Automobiles: braking sharply?

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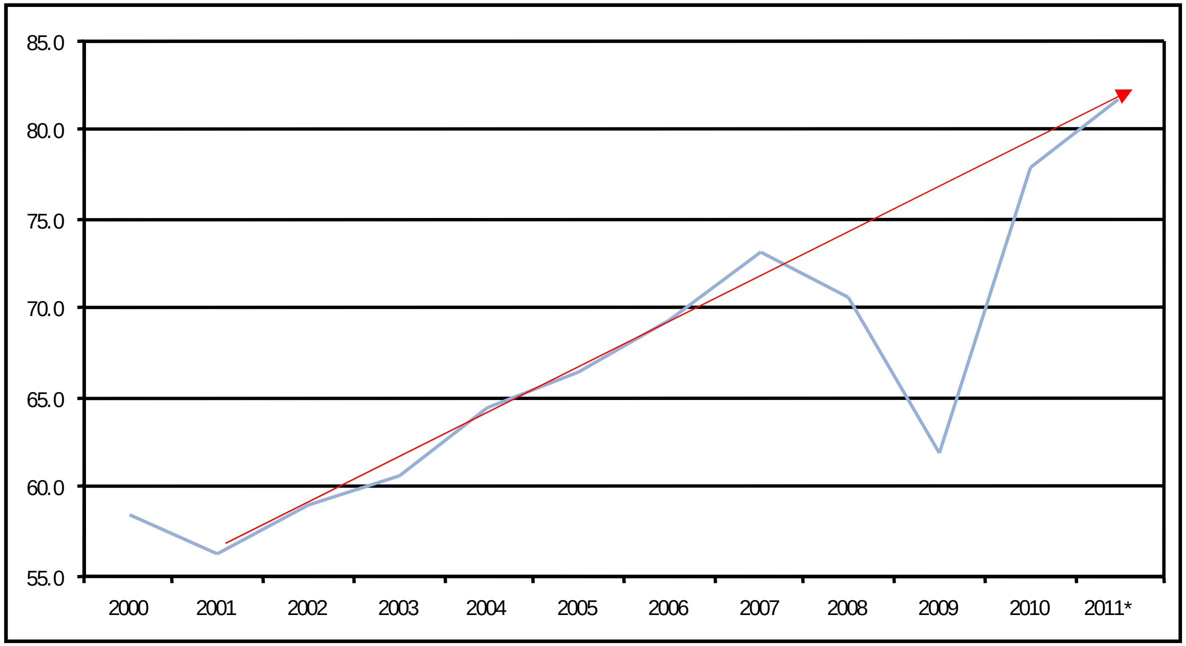
Automobiles: braking sharply?

1. 2011: world production returns to growth in uneven fashion
2. 2011-2012: signs of running out of steam are appearing
3. 2012: a break out of the European automotive sector?

The 2008-2009 crisis in the sector (production down by 15.5%) was totally erased in 2010

In 2011, production returns to its average growth level

World automobile production (millions of units)



* forecast

Sources: OICA, Euler Hermes

Year	Production (millions of units)	Annual change
2007	73.1	5.5%
2008	70.5	-3.5%
2009	61.8	-12.4%
2010	77.9	26.0%
2011*	81.8	5%

* forecast

New growth driven exclusively by the emerging markets

Production in the industrialised countries remains largely down against 2007

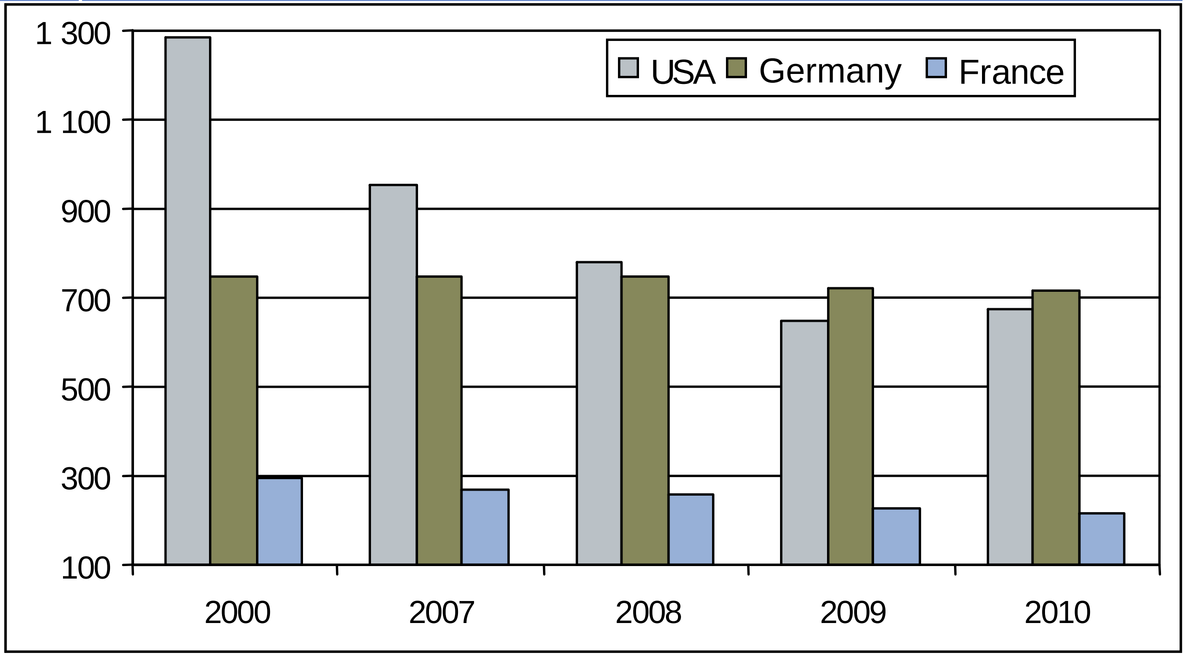
Automobile production (millions of units)	2007	2011	Change, 2007 to 2011
Europe	23.1	20.5	-11%
North America	13.4	10.4	-22%
South America	5.6	7.0	24%
Asia / Oceania	31.2	43.8	40%
of which, Japan	11.6	7.7	-34%
of which, Chine	8.9	19.8	123%
Total	73.3	81.5	11%

Sources: OICA , Euler Hermes

United States: massive restructuring of the production apparatus

In order to adapt to falling output volumes

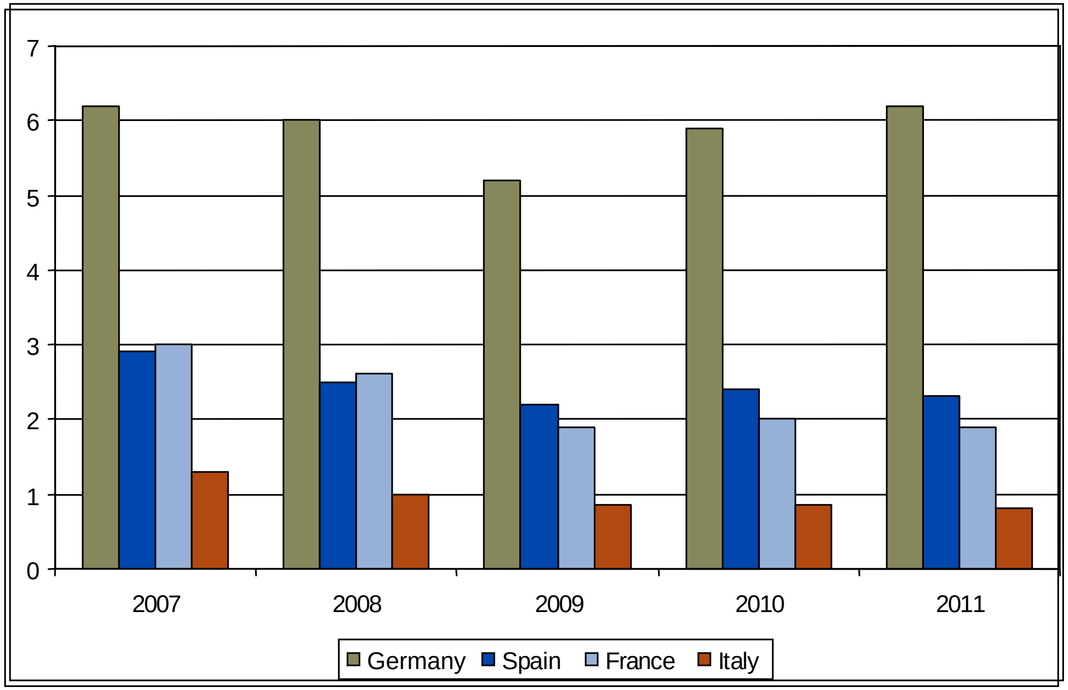
Shrinking workforce (thousands of persons): constructors and component manufacturers



Sources: national figures

- **USA:** the size of the workforce is stabilising, after having dropped by half between 2000 and 2009 in order to adapt to the 50% fall in production
- **France:** workforce down by 26%, as production falls by 36%
- **Germany**: the workforce shrinks by 4%, with production having returned to its pre-crisis level

Europe: contrasting fortunes



Production (millions of units)	2007	2008	2009	2010	2011	Change, 2007 to 2011
Germany	6.2	6	5.2	5.9	6.2	0.0%
Spain	2.9	2.5	2.2	2.4	2.3	-20.7%
France	3	2.6	1.9	2	1.9	-36.7%
Italy	1.3	1	0.85	0.85	0.8	-38.5%

Sources: OICA , Euler Hermes

- Only **Germany** has returned to its pre-crisis production level, thanks to its high-end positioning
- **Spain**, is Europe's second biggest producer
- **France and Italy**:
  Sharp falls in production.
  Positioned in entry-level and mid-range vehicles, these countries' industries have had to offshore considerably to low-cost locations

European constructors have regained some profitibility thanks to world volumes

Notably in Germany, which accounts for more than two-thirds of European constructors' total turnover

Europe	2007	2008	2009	2010	2011 (est.)
Change in turnover	na	-2.3%	-11.4%	13.4%	14.8%
Operating profit ratio (operating profit ÷ turnover)	4.9%	3.3%	-0.6%	5.1%	5.6%
Net profit ratio (net profit ÷ turnover)	4.2%	2.1%	-1.8%	4.7%	4.4%

Sources: Volkswagen, Daimler, BMW, PSA, Renault , FIAT, and Euler Hermes estimates

NB: accounts closing in December

Operating profit ratio = operating profitability

Net profit ratio = net profitability

Japan: a more hesitant recovery...

Explained by a strong dependence on its own domestic market and on the American market, and by the appreciation in the yen

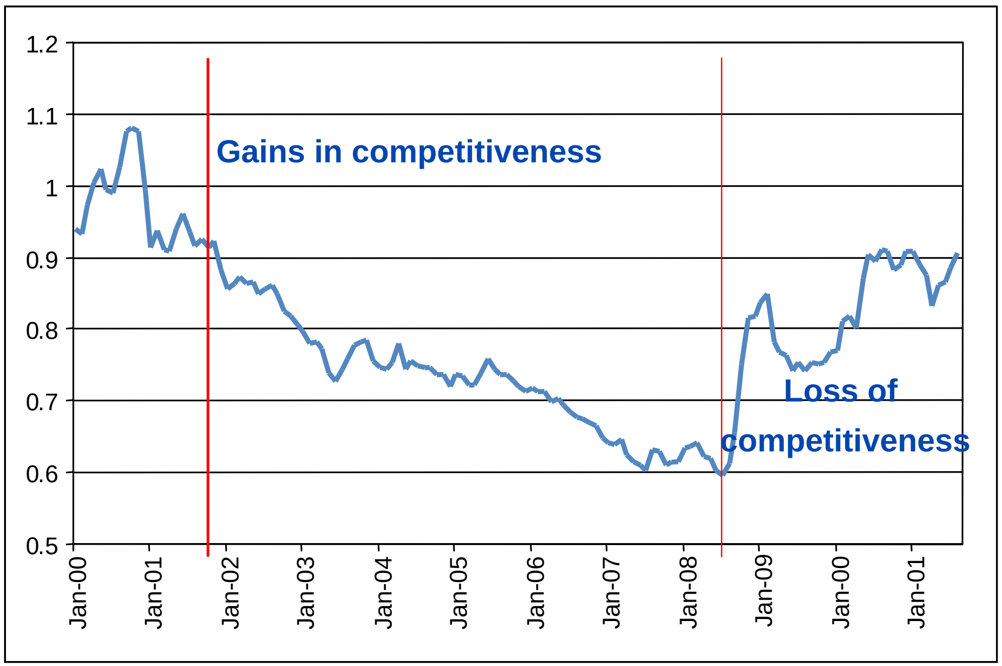
Japan	2007	2008	2009	2010	2011
Change in turnover	12.2%	8.5%	-21.3%	-11.1%	5.7%
Operating profit ratio (operating profit ÷ turnover)	8.0%	7.8%	-1.0%	2.2%	4.0%
Net profit ratio (net profit ÷ turnover)	5.5%	5.3%	-1.5%	1.3%	3.0%

Sources: Toyota, Honda, Nissan Mazda, Mitsubishi

NB: accounts to the end of March

Japan: the yen's sharp appreciation impacts on competitiveness

Changing yen/euro parities (100Y = 1€)



- 2001-2008: a more than 40% depreciation in the yen against the euro brings competitive advantage to Japanese manufacturers
- Since summer 2008, the appreciation of yen against the euro is seriously reducing their competitiveness and creating problems for their strategy of producing vehicles in Japan
- Production in 2010

Domestic	Outside Japan
-6% 8.3 million units	+30% 13 million units

South Korea: once 'small' constructors conquering the world?

Korean constructors continue to gain market share across the globe – increasing their share of world production from 4.6% in 2005 to 7.5% in 2010 – and remaining afloat during the 2008-2009 crisis

South Korea	2007	2008	2009	2010	2011
Change in turnover	7.7%	13.4%	18.6%	28.1%	17.7%
Operating profit ratio (operating profit ÷ turnover)	3.1%	3.0%	5.6%	7.7%	8.0%
Net profit ratio (net profit ÷ turnover)	1.6%	0.8%	3.3%	5.2%	5.6%

Sources: Hyundai, Kia

No crisis in volume

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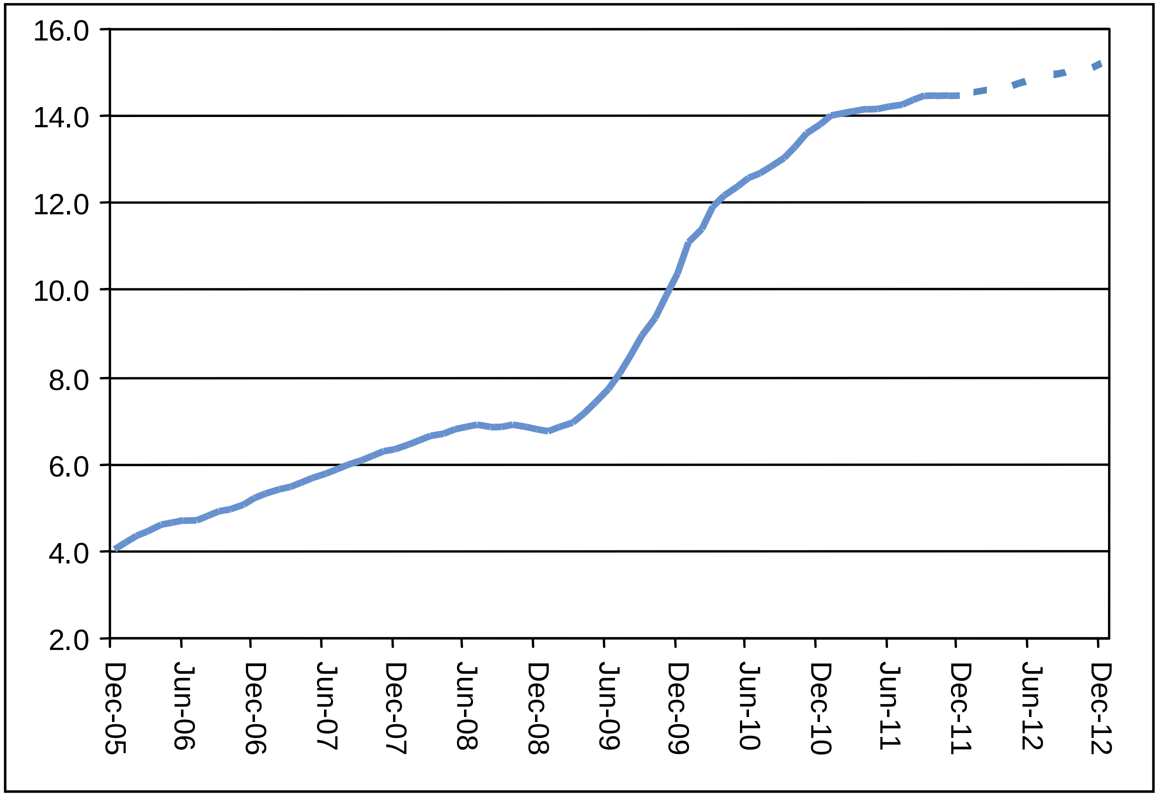
China: after two years of euphoria, market growth is slowing

New registrations of private cars and light utility vehicles, (year-on-year change, millions of units)



Source: China Association Automobile Manufacturers

- The Chinese market paused in 2011, with growth of 4% to 5%, after expanding by annual rates of 30% to 40% in 2009 and 2010, fuelled by scrappage allowances
- Given its low 5% ownership rate, it has vast potential for growth

The Chinese market should grow by 5% in 2012

India: the market is starting to suffer from the rise in interest rates, and is absorbing the failure of the super-low cost vehicle

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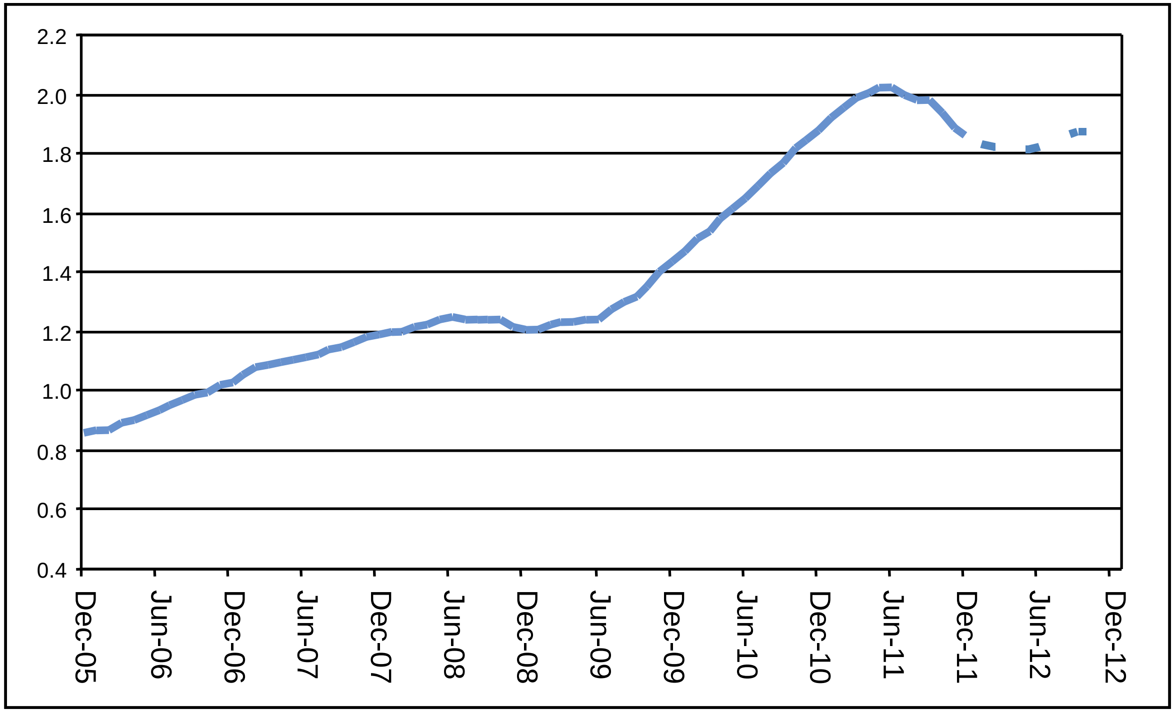
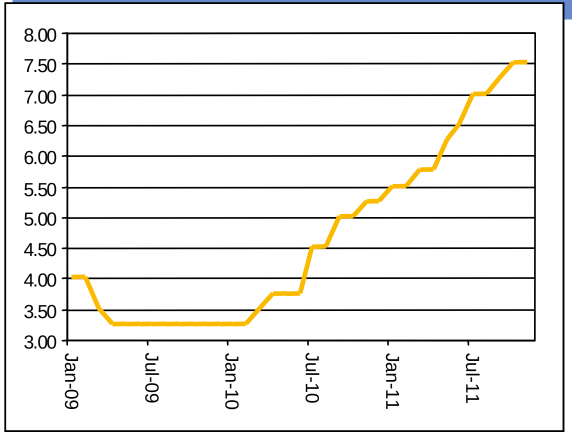


Source: Society of Indian Automobile Manufacturers

A slight decline in the Indian market to below 2 million units, hit by the rise in interest rates

Interest rates



The Indian market offers prospects of long-term growth

Brazil: a market also in a period of stabilisation

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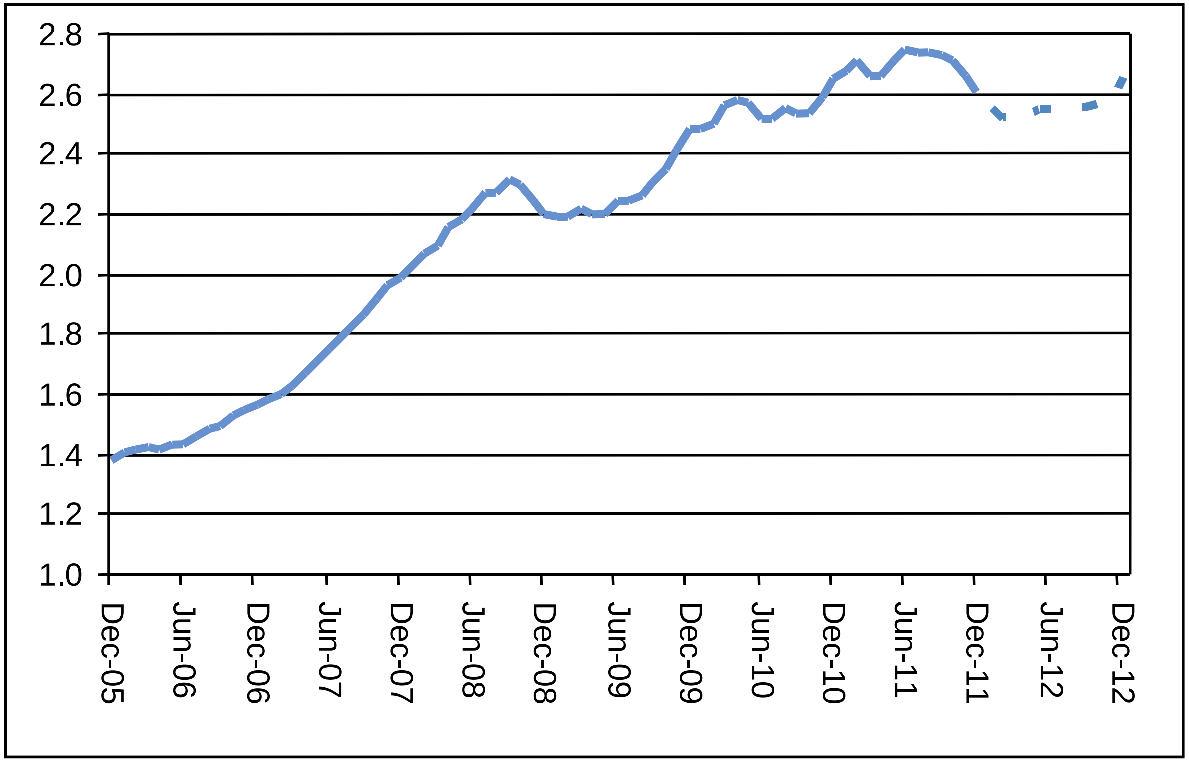


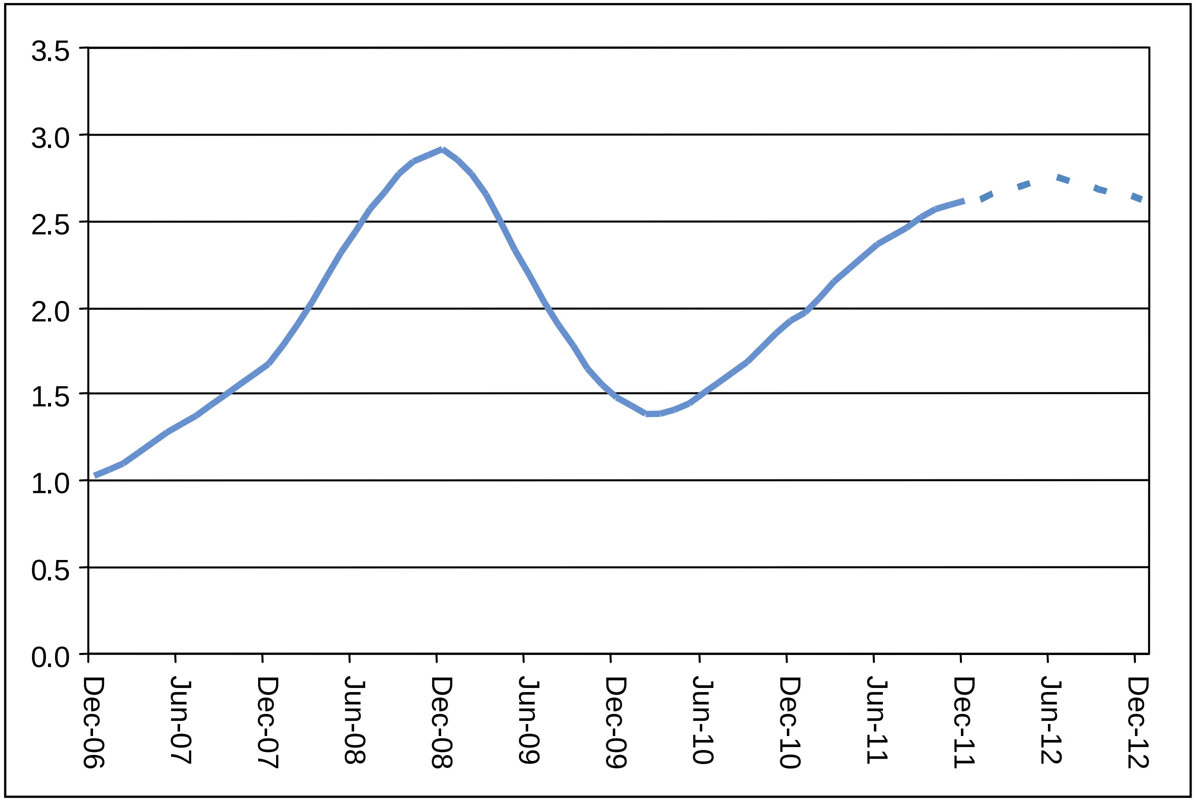
Source: Associação Nacional dos Fabricantes de Veículos Automotores

- The rise in import taxes should increase imported vehicle prices by 26%, while the rise in interest rates have slowed market growth to a degree
- Announced increases in local production capacities by the major constructors

The Brazilian market should recover gently, growing by 2% in 2012

Russia: a market boosted by the implementation of scrappage schemes in 2010-2011

New registrations of private cars and light utility vehicles
(year-on-year change, millions of units)



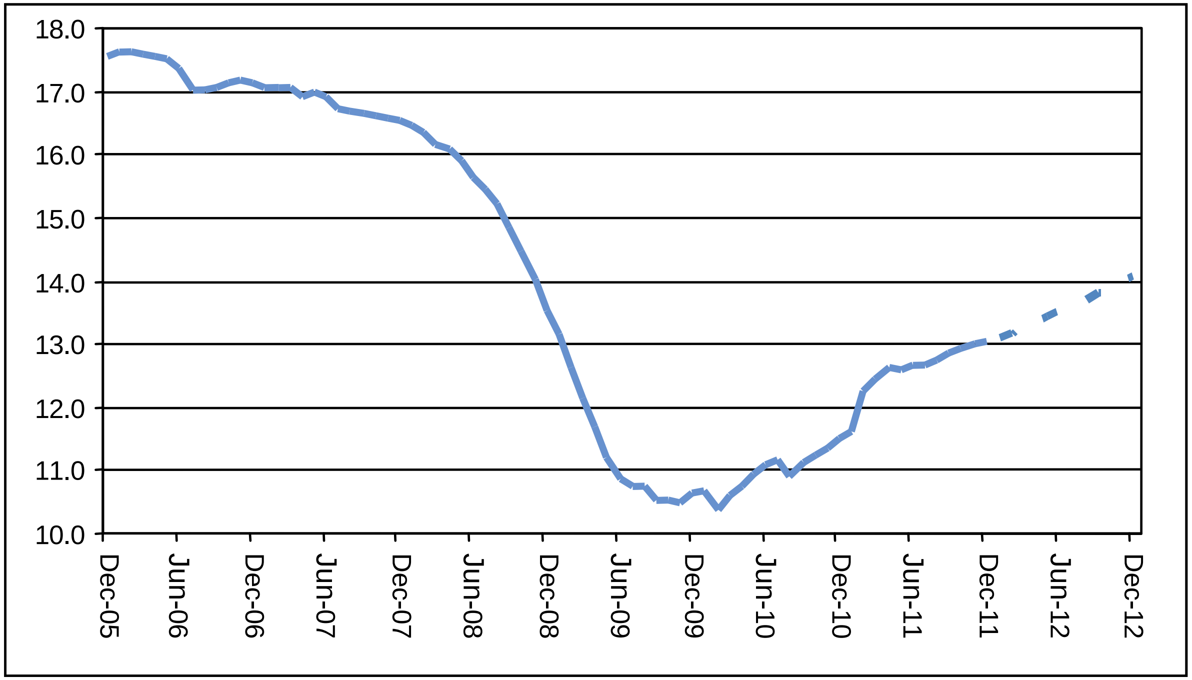
Source: Association of Russian Automakers

2011: the Russian market is still profiting from the effects of scrappage schemes amounting to more than €1,000 (or 25% of the price of the Lada's 2107 model)

2012: zero growth with the end of scrappage schemes at the end of 2011

United States: a slow revival led by vehicle replacement purchases

New registrations of private cars and light utility vehicles, (year-on-year change, millions of units)



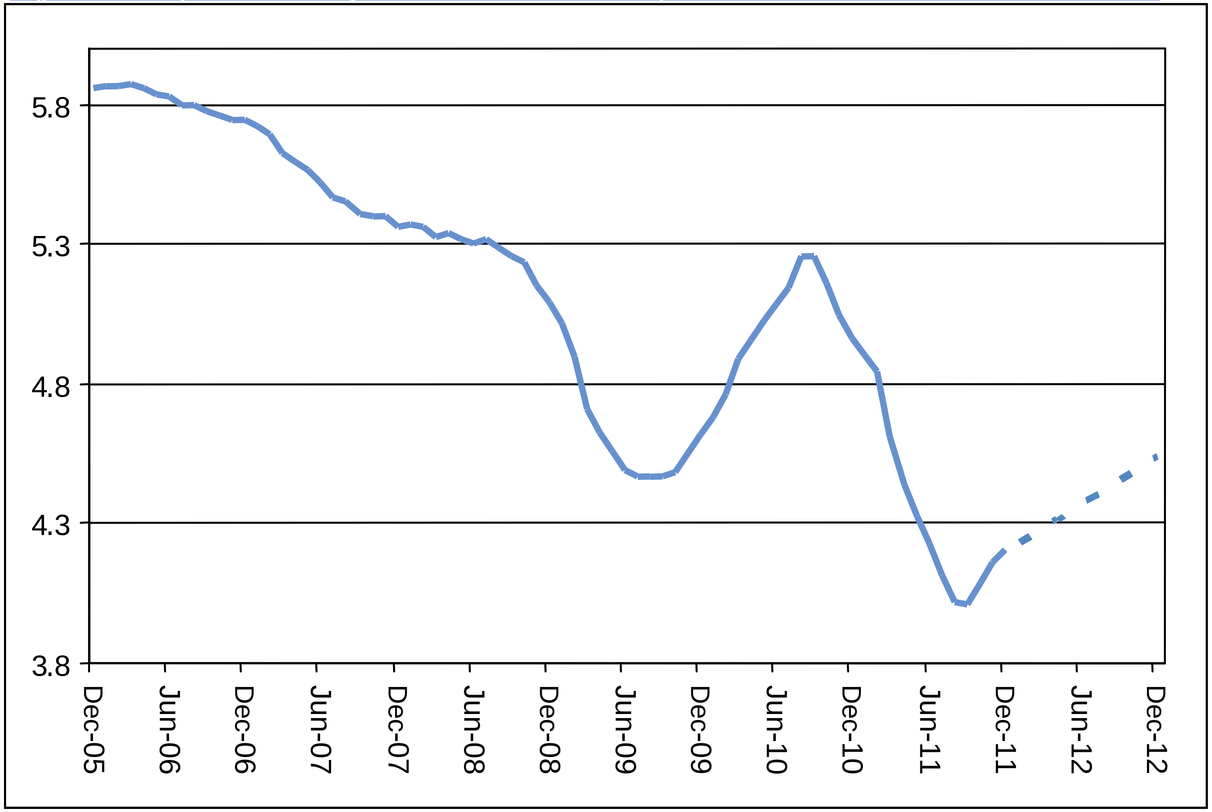
Source: Auto Alliance

- The US market was below 13 million units in 2011
- The fall in new vehicle registrations since January 2008 has meant lost sales of nearly 20 million units
- Due to the ageing of the existing fleet of vehicles, the market should continue its recovery

**It will still take many years to return to pre-crisis levels.
We expect the market to grow by 8% to 10% in 2012**

Japan: an announced but temporary revival

New registrations of private cars and light utility vehicles,
(year-on-year change, millions of units)



Source: Japan Automobile Manufacturers Association

- The Japanese market, at 4 million units, is trying to recover, but it is 25% down against its pre-crisis levels
- Following the earthquake, the market dropped by 50% in April and by 38% in May
- The Japanese market is in long-term structural decline

An exceptional 8% increase expected in 2012, in response to the exceptional 15% drop posted in 2011

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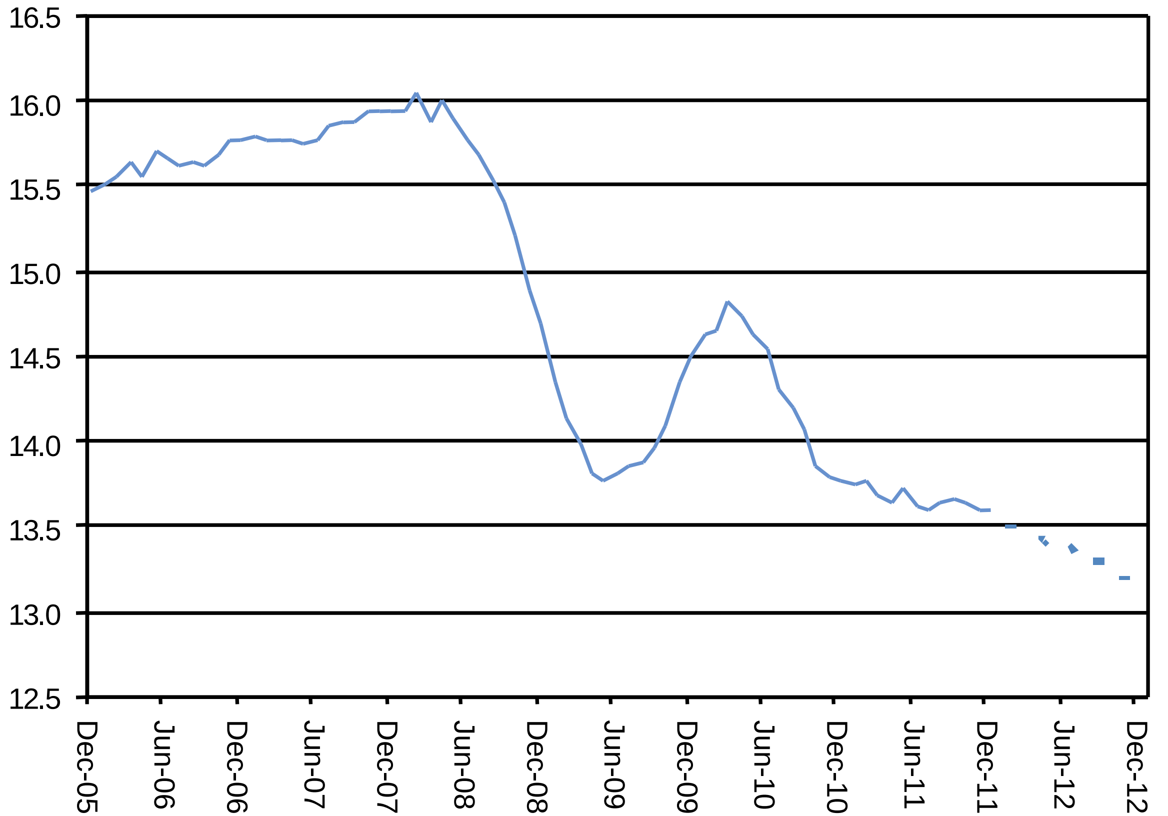
Europe: the market remains depressed, especially in the south of Europe

New registrations of private cars and light utility vehicles, (year-on-year change, millions of units)



Sources: ACEA, Euler Hermes forecasts

- The European market is still 15% below its pre-crisis levels
- Continued deterioration in the Italian and British markets
- German market stabilising
- 10% contraction in the French market

The European market could post a further 3% to 5% decline in 2012

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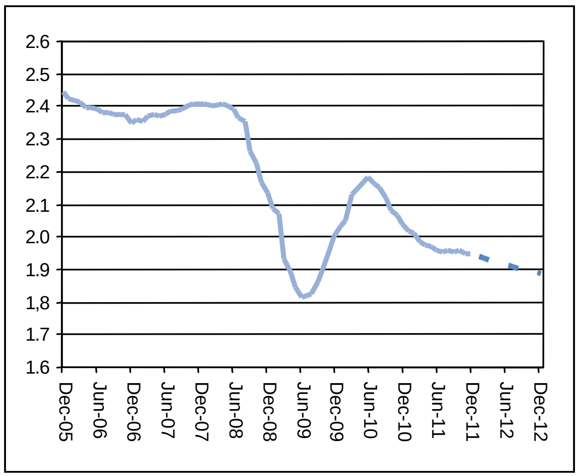
Markets caught in the grip of the economic realities and austerity

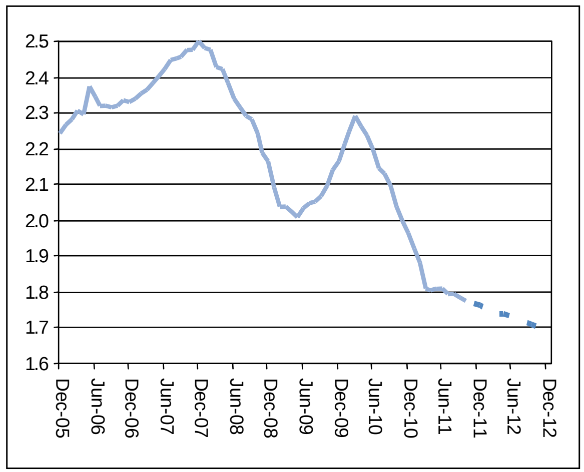
The British market: 19% down on its pre-crisis level

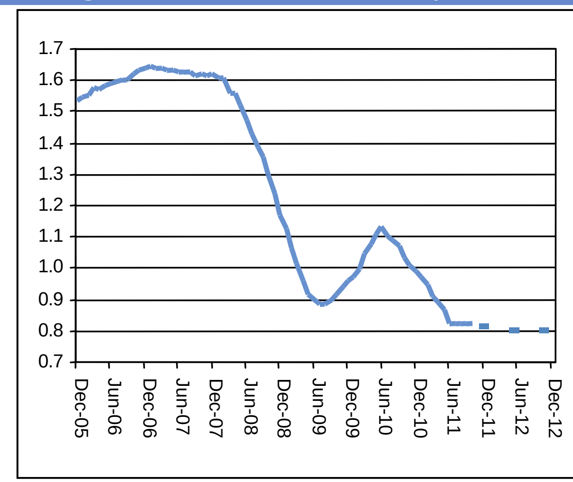
The Italian market: 29% down on its pre-crisis level

The Spanish market: 50% down on its pre-crisis level

New registrations: private cars and light utility vehicles (yr/yr change, in millions of units)







Sources: SMMT, ANFIA, ANFAC, Euler Hermes forecasts

NB: The figures for changes in the number of registrations correspond to data to the end of October 2011

UK: -3% in 2012

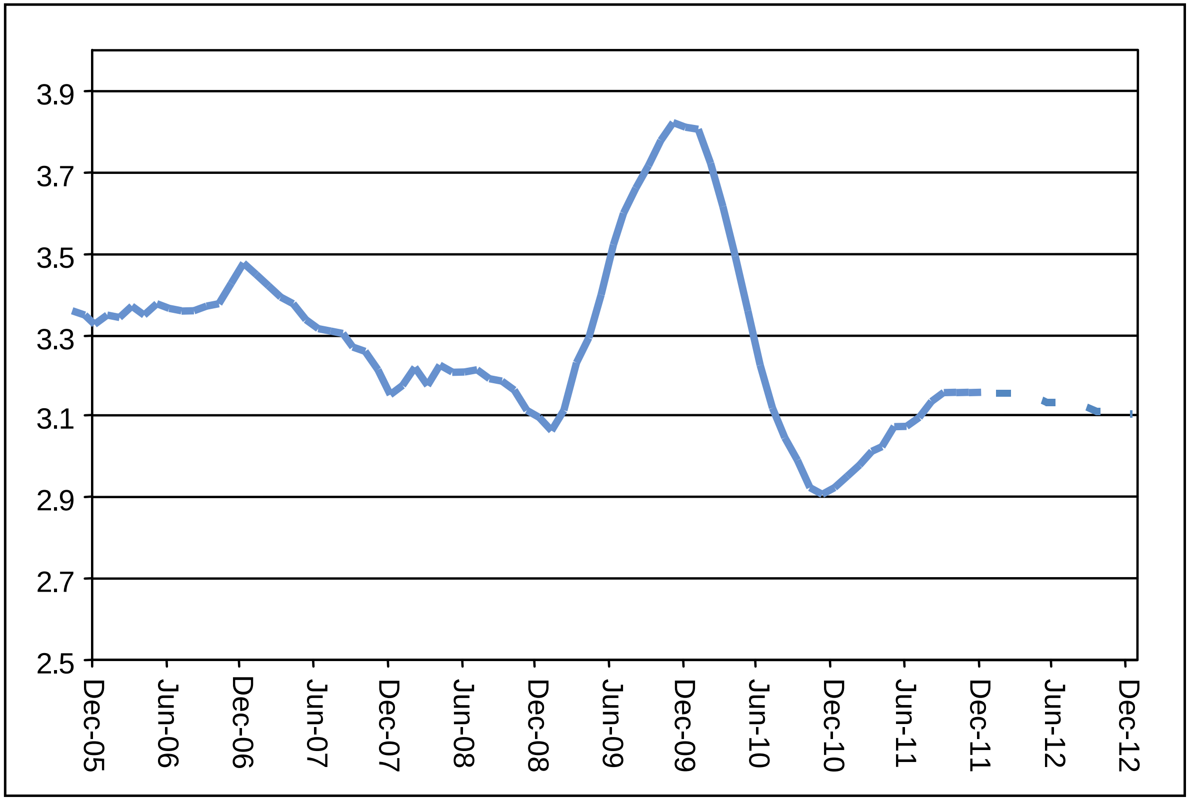
Italy: -4% in 2012

Spain: 0% in 2012

Germany: the market is normalising

But it will remain slightly below its long-term average

New registrations: private cars and light utility vehicles
(yr/yr change, in millions of units)



Source: VDA, Euler Hermes forecasts

- Scrappage schemes in 2009 helped sales of an additional 700,000 vehicles
- No supports targeted specifically to the sector

Germany: steadying at 3.1 million units in 2012, or a drop of 1.5%

German constructors demonstrate their resilience

The deterioration in the European market will impact little on the profitability of German constructors, which are far more oriented to international sales and top-of-the-range vehicles

Germany	2007	2008	2009	2010	2011 (estimate)	2012 (forecast)
Change in turnover	NS(*)	-0.5%	-10.7%	21.4%	13.2%	1.0%
Operating profit ratio (operational profit ÷ turnover)	5.5%	3.7%	-0.9%	6.1%	7.0%	6.6%
Net profit ratio (net profit ÷ turnover))	4.6%	2.6%	-0.6%	5.1%	5.7%	5.5%

Cumulative data from BMW, Daimler, VW and consensus

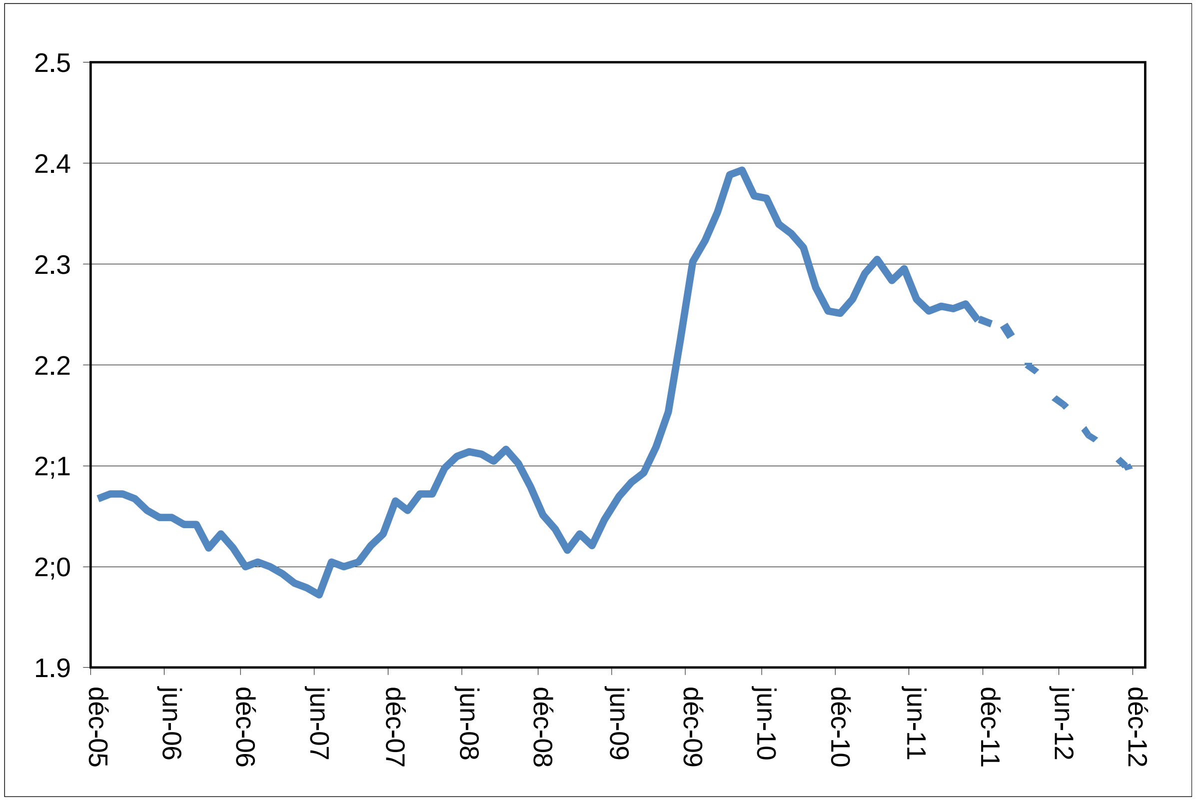
(*) Non significant

In 2012, a fairly steady forecast operating profit ratio at 6.6%

France: a market boosted by rebates in 2011

Despite many manufacturer rebates, order books are sharply deteriorating

New registrations: private cars and light utility vehicles
(yr/yr change, in millions of units)



Sources: CCFA, Euler Hermes forecasts

- Scrappage allowances in 2009-2010 helped to sell an additional 500,000 vehicles
- The easing out of scrappage allowances over the start of the year and manufacturer rebates generated an additional 200,000 registrations in 2011

The French market could shrink by 10% in 2012

French constructors are still too heavily dependant on the European market

The deterioration in the European market, notably in Southern Europe and in France, will impact on the profitability of French constructors

France	2007	2008	2009	2010	2011 (estimate)	2012 (forecast)
Change in turnover	3.2%	-9.0%	-10.9%	15.7%	6.8%	-1.8%
Operating profit ratio (operational profit ÷ turnover)	3.2%	1.0%	-1.3%	2.9%	2.5%	2.2%
Net profit ratio (net profit ÷ turnover))	3.5%	0.2%	-5.2%	4.8%	3.2%	2.7%

Cumulative data, PSA, Renault and consensus

In 2012, operating profits should be a third the size of Germany's

Conclusion

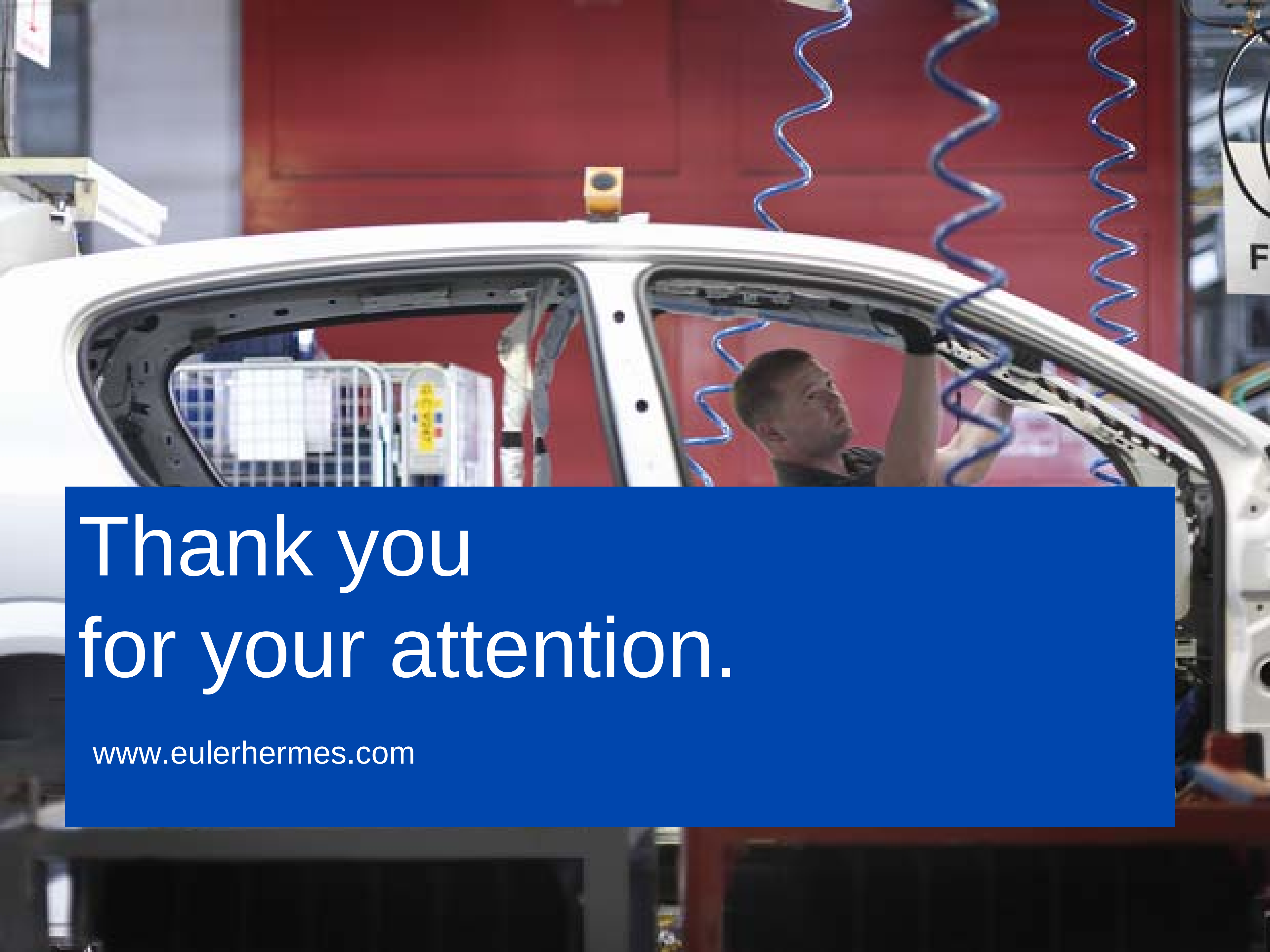
- The 2008-2009 crisis amplified the offshoring of production towards the emerging countries, although these markets are seeing a slowdown in demand this year and for 2012.

- Adjusting to new markets and new product range requirements is of vital importance.

- The world market remains on positive trend for 2012, with a technical upturn coming in the US and Japan, and growth (albeit slowed) in some of the emerging countries.

- Overcapacities, above all in Europe, remain sizeable, especially given that sales volumes are slated to fall further (economic slowdown and austerity measures). The profitability of some generalist constructors is under threat.

- Given the scale of the challenges, especially those facing the development of eco-friendly vehicles, forging industrial partnerships is vital to both production and innovation. This would help to ensure the competitiveness of the major constructors and help support their development costs.



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