Opel, Porsche and Volkswagen tried to adjust to falling demand.⁵

These production cuts by automakers have led to a significant fall in their total inventory. Automakers have managed to lower the overall industry's supply from 101 days on March 1, 2009 to 83 days on April 1, 2009. However, due to the drop in sales, the industry's 'days supply' continues to be much higher than it has been in the past four years.^{6,7}

The current crisis has led to a string of bankruptcies among automakers, suppliers and dealers. In the US, eleven sizable automotive sector companies filed for bankruptcy in the first three months of 2009, compared with 22 for the whole of 2008.⁸ Among European automotive companies, 20 percent are now in danger of collapsing, according to EU Commission Vice President Günter Verheugen. In China, about 80 percent of dealers were in the red or facing bankruptcy at the end of 2008.¹⁰



Source: US Light Vehicle Inventory, Wards Auto accessed on 8 June 2009

Faced with this crisis, governments around the world are attempting to help their automakers through bailouts, tax cuts and other incentives.^{11,12}

The US government introduced bailout packages worth US\$25 billion for automakers and component suppliers, followed by a US\$17.4 billion bailout package for General Motors and Chrysler. Both these companies have since entered bankruptcy, but other measures such as tax cuts and incentives helped to increase sales from February to March, 2009.¹³

The Chinese automotive industry has been slowly pressing the government for bailout packages.¹⁴ In addition, governments in the UK, Germany, China, Japan and other countries have recently introduced measures such as tax cuts and incentives to boost automotive sales. Positive results

Source: (4) Global Auto Contraction Ahead, Wall Street Journal, 13 December 2008

(5) German Association of the Automotive Industry accessed on 6 March 2009

(6) GM struggles to reduce cash burn, Automotive News, 2 March 2009

(7) Automotive News Data Center accessed on 22 April 2009

(8) Car parts groups prepare to request more aid, Financial Times, 14 April 2009

(9) FRANCE: One in five automotive companies at risk – EU, Just Auto, 20 January 2009

(10) 80% of China's auto dealers make losses in '08, Gasgoo.com, 23 December 2008

(11) Global auto market may "collapse" in 2009: J.D. Power, Reuters, 9 October 2008

(12) CSM sees global auto sales bottom in 2009, Yahoo Finance, 12 January 2009

(13) Auto Makers See a Ray of Hope, WSJ, 2 April 2009

(14) Chinese Automakers Seek US-Style Bailout, Newser, 19 November 2008

(15) UK car-scrappping incentive expected this month, BusinessGreen.com, 14 April 2009

(16) UK Government announces financial package for ailing automotive industry, iom3.org, 28 January 2009

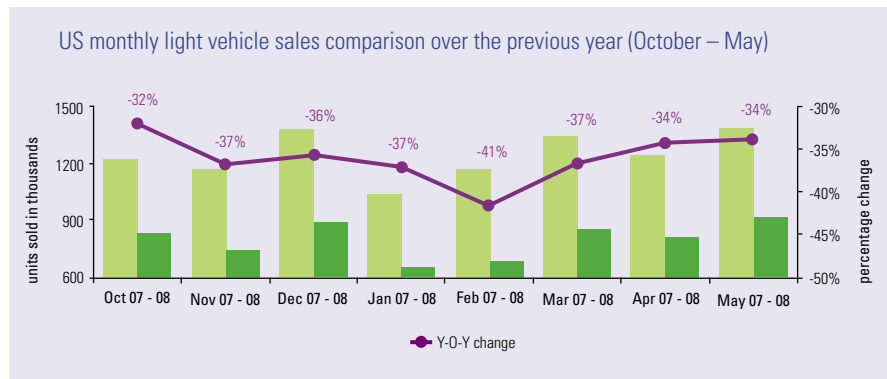
have prompted other countries to adopt similar measures, such as scrappage plans.¹⁵

Whether these government programs will result in substantial and long-lasting improvements remains a question. Certainly the short-term benefits have been noted for programs such as scrappage incentives in Europe. However, some analysts and industry observers point out that these benefits are limited in duration and that many bailouts have failed to protect companies from the risk of bankruptcies. As Lord Cotter, Liberal Democrat spokesman for Business, Enterprise and Regulation Reform, in the UK states, "Money should be used for investment and restructuring, rather than just for keeping the operation going."¹⁶

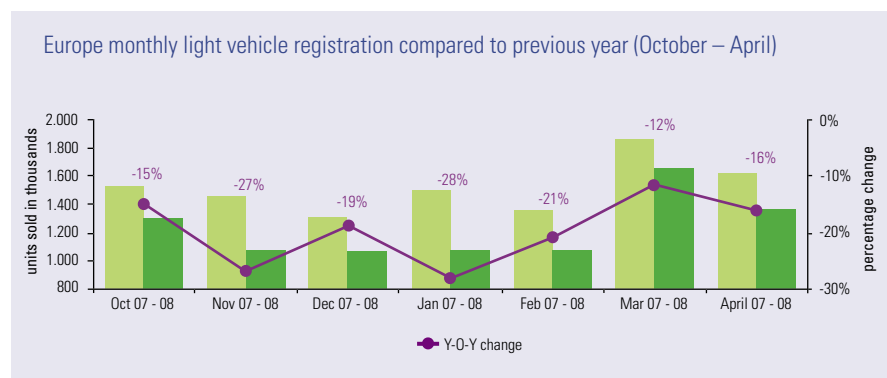
Current assessments by region

The US has been the hardest-hit location. Automotive sales in the US continue to slide, but signs of the market bottoming out are evident. The March sales pace increased to 9.9 million units annually from February's sales pace of 9.1 million units a year. This was still far below the previous March's pace of 15.0 million units a year — a decrease of 5.2 million units a year. Rising unemployment, the bankruptcies of General Motors, Chrysler, Visteon and Metaldyne and tighter lending norms are expected to prolong the decline of US vehicle sales.¹⁷

Conditions in Western Europe have not been quite as severe. Light vehicle sales fell by 12 percent year-on-year in



Source: US Light Vehicle Inventory, Wards Auto accessed on 8 June 2009



Source: Press Releases – Monthly Provisional Vehicle Registrations, European Automobile Manufacturers' Association website accessed on 16 April 2009

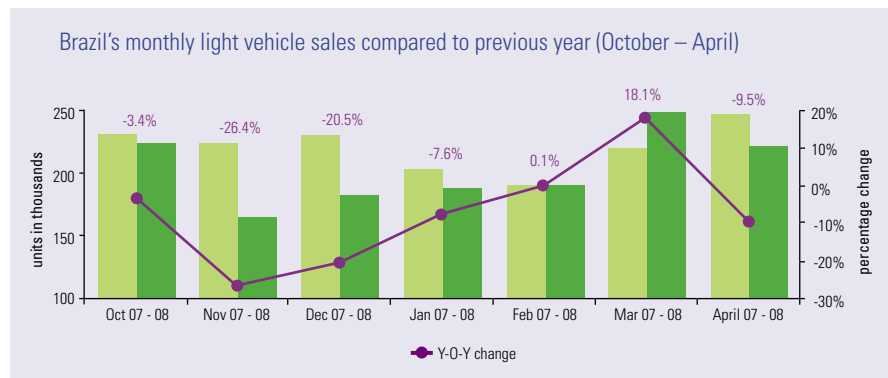
March 2009, while car sales fell by 4.2 percent in May, but this represented a significant reduction in the rate of decline, the result of scrappage and OEM pricing incentives.^{18,19} These incentives clearly have had an impact in Germany, France and Italy. In Spain, however, the economic slowdown is so severe that the market appears unable to respond to such incentives.²⁰

In Eastern Europe, both Poland and the Czech Republic enjoyed a growth in sales of 2.5 percent and 0.9 percent in March, 2009. A scrappage initiative helped boost sales in Slovakia by 18.2 percent.²¹

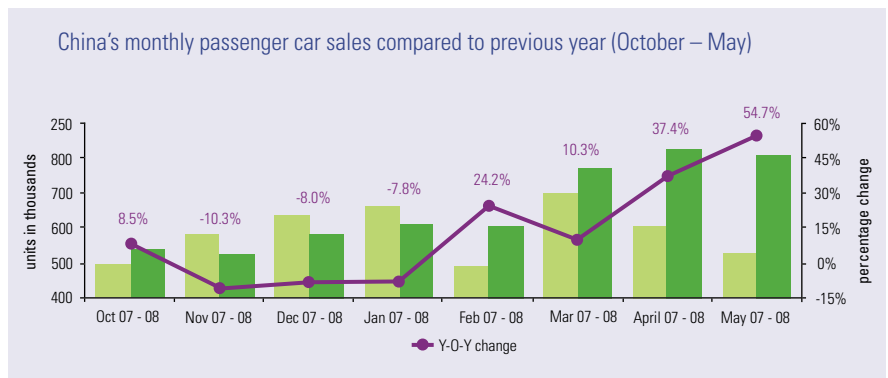
Automotive sales fell significantly in the BRIC countries as the global financial crisis began to affect these countries in the second half of 2008. The first quarter of 2009 witnessed a recovery of automotive sales in China, Brazil and India, primarily due to government aid in various forms such as consumer incentives, tax cuts and other measures.²²

Source: (15) UK car-scrapping incentive expected this month, BusinessGreen.com, 14 April 2009
 (16) UK Government announces financial package for ailing automotive industry, iom3.org, 28 January 2009
 (17) March Global Light Vehicle Sales, J.D. Power Automotive Forecasting, 16 April 2008
 (18) Western European Sales Forecast Sees 8% Decline for March, IHS Global Insight, 7 April 2009
 (19) just-auto.com editorial team, 4 June 2009
 (20) March Global Light Vehicle Sales, J.D. Power Automotive Forecasting, 16 April 2008
 (21) Recession hits European car sales, Guardian News, 16 April 2009
 (22) UPDATE 1-India's car sales jump in Feb but recovery distant, Reuters, 9 March 2009

Brazil started feeling the pinch of the financial crisis in October 2008, with light vehicle sales falling by 14.6 percent over the next four months.²³ The steep fall in sales, along with companies' decisions to cut production, prompted the Brazilian government in December 2008 to announce tax cuts on new car purchases. In addition to reducing vehicle registration fees and sales taxes, the government has also increased the flow of liquidity for banks and other financial institutions to promote auto loans. Largely due to these measures, new car, truck and bus sales in Brazil started to recover in February 2009, and a generally upward trend has continued. Auto sales in May increased 5.4 percent over the previous month.²⁴



Source: Brazil Light Vehicle Sales, Wards Auto accessed on 23 April 2009



Source: China Association of Automobile Manufacturers

China: A strong uptick in the global downturn

Vigorous sales growth during the first half of 2009 shows that China may be emerging as the only profitable automotive market for the year: after only a relatively minor slump in late 2008, China car sales are setting records. Total vehicles sales rose 18 percent for the first half year compared to the same period in 2008. In June, sales increased 48 percent over the same month last year.¹

As another sign of growing strength, Chinese automotive companies are continuing to acquire established brands from other countries. Geely is reported to have made a US\$2 billion bid for

Volvo.² Additionally, Sichuan Tengzhong Heavy Industry Machinery is attempting to buy GM's Hummer division.

Many factors in China appear to support the current health of the automotive industry. According to government figures, China's overall economy grew by 7.9 percent in the second quarter compared with a year ago.³ Aggressive bank lending has encouraged more corporate purchases of vehicles.⁴ General consumer confidence has also prompted sales growth.⁵

However, the biggest single factor in growth appears to be government stimulus. At the beginning of 2009, the government implemented a US\$586

billion stimulus package, backed by a nearly US\$1.3 trillion expansion in credit.⁶ The package includes measures that are specifically targeted to the automotive industry, such as subsidies for farmers to scrap their old trucks and vans for newer, more fuel-efficient models. In addition, taxes have been cut in half for the purchase of small cars.

Supported by government stimulus and a national economy that continues to expand, the Chinese automotive industry is expected to show steady growth in 2009 and beyond.

1 China car sales surge in June, Financial Times, 9 July 2009 (http://www.ft.com/cms/s/0/048a7d00-6c43-11de-9320-00144feabdc0,dwp_uuid=a491f060-b57f-11dd-ab71-0000779fd18c.html)

2 A Chinese upstart goes after Detroit, Wall Street Journal, 15 July 2009 (<http://online.wsj.com/article/SB124761586630042303.html>)

3 Economy in China Regains Robust Pace of Growth, New York Times, 16 July 2009 (http://www.nytimes.com/2009/07/17/business/global/17yuan.html?_r=1&hp)

4 China car sales surge in June, Financial Times, 9 July 2009

5 Ibid.

6 China's Economy: Recovery Gains Momentum, Business Week, 10 July 2009 (http://www.businessweek.com/globalbiz/content/jul2009/gb20090710_898172.htm)

Source: (23) Brazil Auto Sales Up 36% in March, AutomobileNews, 15 April 2009

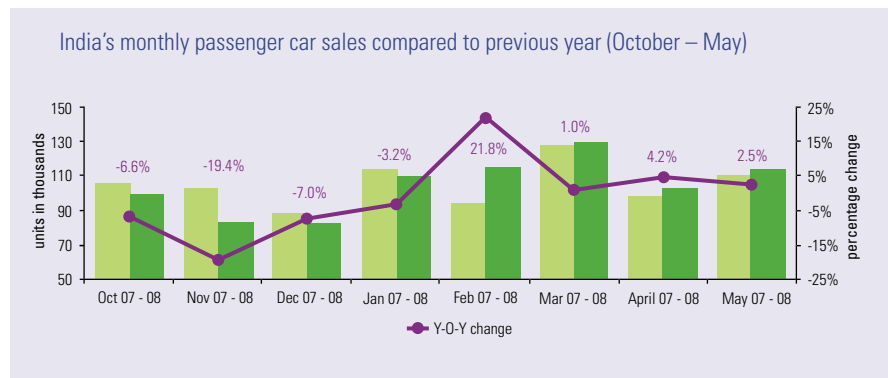
(24) Brazil auto sales up in May, Reuters, 4 June 2009

After falling by about 8.6 percent year-on-year during November through January, Chinese passenger car sales recorded significant growth in February and March 2009, according to data published by the China Association of Automobile Manufacturers (CAAM). The total number of vehicles sold in the country rose to 2.68 million units in Q1 2009, an increase of 3.9 percent year-on-year.²⁵

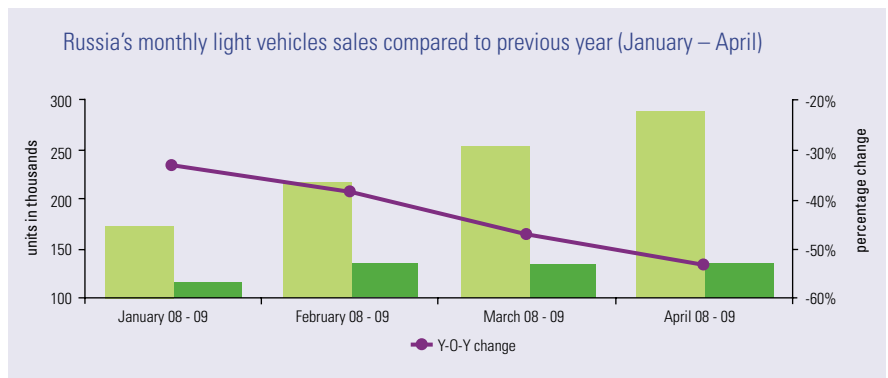
In Japan, plunging auto sales have compelled Toyota Financial Services Corporation to seek a US\$2 billion bailout in loans from the Japan Bank for International Cooperation in order to support the refinancing of Toyota Motor Credit Corporation in the US. Other automakers such as Honda and Mazda are also considering requesting assistance from the government.²⁶ However, Toyota has recently resumed production of its popular Prius model.²⁷ In addition, Nissan has opened a US\$200 million plant in St. Petersburg, Russia, with a planned capacity of 50,000 vehicles a year.²⁹

To increase sales of hybrid and electric cars, the Japanese government has introduced a new preferential tax scheme. It offers tax cuts in the form of a 50 to 100 percent tax break to customers on the automotive weight tax and on the automotive acquisition tax.^{29,30} The auto industry is expecting increased domestic sales of fuel-efficient vehicles because of these incentives.

In Q4 2008, the Indian economy grew by only 5.3 percent — the slowest



Source: Society of Indian Automobile Manufacturers (SIAM)



Source: Association of European Businesses

growth rate in the past six years. This triggered layoffs, wage cuts and freezes in auto loans.³¹ As a result, passenger car sales in India dipped by 11.1 percent in the quarter. However, after a decline that began in October 2008, passenger car sales showed a year-on-year increase in February (21.8 percent), March (one percent), April (4.2 percent) and May (2.5 percent).³²

Among the BRIC countries, Russia appears to have suffered most from the current crisis. After posting passenger sales growth in September and October of 2008, Russia saw a sharp decline that has persisted into

2009, although indicators suggest that the local markets may have bottomed out.

Looking forward

No one can predict with certainty the future of any vertical industry, certainly not one as large, complex and volatile as the automotive sector. However, several trends and probable developments can be noted at this point.³³

Possibilities of a mild recovery

According to CSM Worldwide, key economic indicators suggest that the automotive market will reach its lowest point in 2009, and a mild recovery is expected in 2010, with 60.8 million in new sales for light vehicles.³⁴ Other analysts agree. The Economist Intelligence Unit (EIU), Scotiabank Economics, J.D. Power and IHS Global also suggest a mild recovery in 2010.^{35,36,37}

Source: (25) Chinese Vehicle Sales Rise 5% Y/Y in March to Highest Ever Level, IHS Global Insights, 13 April 2009
 (26) Toyota, Honda, Mazda May Ask for Government Bailout, USNews.rankingsandreviews, 4 March 2009
 (27) Toyota revving Prius production to meet demand, detnews.com, 27 May 2009
 (28) Nissan opens Russian plant, confident of recovery, Reuters, 2 June 2009
 (29) Auto industry worldwide receiving aid, LexisNexis, 5 January 2009
 (29) Auto industry worldwide receiving aid, LexisNexis, 5 January 2009
 (30) Japan-market Prius gets world's best fuel efficiency, ReliablePlant
 (31) UPDATE 1-India's car sales jump in Feb but recovery distant, Reuters, 9 March 2009
 (32) China, India car sales recovery faces long road, Reuters, 18 March 2009
 (33) Russian Passenger Car Market Slump Continues with 47% Fall in March, IHS Global Insight, 9 April 2009
 (34) Global Sales: How Low Will They Go?, CSM Worldwide, First quarter 2009
 (35) Global Light-Vehicle Output to Fall by 12% in 2009, IHS Global Insight Forecasts, IHS Global Insight, 28 January 2009
 (36) Global Auto Report, Global Economic Research, 30 March 2009
 (37) Global auto market may "collapse" in '09: J.D.Power, Reuters, 9 October 2008

At the same time, the credit markets are still under stress, overcapacity will remain a problem, and no one expects sales to recover in the near term.

Carlos Ghosn, CEO for Nissan Motors, has publicly estimated that global automotive sales might take more than seven years to return to 2007 levels.³⁸

Consolidation

Even in the face of tight credit markets, major consolidation is expected across the industry. Fiat group CEO, Sergio Marchionne, recently told Automotive News Europe that only five or six global carmakers might be left by the end of 2010.³⁹ Indeed, Fiat's investment in Chrysler could be seen to reflect this. In a recent KPMG survey of automotive executives, 71 percent of the respondents think that M&As and alliances will increase in 2009, compared to 47 percent a year ago.⁴⁰

Many of these consolidations are being planned or carried out in emerging markets, often with government support. China's Guangzhou Automobile Industry Group (GAIG) has announced the purchase of a 29 percent stake in Hunan Changfeng Motors Co. at a cost of about 1.2 billion yuan.⁴¹ Under the auto industry booster plan released earlier by China's State Council, the government intends to consolidate 14 major automakers into no more than 10. This smaller group will hold a market share of over 90 percent in China.

Analysts expect even more consolidations among suppliers. With approximately one third of US auto suppliers now at risk, it can be argued that a consolidation of US suppliers is urgently needed through a coalition of key suppliers, banks and

the government.⁴² Fitch expects that default rates among suppliers will increase in 2009, leading to increased consolidation, with financially well-positioned players gaining in the medium term.⁴³

Dealerships are being dramatically affected by consolidations. Ford Motors in the US reduced its dealerships by 269 in 2008 by cutting out its single-brand or two brand dealers and consolidating them into Ford-Lincoln-Mercury dealerships.⁴⁴ Network dealerships at Chrysler and General Motors will likely see similar changes.

New emerging players

In the first quarter of 2009, China passed the US in terms of auto sales. This historic fact represents a much larger development worldwide – the growing importance of emerging market players compared to their counterparts in mature markets. As companies and consumers across the globe try to cut costs, emerging giants can take even greater advantage of their low-cost production models, based on cheaper local labor, lower costs and other factors. In addition, these companies can fall back on their domestic markets, which are still growing.

Furthermore, the inability of mature market automakers to defend their market share is allowing new entrants to gain a foothold in the market. In March of 2009, Ratan Tata, chairman of the Tata Group, announced his ambitions to sell the Nano not just in Europe, starting in 2011, but eventually in America, as well. During the first two weeks of availability in India, Tata received 203,000 orders for the Nano, almost four times Tata's current production capacity.⁴⁵



Source: (38) Global car sales slump to endure 7 yrs -Nissan CEO, Reuters, 25 January 2009

(39) 2008: Up, down and then ... , Automotive News Europe, 5 January 2009

(40) Momentum: KPMG's Global auto executive survey 2009, KPMG

(41) GAIG to acquire 29 pct stake of Changfeng upon auto industry booster plan, DowJones Factiva, 20 May 2009

(42) Grant Thornton LLP predicts a collapse of automotive supply chain, may occur without significant collaboration, Grant Thornton LLP, 12 March 2009

(43) Fitch: European auto supplier's liquidity risk rising, Budapest Business Journal, 17 April 2009

(44) Ford consolidation effort cut 269 dealerships in '08, Automotive News, 26 January 2009

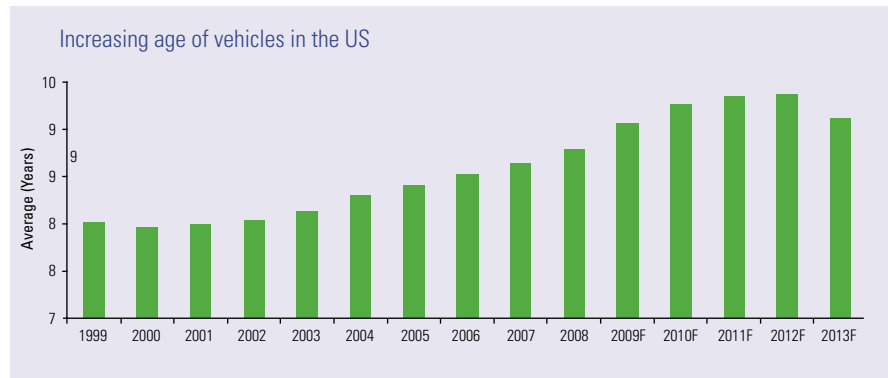
(45) Tata Motors Gets 203,000 Orders for Nano, World's Cheapest Car, Bloomberg, May 4, 2009

Cost cutting through innovation and R&D

With the crisis changing the landscape of the automotive industry, many automakers are trying to conserve cash through various cost cutting measures. These include production halts, capacity reductions, layoffs and delayed product launches. Even R&D and product innovation expenditures have not been spared.⁴⁶

At the same time, other companies see innovation and R&D as possible steps to achieve cost reduction while increasing their competitive advantage. Tata Motor's Nano, priced at US\$2,500, has set an example of product and cost innovation for global automakers. The use of fewer sensors in the ECU, a single wiper for the windscreen, small wheels and mounting, and a lighter body⁴⁷ are among its many innovations — all of which have helped reduce its cost to about 90 percent of that for comparable cars.⁴⁸

Automakers are trying to cut costs in other ways. German automaker Daimler has adopted a modular architecture system designed to save 10 percent in engineering costs. This move has enabled Daimler to share approximately one million components across its product lines.⁴⁹ Ford Motors will launch its new US Focus model, a compact car with about 80 percent of its parts similar to those of its European Focus. Until recently, the US model had completely different parts from its European counterpart.⁵⁰



Source: The Changing US Auto Industry – The Impact of Declining New Vehicle Sales on the Aftermarket Business, R.L. Polk & Co., March 2009

With increased pressure from automakers to reduce costs, suppliers are also introducing cost-cutting design and manufacturing innovations. These include new automotive undercoatings, electronic stability systems, and die-cast aluminum doors.⁵¹

Vehicle age and the aftermarket

The average age of vehicles is increasing as people spend less money on buying new cars, a trend which is further driving the aftermarket sales. A relative surge in the sale of used cars has also added to the number of aging vehicles on the road today.

This increases the overall strength and long-term potential for the automotive aftermarket.

In fact, the global automotive aftermarket grew 2.7 percent year-over-year in 2008, and it is projected to grow by another 9.5 percent by 2012.⁵² According to Datamonitor, in the US, overall aftermarket sales increased to US\$195.6 billion in 2008, up 1.4 percent from 2007.

Source: (46) Carmakers must save cash or suffer - Automotive News Europe, Automotive News, 02 March 2009

(47) Tata Nano: The innovations by the team, IBN Live, 19 March 2009

(48) Cost cutting and innovation are not mutually exclusive, ricmerrifield.com, 01 April 2009

(49) Mercedes foresees big savings in engineering costs, Automotive News, 12 January 2009

(50) One Ford for the Whole World, The Wall Street Journal, 17 March 2009

(51) Finalists in ingenuity, Automotive News, 06 April 2009

(52) The car aftermarket remains resilient in spite of recession, Automotive Business Review, 7 April 2009

(53) Automotive Aftermarket in the United States, Datamonitor, November 2008

Green technology

Uncertain oil prices, shifting consumer preferences, tighter emission-related regulations and government incentives for developing and buying green vehicles will continue to encourage the development and sales of alternative powertrains.

In January 2009, the Chinese government issued a plan to produce 0.5 million green vehicles at an investment of US\$1.46 billion (CNY10 billion) from 2009 to 2011.⁵⁴ In March 2009, President Barack Obama unveiled a US\$2.4 billion plan for the development of green vehicles.⁵⁵ Sovereign wealth funds and other financial investors have taken strong positions in startup electric car companies in the US, including new Silicon Valley startups, such as Tesla Motors Inc. and Fisker Automotive.⁵⁶

Despite these encouraging factors, significant impediments remain for the growth of green cars. These include volatile oil prices and the high price of new components such as lithium ion batteries.⁵⁷ As a result, analysts remain divided about the near-term adoption of alternative powertrains by OEMs and the markets they serve.⁵⁸

M&A investments

The current crisis has compelled automakers to reduce their capital expenditure. As a result, in the last six months, automotive companies have significantly reduced their M&A investments.⁵⁹

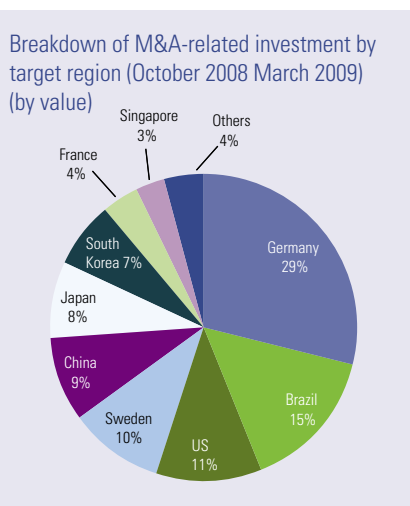
Nonetheless, from October 2008 to March 2009, automotive companies made investments worth US\$10,351 million through M&A activity, according to Thomson ONE Banker. Germany alone attracted 28 percent of that investment, or US\$2,980 million. This included the purchase of a 9.1 percent stake in Daimler AG by Aabar Investments.⁶⁰ A reduced share price for Daimler AG and ample cash on hand on the part of the investment group facilitated the deal.

Meanwhile, Brazil managed to attract US\$1,615 million worth of investments, mostly through the acquisition of Volkswagen Caminhões e Ônibus by MAN SE.⁶¹ Growth opportunities in South America drove MAN SE to the region.

Brazil was followed by the US, which managed to receive only 11 percent of total global investments.

Due to the persistent capital crunch and deteriorating economic conditions, investments are smaller than in recent years.⁶² Nevertheless, a few automakers continued to make investments because of tumbling valuation and liberalized policies adopted by major governments.⁶³

Governments are also pushing partnership deals. As we noted above, the Chinese government is pressing its automakers to consolidate in a bid to increase competitiveness. In addition, Chinese companies are looking to invest in their developed market counterparts.



Source: Thomson ONE Banker

Source: (54) Market Investigation Report on China's New Energy Automobile Industry, 2009, TheFreeLibrary.com, 2009

(55) President Obama announces US\$2.4 bn in funding to support next generation electric vehicles, Environmental Expert.com, 20 March 2009

(56) Shifting gears, The Deal, 12 May 2009

(57) 'BusinessWeek' ponders lithium ion market war, cnet reviews, 18 February 2009

(58) Detroit Auto Show: Do you buy the green hype?, Hybridcarblogger, 15 January 2009

(59) Global Sales: How Low Will They Go?, CSMAuto.com, 2009

(60) Arab Sheiks Looking for Treasure in Germany, Spiegel Online, 24 March 2009

(61) MAN AG Buys Volkswagen's Brazilian Truck, Bus Unit, Bloomberg, 15 December 2008

(62) Significant decline in global auto M&A deal activity, ReliablePlant

(63) Arab Sheiks Looking for Treasure in Germany, Spiegel Online, 24 March 2009

(64) China to consolidate auto industry, GhanaBusinessNews, 5 February 2009

Greenfield investments

The global economic downturn has forced many automakers to shelve plans for new manufacturing plants as they try to ensure enough liquidity to support day-to-day operations. However, some automakers continue to make investments to expand their market leadership and global market share.

In February of 2009, Daimler opened a new manufacturing unit in Saltillo, Coahuila, in Northern Mexico.⁶⁵ Hyundai has plans to build a new transmission factory in Ulsan, South Korea.⁶⁶ Ford Motors announced plans in February 2009 to expand in Romania by making an investment of US\$1.536 billion. In addition, Toyota announced plans to invest US\$584 million to build a new plant in China with local partner FAW.⁶⁷

These and other examples of greenfield investments by automakers show that emerging economies are attracting investments due to their long-term growth potential, low-cost production facilities, low labor costs and large domestic markets.^{68, 69, 70, 71}

Conclusion

Despite some signs of recovery, the global automotive industry as a whole will remain severely challenged throughout 2009 and perhaps well beyond. Many companies will have to reinvent themselves to adapt and succeed in a tougher, leaner and far more complex marketplace. However, rewards and opportunities exist for companies that can take advantage of tomorrow's post-crisis economy.

KPMG firms can help today's distressed dealers, suppliers and OEMs respond quickly to rapidly evolving markets. Our established tools, methodologies and services are designed to reduce risks and help automotive companies uncover new strategies that improve bottom-line performance and the overall posture of their company.

For example, KPMG can help OEMs and suppliers who are sourcing financing through our firms advisory services. These include an evaluation of services costs and development of business plans that can be used when approaching banks or other lending organizations. We can help companies with the operational and financial

implications of government incentive and stimulus programs.

As OEMs and suppliers look for better ways to reduce tax exposures, Our member firms can help them with services designed to reduce tax liabilities and lower costs, such as Tax Efficient Supply Chain Management (TESCM). For M&A transactions, KPMG can help with operational due diligence and post-merger business integration involving, for example, finance transformation from the buy-side perspective.

KPMG firms can also help automotive companies as they take the opportunity to expand in the marketplace, providing services for market entry and expansion, pricing analysis and market intelligence gathered from KPMG industry surveys.

For more information, contact KPMG or visit www.kpmg.com

Special thanks is extended to Uwe Achterholt, Hans Flick, Hans-Dieter Krauss, Tetsuya Nakao, Brigitte Romani Roland Schmid, Gary Silberg, Thomas Stanley, Andrew Thomson and Axel Thümler; colleagues at KPMG in Europe, Asia and the US who contributed invaluable insights and information to this article.

Source: (65) Daimler AG's Daimler Trucks North America LLC Opens Truck Production Plant in Saltillo, Mexico, Reuters, 2 March 2009
 (66) Hyundai Motor Company to Build New Auto-Transmission Factory, Reuters, 13 October 2008
 (67) Toyota builds new China plant, The Financial Express, 27 October 2008
 (68) Russia Autos Report Q1 2009, Just-auto
 (69) Volvo Trucks Inaugurates New Production Plant in Russia, LexisNexis, 19 January 2009
 (70) India: automotive Report, EIU, 11 November 2008
 (71) Russia: Automotive Report, EIU, 31 January 2009

Global Contacts:

Uwe Achterholt

Global Chair - Automotive
KPMG in Germany
+ 49 89 9282 1355
uachterholt@kpmg.com

Roland Schmid

Global Executive - Automotive
KPMG in Germany
+49 89 92 82 1147
rolandschmid@kpmg.com

Fiona Sheridan

Senior Marketing Manager -
Global Automotive
KPMG in the UK
+44 20 7311 8505
fiona.sheridan@kpmg.co.uk

Contributors to this publication:

Hans Flick

Partner, Tax
KPMG in the US
+1 313 230 3470
haflick@kpmg.com

Hans Dieter Krauss

Partner
KPMG in Germany
+49 711 9060 41660
HKrauss@kpmg.com

Tetsuya Nakao

Partner, Advisory
KPMG in Japan
+81 (3) 5218 6702
tetsuya.nakao@jp.kpmg.com

Brigitte Romani

Partner
KPMG in Germany
+49 69 9587-2221
bromani@kpmg.com

Gary Silberg

Partner
KPMG in the US
+1 312 665 1916
gsilberg@kpmg.com

Thomas Stanley

Partner
KPMG in China
+86 (21) 2212 3884
thomas.stanley@kpmg.com.cn

Andrew Thomson

Partner
KPMG in China
+86 (21) 2212 2877
andrew.thomson@kpmg.com.cn

Axel Thümler

Partner
KPMG in Germany
+49 511 8509-5157
AThuemler@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No-one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2009 KPMG International. KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Printed in the U.K. KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Designed and produced by Tugboat Ltd

Publication name: A Rough Road Continues: Update on the current crisis in the global automotive industry

Publication number: 1099

Publication date: July 2009

Printed on recycled material