First ‘Punto’ arrives today

Cars to be produced in Italy, Poland or Serbia? That is the question - A CASE STUDY ON CEE MARKETS

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AGENDA

- **INTRODUCTION**
- AUTOMOTIVE INDUSTRY UNDER THE STORM
- AUTOMOTIVE FACTORIES TOWARDS CEE
- THE CASE OF FIAT

SERBIAN PRESS - First ‘Punto’ arrives today

25 March 2009

The first 30 cars of ‘Punto 188’ model shall leave the assembly lines at ‘Zastava Car’ factory today. These are the first cars with ‘Fiat’ sign manufactured in Serbia…

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Car industry is currently facing a tornado …
SUPPLY - Car production is down 35% in the first part of 2009 (trucks -56%)

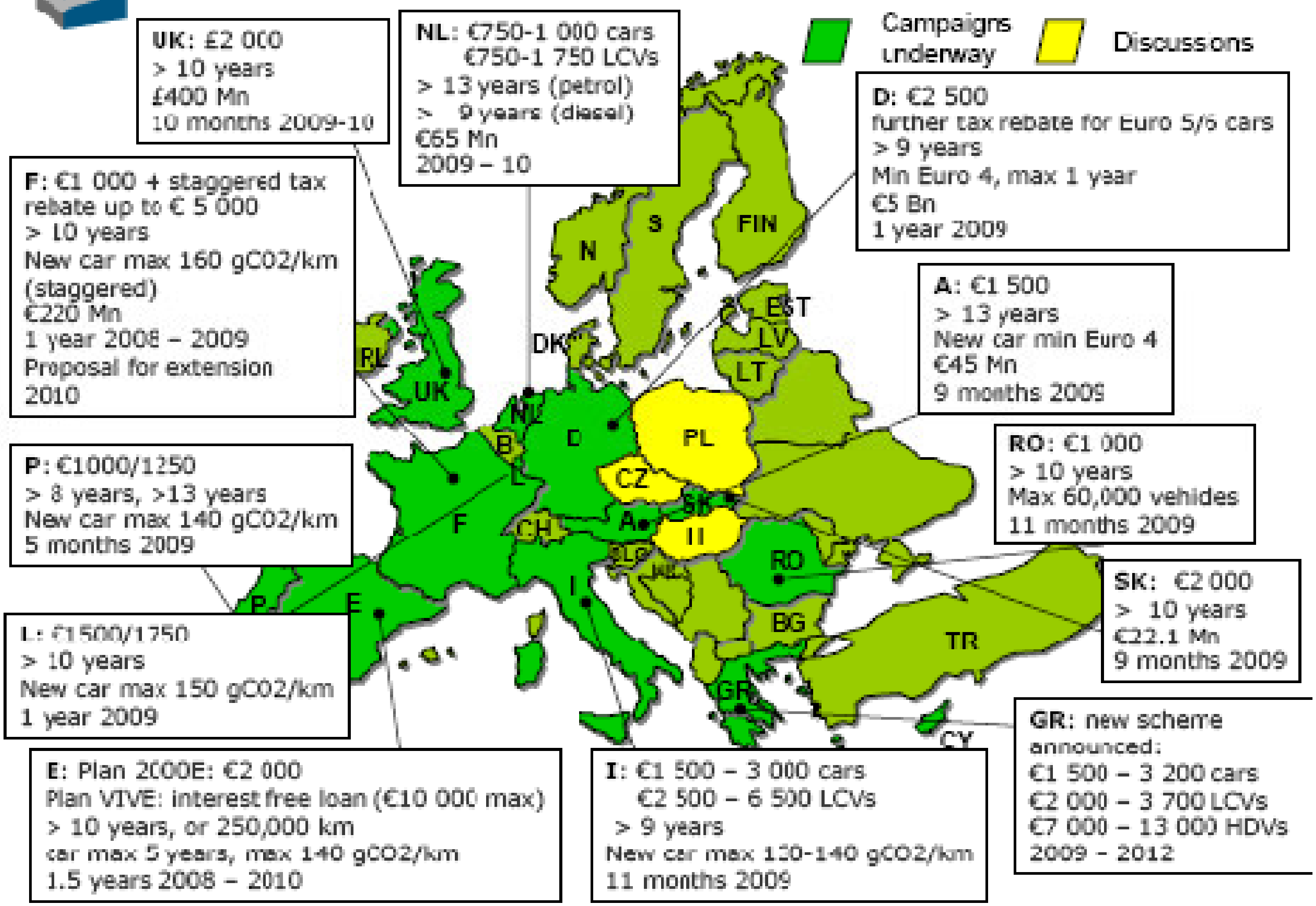
DEMAND - Some cushion deriving from scrap incentives

Car registrations (number of cars)	**Jan - Sep '09**	**Jan - Sep '08**	**% Chg 09/08**	**delta**
FRANCE	1,613,501	1,575,764	+2.4	37,737
GERMANY	2,990,766	2,371,473	+26.1	619,293
ITALY	1,611,205	1,711,523	-5.9	- 100,318
NETHERLANDS	316,612	421,063	-24.8	- 104,451
SPAIN	677,182	947,991	-28.6	- 270,809
UNITED KINGDOM	1,517,039	1,794,419	-15.5	- 277,380
EUROPEAN UNION (EU15)	**10,041,359**	**10,511,636**	**-4.5**	- 470,277
BULGARIA	18,192	34,324	-47.0	- 16,132
CZECH REPUBLIC	117,748	109,000	+8.0	8,748
HUNGARY	49,089	120,735	-59.3	- 71,646
POLAND	239,509	235,547	+1.7	3,962
ROMANIA	88,604	228,450	-61.2	- 139,846
SLOVAKIA	62,354	52,083	+19.7	10,271
EUROPEAN UNION	**10,677,482**	**11,404,147**	**-6.4**	- 726,665

Source: ACEA

Scrap incentives in place in many EU countries

Current Fleet Renewal Schemes



Source: ACEA

It's not only a matter of financial crisis: the automotive sector is a global, highly consolidated business, with a fierce competition

The automotive sector is affected by relevant challenges:

- Weakening demand in traditional markets – a long term trend, not only the impact of the crisis
- Overcapacity (one third of production capacity)
- Growing competition from emerging markets

…. Leading to a global price war

Source: ACEA

Global Production of Motor Vehicles
(millions of vehicles, 2008)

	Total	**69.6 Mn**
1	TOYOTA	9.2
2	GM	8.3
3	VOLKSWAGEN	6.4
4	RENAULT + NISSAN	5.8
5	FORD	5.4
6	FIAT + CHRYSLER	4.4
7	HONDA	3.9
8	PSA	3.3
9	HYUNDAY	2.8
10	SUZUKI	2.6
11	DAIMLER	2.2
12	BMW	1.4
	Top12 out of total	80%

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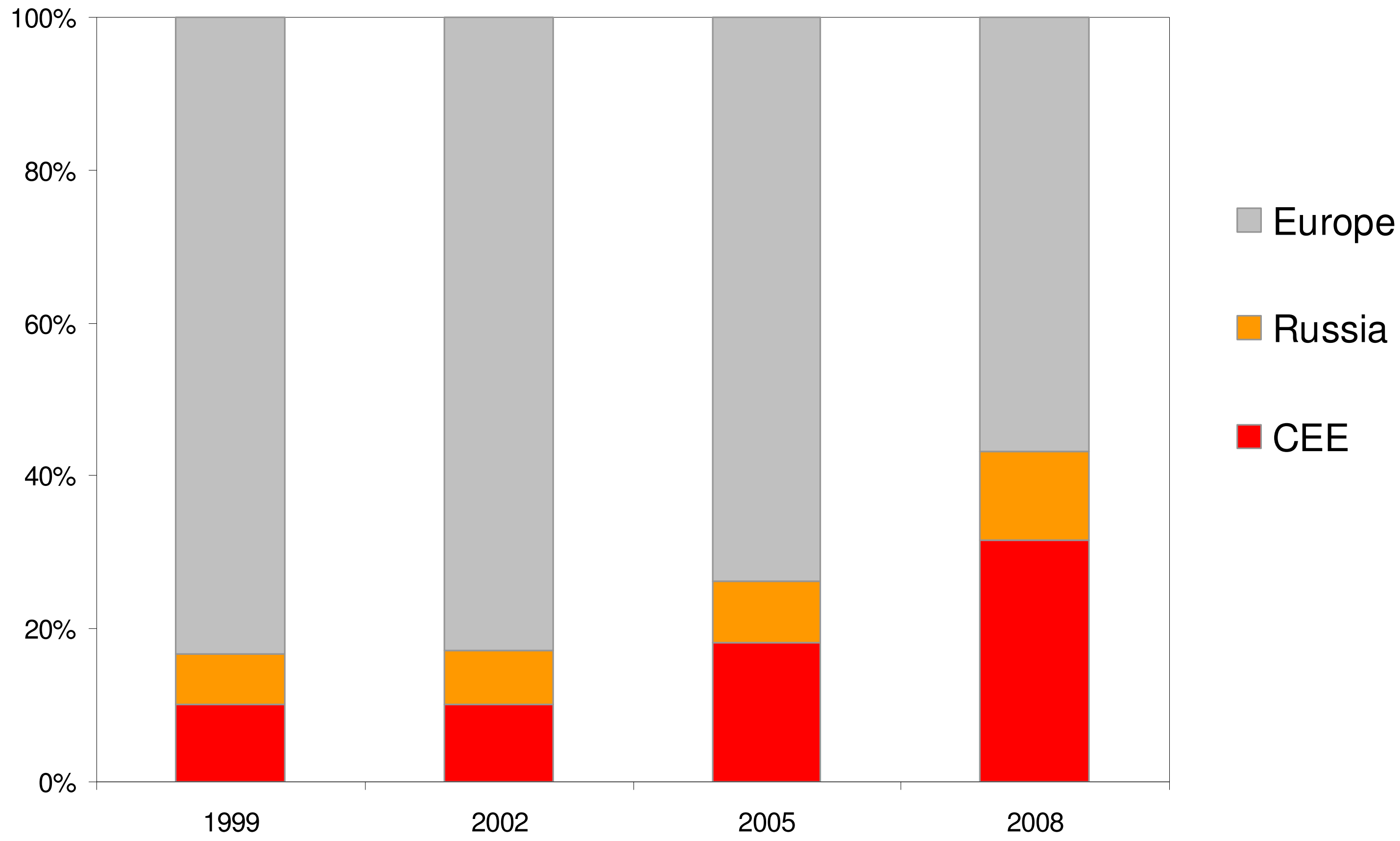
The "New Europe" is becoming the manufacturing arm of "old" Europe – "East-West substitution"

Vehicle production in Europe (Pan-European production = 100%)



- CEE producing now more than 32% of motor vehicles in Europe (44% with Russia)
- And this share more than tripled since 2000

All the top10 world players are producing in the CEE region

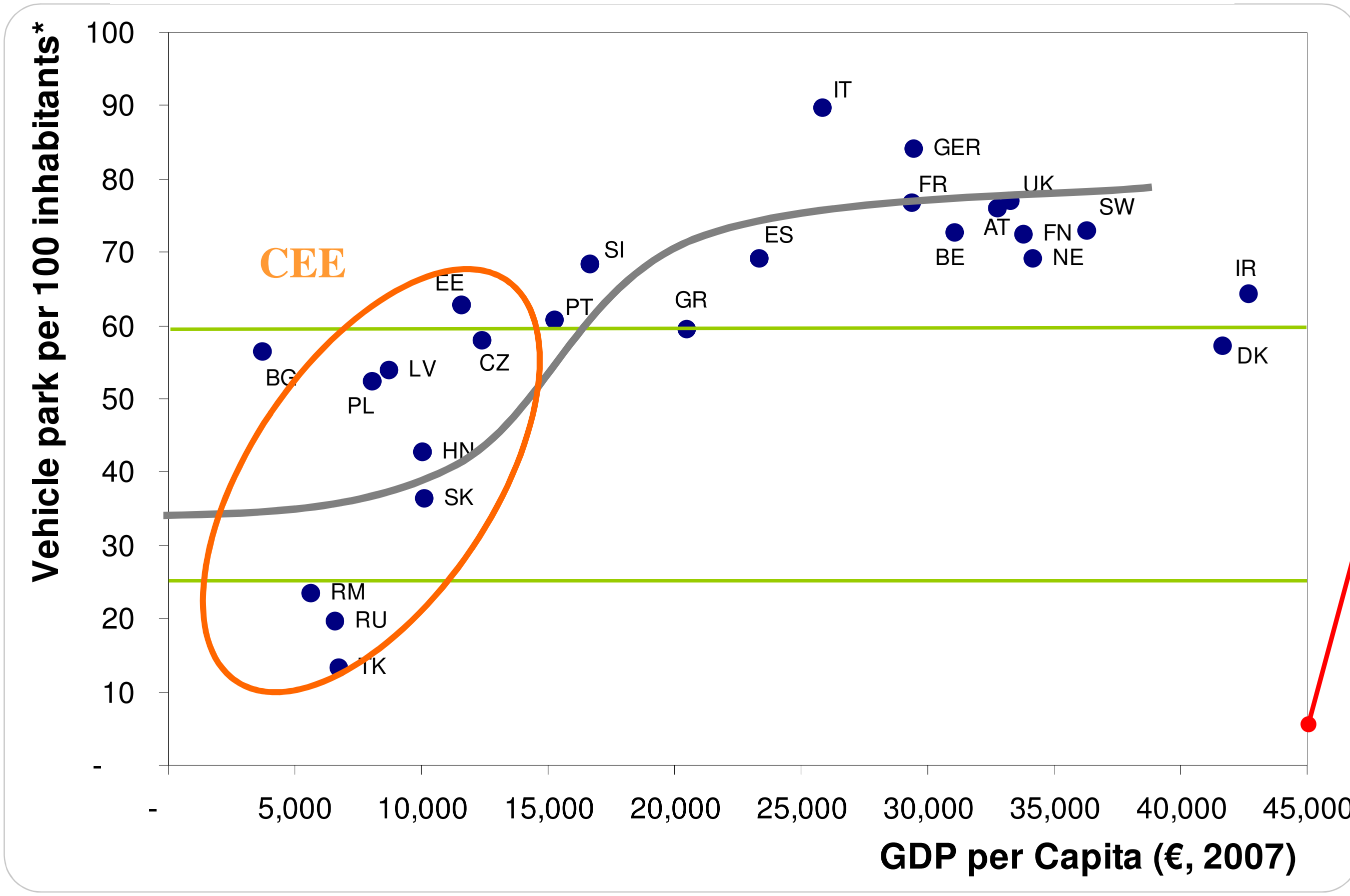
Top global manufacturer in CEE – some examples

… and possibly developing an interesting intra-sectoral evolution

- CEE initially producing only small economical cars such as
  - Fiat Panda (Poland), Citroen C1, Toyota Aygo, Peugeut 106, Skoda (Czech Rep.), Renault Twingo (Slovenia) and Clio (Turkey), Dacia Logan (Romania)
- Gradually developing high quality production, especially in Central Europe
  - VW Tuareg, Audi Q7, Porsche Cayenne (Slovakia), Mercedes (Hungary)
- And moving some high value added activities in the region
  - R&D (Volvo and VW in Poland, Bosh and Audi in Hungary, PSA and VW in Slovakia), Accounting (Fiat, Volvo, Man in Poland, Johnson Controls in the Czech Rep.)
- The top 10 suppliers are "following the leader" and are moving as well in the region – the same for Tyre producers

The role of demand - under penetration: local demand is in a “take-off” area

GDP per capita vs. passenger car saturation



Please, consider two thirds of the world’s population currently lives in countries with less than 5 cars per 100 inhabitants

Source: ACEA; UniCredit CEE Strategic Analysis;
** Inhabitants are calculated as population 18-70 years old;*

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FIAT GROUP – a global company.
Chrysler the next challenge

The Group's activities are grouped into the following Businesses:

✓**Automobiles**
Auto - Fiat, Abarth, Alfa Romeo and Lancia brands - and light commercial vehicles. The Group also controls Maserati and Ferrari. From 2009, **Chrysler**

✓**Agricultural and Construction Equipment**
CNH – Case New Holland

✓**Trucks and Commercial Vehicles**
Iveco

✓**Components and Production Systems**
FPT Powertrain Technologies, Magneti Marelli, Comau

✓**Other Businesses**
Publishing (La Stampa daily newspaper) and communications

Revenues by business	**%**
Automobiles	49,2%
Agricultural and Constr. equipment	21,4%
Trucks and commercial vehicles	17,9%
Components and Production systems	10,2%
Other	1,2%

Revenues by destination	**%**
Italy	24%
Europe, excl. Italy	40%
North America	9,5%
Mercosur	16,8%
Other regions	9,6%

FIAT GROUP – A piece of Italian history. Now also with an important task in USA

CHRYSLER

FIAT in Serbia: from “Zastava 10” to “Punto”

- Fiat Automobili Srbija has been founded in 2008 as a **joint venture** of Fiat Group and Government of Republic of Serbia (67% FIAT, 33% Serbian government)

- The main aim of this collaboration was production of **Fiat model “Punto”** in Kragujevac

- Kragujevac has released the new venture from all local taxes for the next 10 years and pledged free land for any expansion project

FIAT in Serbia: reviving a moribund Serbian car industry

- The equipment for production of “Punto” is the same one as it used to be for model “**Zastava 10**” (licensed model)

- Production should be oriented mainly on **export** (Russia, Poland, ex-Yu and North Africa) and the plan is to reach **200.000 units/ year** by the middle of 2010. Fiat Group efforts to increase the capacity up to 300.000 units / year by the end of 2011

Which is the potential of the Serbian car market?

- The Serbian state will offer **subsidized loans** (“new for old” program).

- Practically, the price of “Punto” will be set at EUR 5.999 for those who want to get rid off their old car (which must be older then 10 years). By doing it, the price of the new car will be EUR 1.000 lower than the original one

- Monthly instalment for “Punto” taken on five years subsidized loan deal is EUR 112, while the one taken on seven years based deal is EUR 84.

- Due to huge interest, the market is extended also to Republika Srpska (in Bosnia-H.)

Which is the potential of the Serbian car market?

- Almost 73% of families in Serbia have at least one car while only 3% have three or more cars
- Regarding average age of cars in Serbia today, '15 plus' years old cars participate with significant 52% of total. Only 4% have up-to-one year old car.
- Taking all into account, comes out the fact that average age of cars in Serbia is 14 years
- In Croatia, 80.000 vehicles were sold last year, it is quite obvious that figure of 55.550 vehicles sold in Serbia have more room for further growth
- Over 70% of demand is structured of lower and lower-mid segment of vehicles. Licensed model "Zastava 10" was sold in around 4.000 pieces in 2008

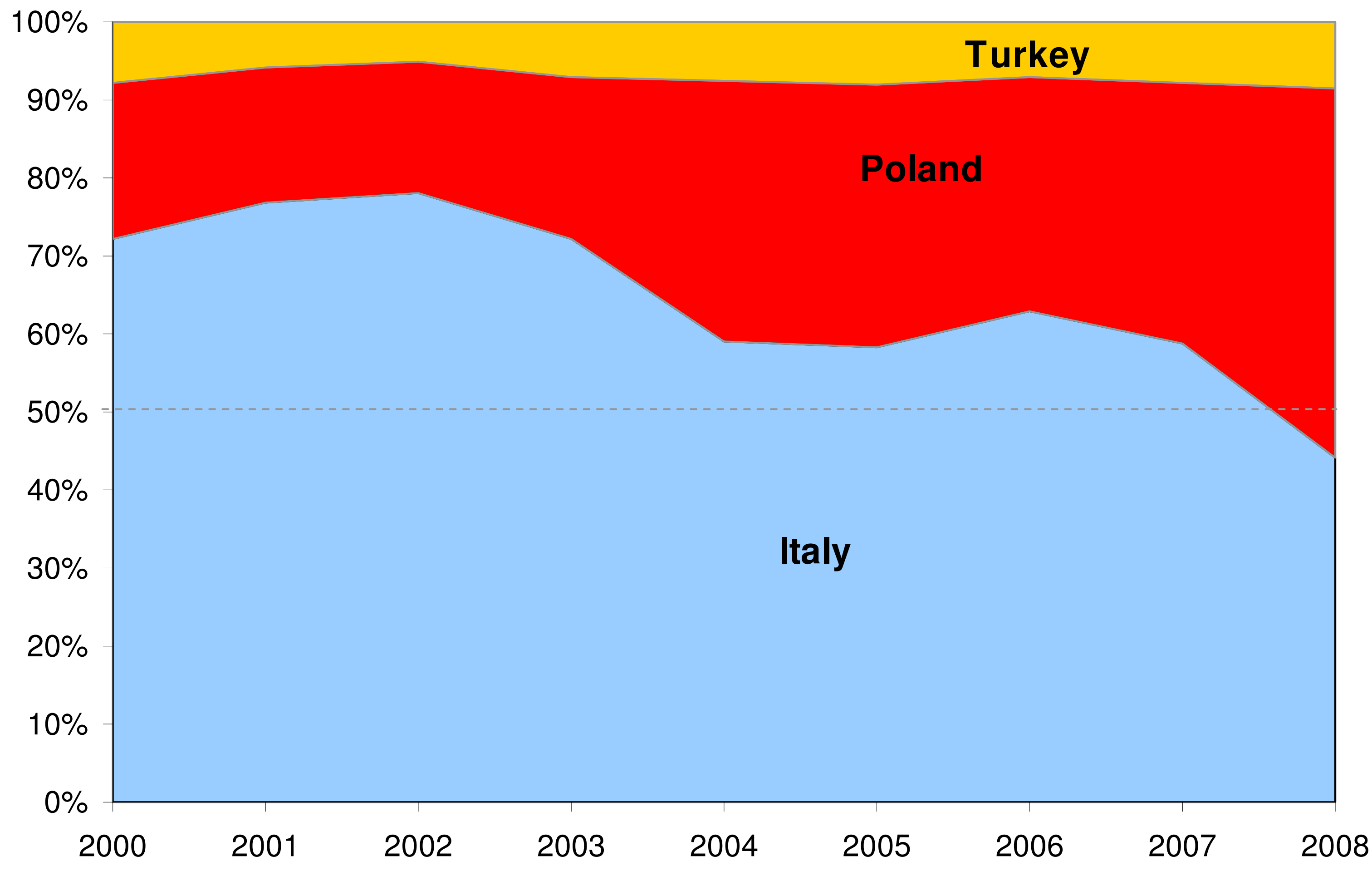
Fiat production patterns are significantly shifting

Production of FIAT cars (n. of cars)	**2003**	**% on total 2003**	**2008**	**% on total 2008**	**delta**
America (Argentina and Brazil)	309,520	23.7%	631,891	39.1%	322,371
Asia (India)	44,646	3.4%	5,089	0.3%	
Europe					
France	14,730	1.1%	2,688	0.2%	
Hungary	-	-	22,750	1.4%	
Italy	674,677	51.8%	420,369	26.0%	-254,308
Poland	193,749	14.9%	452,965	28.0%	259,216
Turkey	66,093	5.1%	81,030	5.0%	14,937
	1,303,415		**1,616,782**		313,367

NOTE: Only FIAT (excluding other brands of the Group such as Lancia, Alfa Romeo, Ferrari, etc.); Source: ACEA

In 2008, the Italian Fiat produced more cars in Poland than in Italy

Production of FIAT cars in Europe (% on total cars produced in Europe under FIAT brand)

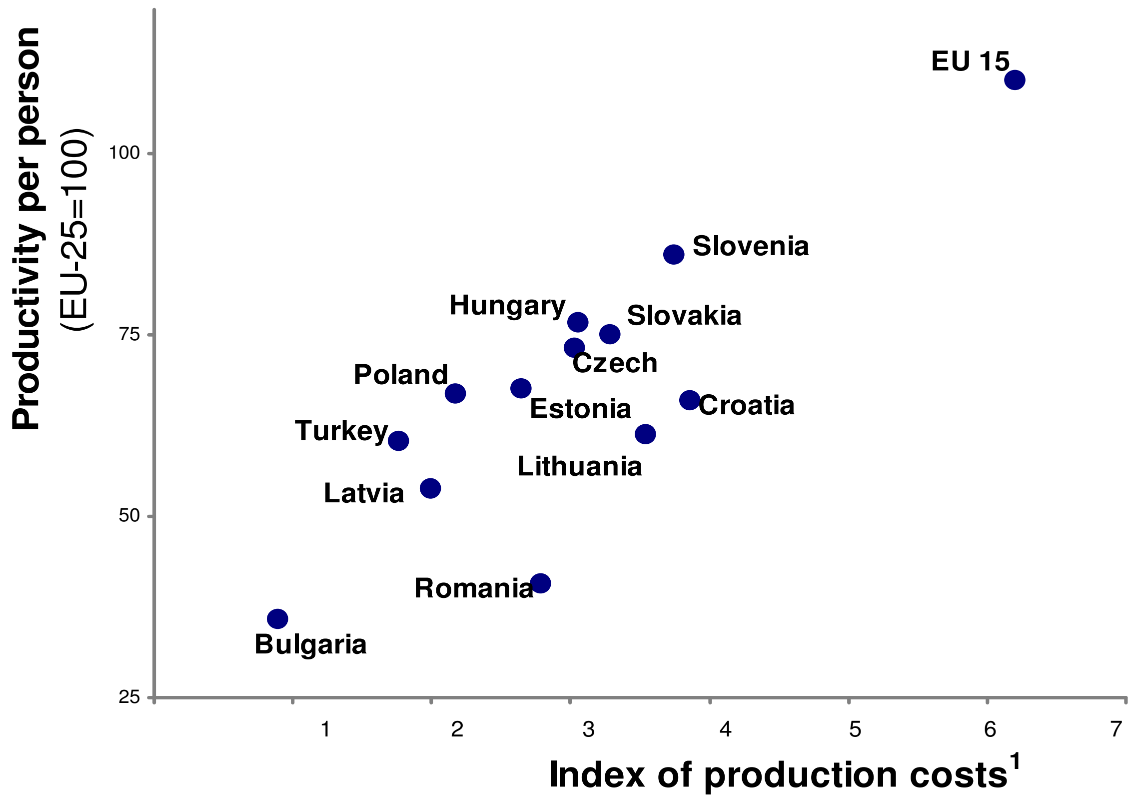


Source: ACEA

Is only a matter of cost competitiveness?

Competitiveness in CEE countries

Productivity and Production Costs[1] (EU 25=100)



(1) The index, which ranges from 1 to 7, has been built taking into account labour costs (40% weight in the index), taxation (20%), electricity prices for industrial users (25%), cost of financing (ie. Interest rates locally, 15%). Source: Eurostat, UniCredit CEE Strategic Analysis

THANK YOU AND GOOD LUCK FOR YOUR FUTURE STUDIES!

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