THE BRAZILIAN AUTOMOTIVE SECTOR

OPPORTUNITIES ON LATIN AMERICA’S LARGEST AUTOMOTIVE MARKET

August 2015
São Paulo
BRAZIL IS THE WORLD’S 8TH LARGEST AUTOMOTIVE PRODUCER

- Brazil is currently the 8th largest automotive producer in the world, as well as the 6th largest market for new light vehicles.
- Brazil has approximately 200 vehicles* per 1,000 inhabitants, while Sweden has 530 and the US has 790.

5,5% of Brazil’s GDP

BRL 266bn in 2013

SOURCE: OICA, IBGE, BRAZILIAN CENTRAL BANK

* INCLUDES COMMERCIAL VEHICLES
2003-2013 PRODUCTION OUTPUT OF LIGHT VEHICLES IN BRAZIL INCREASED WITH 120%
DUE TO ECONOMIC CRISIS IN BRAZIL, PRODUCTION HAS DROPPED THE LAST TWO YEARS

ASSEMBLED LIGHT VEHICLES PRODUCTION IN 2014, IN THOUSAND UNITS

ASSEMBLED HEAVY VEHICLES PRODUCTION IN 2014, IN THOUSAND UNITS

EXPECTATIONS ARE THAT DEMAND AND PRODUCTION OUTPUT WILL START RECOVERING AS FROM 2016

SOURCE: ANFAVEA

* ESTIMATE
THE AUTOMOTIVE INDUSTRY IS CONCENTRATED IN THE SOUTH AND SOUTHEAST REGIONS OF BRAZIL

GEOGRAPHIC DISTRIBUTION OF BRAZIL’S AUTOMOTIVE INDUSTRY 2014

SÃO PAULO STATE HAS BY FAR THE LARGEST AUTOMOTIVE INDUSTRIAL CLUSTER IN BRAZIL

OEMS PRODUCING IN BRAZIL*

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<th>PASSENGER CARS</th>
<th>LIGHT COMMERCIALS</th>
<th>TRUCKS</th>
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* NOT INCLUDING AGRICULTURE VEHICLES

SOURCE: ANFAVEA, SINDIPEÇAS
SEVERAL INTERNATIONAL OEMS ARE PRODUCING IN BRAZIL, INCLUDING SWEDISH COMPANIES

TOP 5 AUTOMOTIVE PRODUCERS IN BRAZIL BY SEGMENT IN 2014, PRODUCED UNITS

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SCANIA AND VOLVO ARE TWO OF THE LARGEST PRODUCERS OF HEAVY VEHICLES IN BRAZIL

SOURCE: ANFAVEA

* NUMBERS FOR MERCEDES-BENZ ARE AN ESTIMATE BASED ON THE BRAZILIAN SUBSIDIARY’S EXPORTS AND REGISTERED VEHICLES
OEMs will invest approximately 60 BBRL 2015-2018
São Paulo continues to receive the highest share of new investments

1. Mercedes-Benz
   - Opening: 2016
   - Location: Iracemápolis (SP)
   - Investment: 500 MBRL
   - Capacity: 20,000 vehicles/year

2. Honda
   - Opening: 2015
   - Location: Itirapina (SP)
   - Investment: 1 BBRL
   - Capacity: 120,000 vehicles/year

3. Shacman
   - Opening: 2016
   - Location: Tatuí (SP)
   - Investment: 100 MBRL
   - Capacity: 10,000 trucks/year

4. Toyota
   - Opening: 2016
   - Location: Porto Feliz (SP)
   - Investment: 1 BBRL
   - Capacity: 200,000 engines/year

5. Chery
   - Opening: 2016
   - Location: Jacareí (SP)
   - Investment: 530 MBRL
   - Capacity: 25,000 vehicles/year

6. Land Rover
   - Opening: 2016
   - Location: Itatiaia (RJ)
   - Investment: 750 MBRL
   - Capacity: 24,000 vehicles/year

7. Audi
   - Opening: 2015
   - Location: S. José dos Pinhais (PR)
   - Investment: 500 MBRL
   - Capacity: 250,000 vehicles/year

8. JAC
   - Opening: 2016
   - Location: Camaçari (BA)
   - Investment: 1 BBRL
   - Capacity: 100,000 vehicles/year

9. FCA
   - Opening: 2015
   - Location: Goiana (PE)
   - Investment: 7 BBRL
   - Capacity: 250,000 vehicles/year

10. IBRAVA (local)
    - Opening: 2016
    - Location: Campina Grande (PB)
    - Investment: 50 MBRL
    - Capacity: 3,000 buses/year

Even during economic crisis, leading OEMs are investing to expand production in Brazil

Source: BNDES, ANFAVEA, press releases
BNDES Financing is a Key Driver for Purchases of Trucks and Buses on the Brazilian Market

BNDES also finances new investments for automotive producers.

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BNDES is the Brazilian Development Bank

State-controlled BNDES grants financing with below-market interest rates for strategic sectors in the Brazilian economy.

- BNDES finances investments from companies such as automakers.
  - 25% of BNDES’ total financing credits for innovation is destined to the automotive industry.

- Through its financing program FINAME, BNDES also finances the acquisition of new trucks and buses.
  - BNDES finances 50-70% of the vehicle’s acquisition value with below-market interest rates.

- BNDES disbursed 5,3 BBRL for automakers’ investments in 2014.
  - As an example, the new Fiat-Chrysler plant in Goiana (PE) was granted 3,3 BBRL from BNDES.

- The sales of trucks and buses has dropped in 2015 after BNDES increased interest rates.

- BNDES will offer financing of 18 BBRL for trucks and buses in 2015.

Recent restrictions in BNDES financing has been key factor beyond the current downturn for the industry.

Source: BNDES, Media Outlets
BRAZIL IMPORTED 3.2 BUSD WORTH OF TRANSMISSION COMPONENTS IN 2013

Brazil is importing components like:
- Gearbox and its components
- Cylinder blocks
- Transmission axles
- Suspension shock-absorbers
- Electronic components
- Spark-ignition engine components

The imports of transmission components grew at an average of 10% per year in the last 5 years.

Many multinational automotive system integrators are producing in Brazil, such as: Dana, Magneti Marelli, SKF and ZF

Source: IBGE, Ministry of Development, Industry and Foreign Trade

* Exchange rate 2014 1USD = 2.40 BRL

Significant long-term potential for Swedish auto part producers on the Brazilian market.
CHINESE COMPANIES SUCH AS BYD ARE INVESTING IN THE BRAZILIAN ELECTRIC VEHICLE MARKET

BRAZILIAN FLEET OF ELECTRIC VEHICLES IS EXPECTED TO REACH 35 000 UNITS IN 2020

- Very small fleet of EVs (3,000 units), with less than 0.03% of registered units in 2014
  - EVs are 11% of vehicles in Japan and 4% in the US
- Insufficient investments in electric transport infrastructure
  - There are around 50 charging stations in Brazil
- Poor energy infrastructure, investment and planning throughout Brazil
- Still relatively high tax burden on EVs despite recent tax reductions

ELECTRIC VEHICLES (EVs)

- Chinese companies such as BYD are interest in producing EVs in São Paulo
  - Investment of 3 BUSD (next 5 years)
- Mitsubishi is developing an electric bus along with a local company
- BMW is studying the production of EVs in Brazil
- Volvo produces hybrid buses in Brazil since 2012
- New BNDES incentives for the financing of electric buses and research
- Recent state and municipal tax reduction over property of EVs
- Federal law project establishing the installation of new charging stations

MARKET FOR ELECTRIC VEHICLES STILL VERY SMALL BUT NEW INVESTMENTS AND INCENTIVES IS DRIVING MARKET FORWARD

SOURCE: ABVE, BNDES
INOVAR AUTO OFFERS TAX REDUCTIONS FOR AUTOMAKERS INVESTING IN BRAZIL

COMPLIANCE REQUIRES INVESTMENTS IN LOCAL R&D AND ENGINEERING CAPACITY

In 2012, the Inovar Auto programme was developed in order to encourage vehicle technology innovation and promote allocation of production and R&D to Brazil.

The programme fosters industry competitiveness by encouraging automakers to produce more efficient, safer, and technology-advanced vehicles while investing in the local automotive industry.

INOVAR AUTO IS STIMULATING AUTOMOTIVE INVESTMENTS IN BRAZIL

SOURCE: INOVAR AUTO

MANDATORY

- Local Manufacturing Processes
- Energy Efficiency

R&D Investment (0.5% of turnover)
- Engineering Investments (1% of turnover)
- Compliance with Labelling System

2 OUT OF 3 ARE REQUIRED

- Up to 30% discount on IPI tax*
- 1-2% additional discount in IPI, according to investments in R&D and engineering

*Tax on industrialized products similar to VAT
AUTOMOTIVE INDUSTRY IS EXPECTED TO PICK UP IN 2016 OFFERING NEW BUSINESS OPPORTUNITIES

**Market**
- 6th largest automotive market in the world
- Still relatively low number of vehicles per capita
- Good financing opportunities for the acquisition of trucks and buses by companies

**Suppliers**
- High imports of autoparts
- Exponential local production growth
- Local presence of major OEMs and Tier 1 suppliers

**Local Production**
- Large investments in new plants and supplier parks
- Government tax incentives for OEMs
- High exports of trucks and buses

**Investments**
- Increase of BNDES financing interest rates
- Low investments and infrastructure for electric vehicles

**Business in Brazil**
- High production costs
- Excessive bureaucracy and complex tax system
- Current economic crisis

**Market**
- Automotive industry crisis connected to Brazilian economic crisis
- Decrease in local sales and exports

Which opportunities make Brazil interesting?
What challenges should companies be ready to face?

ONE OF THE WORLD’S LARGEST MARKETS OFFERING SIGNIFICANT LONG-TERM OPPORTUNITIES FOR AUTOMOTIVE SUPPLIERS
BUSINESS SWEDEN OFFERS A FULL SERVICE PORTFOLIO FOR EFFICIENT MARKET ENTRY

OUR INDUSTRY FOCUS

ICT  HEALTH CARE & LIFE SCIENCE  MATERIALS & MANUFACTURING  SECURITY  CREATIVE INDUSTRIES  ENERGY & ENVIRONMENT  TRANSPORT SYSTEMS

OUR CUSTOMERS

SWEDISH COMPANIES EXPANDING INTO BRAZIL  LOCAL SUBSIDIARIES OF SWEDISH COMPANIES  SWEDISH GOVERNMENT

OUR MARKET OFFERING

MARKET ENTRY STRATEGY  PARTNER SEARCH  MARKET ANALYSIS  IMPORT ANALYSIS  ACQUISITION SUPPORT  STAKEHOLDER MANAGEMENT  SOURCING ANALYSIS  BUSINESS SUPPORT OFFICE  RECRUITING

OUR STRENGTH

EXPERIENCED TEAM WITH INDUSTRY FOCUS  UNIQUE OWNERSHIP PROVIDE ACCESS TO THE SWEDISH GOVERNMENT & FUNDING STRUCTURE  GLOBAL PRESENCE  LOCAL & SWEDISH PERSPECTIVE TO BUSINESS OPPORTUNITIES  ACCESS TO HIGH LEVEL AUTHORITIES & BUSINESS NETWORKS IN BRAZIL

* BSO SERVICES INCLUDE: OFFICE PLACE & SERVICE, ADMINISTRATION, COMPANY ESTABLISHMENT (INCL LEGAL ADDRESS), DELEGATE MANAGER AND FINANCIAL ANALYSIS
CONTACT US

BUSINESS SWEDEN IN BRAZIL

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