THE BRAZILIAN AUTOMOTIVE SECTOR
A DEEPER LOOK INTO THE AUTO PART SECTOR

February 2014
São Paulo
AGENDA

Country overview
  - Brazil in brief
    - Challenges when doing business
    - Attractiveness and key success factors
  - Automotive sector overview
    - Size and growth
    - Key players and sector structure
    - New investments
    - Local production, exports and imports of auto parts
    - Tax incentives and legal requirements
  - Conclusions
  - Appendix
BRAZIL IN BRIEF
THE SUPER POWER OF SOUTH AMERICA

- **Area**: 8.5 million km\(^2\) Approx. 19 times larger than Sweden
- **Inhabitants**: Approx. 200 million
- **Political system**: A federal presidential representative democratic republic, 26 states and the Federal district
- **President**: Dilma Rousseff
- **Languages**: Portuguese (Brazil)
- **Currency**: Brazilian Real (BRL)
- **Inflation 2013**: 5.9 %
- **Estimated growth rate 2013**: 2.3%
- **Main exports**: Iron ore, Petroleum, Biofuels, Soy, Aircrafts and Vehicles
- **Main imports**: Petroleum, Electronic Equipments and Auto Parts
- **Swedish exports to Brazil 2013**: 2 Billion USD
- **Swedish imports from Brazil 2013**: 0.5 Billion USD

SOURCE: IBGE, BRAZILIAN CENTRAL BANK, MINISTRY OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE
THE SOUTH AND SOUTH EASTERN STATES ARE THE MOST INDUSTRIALIZED

- Mining
- Agribusiness
- Cosmetics
- ICT (Manaus)
- Tourism

- Agribusiness
- Mining
- Steel
- Pulp and Paper
- Tourism

- Mining
- Agribusiness
- Petroleum and Gas
- Pulp and Paper
- Automotive
- Real Estate
- Tourism (Coast)

- Automotive
- Manufacturing
- Finance
- Petroleum and Gas
- Mining
- Agribusiness
- Pharmaceuticals
- Biotechnology
- ICT

SOURCE: IBGE, STATE INVESTMENT AGENCIES, INVESTINBRAZIL.BIZ
The South East stands for 55% of Brazil’s GDP. The population is also concentrated to the South East.

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP %</th>
<th>Population %</th>
<th>Land mass %</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>5.4%</td>
<td>8.3%</td>
<td>42%</td>
</tr>
<tr>
<td>Northeast</td>
<td>13.4%</td>
<td>27.3%</td>
<td>18%</td>
</tr>
<tr>
<td>Southeast</td>
<td>55.4%</td>
<td>42.1%</td>
<td>11%</td>
</tr>
<tr>
<td>South</td>
<td>16.2%</td>
<td>14.3%</td>
<td>7%</td>
</tr>
<tr>
<td>Central West</td>
<td>9.6%</td>
<td>7.3%</td>
<td>22%</td>
</tr>
</tbody>
</table>

The State of São Paulo stands for a third of Brazil’s GDP and is inhabited by one fifth of the country’s population.

Source: IBGE (latest data is from 2011), Invest SP
During the last years Brazil has taken several measures, such as control of the currency and interest rate with the aim to control inflation.

The government has reduced commercial interest rates significantly, which increased consumption through credit loans. However interest rates remain high by international standards.

After being regarded as highly overvalued for many years the Brazilian currency (Real) has depreciated during the last two years.

The Brazilian Central Bank expects a currency rate of about 2.45 BRL per USD in 2014.
THE BRAZILIAN ECONOMY HAS GROWN DRIVEN BY CONSUMPTION & COMMODITY PRICES
HOWEVER HIGH PUBLIC EXPENDITURES AND INEFFICIENT INDUSTRY HAVE RETAINED POTENTIAL OF GROWTH

GROWTH RATE IN % OF GDP

BRAZIL HAS BEEN HAVING PROBLEMS IN KEEPING UP THE GROWTH RATE SINCE 2011

SOURCE: BRAZILIAN CENTRAL BANK
BRAZIL HAS TO OVERCOME STRUCTURAL PROBLEMS

OBSTACLES ARE RETAINING THE GROWTH

- Domestic demands play an important role in the growth process. However since 2011 household expenditures have been growing at a more moderate pace.
- Brazilian industry faces challenges, due to competitiveness from imported products. The local producers are affected by "custo Brasil" and have difficulties in finding ways to innovate and improve.
- Government spending continues to increase and is difficult to control due to ineffective public sector.
- Also the identified opportunities in different sectors are not becoming reality as fast as projected. An example is the downturn on Petrobras’ investments.

SOURCE: BRAZILIAN MINISTRY OF FINANCE
BRAZIL IS 7TH LARGEST ECONOMY IN THE WORLD WITH A GDP ESTIMATED AT 2,2 TRILLION USD IN 2013

GDP DIVIDED BY ECONOMIC ACTIVITY

Services 67%
- Agriculture 5%
- Industry 28%
- Public administration, health & education 16%

Transport, storage & mailing 5%
Financial services & insurance 7%
Real state activities 8%
Retail 13%
Other services 15%

INFORMATIONS SERVICES 3%

THE BRAZILIAN MANUFACTURING SECTOR IS DIVERSIFIED

Food & beverages industry 21%
Automotive 12%
Chemical 9%
Cokes and oil/petroleum refinery and biofuel (such as ethanol) 9%
Metallurgy 6%
Textile products 2%
Retail 13%
Real state activities 8%
Other services 15%

Food & beverages industry 21%
Automotive 12%
Chemical 9%
Cokes and oil/petroleum refinery and biofuel (such as ethanol) 9%
Metallurgy 6%
Textile products 2%

PHARMACEUTICALS 2%

BRAZIL IS THE 6TH VEHICLE WORLD PRODUCER IN NUMBER OF UNITS

SOURCE: BRAZILIAN STATISTICAL BUREAU (IBGE LATEST DATA IS FROM 2011)
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FOREIGN COMPANIES FIND SOME CHALLENGES WHEN DOING BUSINESS IN BRAZIL

PARTICULARITIES OF BRAZIL

- High import duties
- Bureaucratic tax system
- Costly and ineffective public sector
- Expensive labour costs

CHARACTERISTICS

- Protectionism that protects local manufacturing
- High taxation rates, excessive bureaucracy, legal uncertainty
- Corruption and unequal money distribution
- Benefits and culture of mistrust towards the employers

CUSTO BRASIL STANDS FOR INCREASED OPERATIONAL COSTS ASSOCIATED WITH DOING BUSINESS IN BRAZIL

SOURCE: DESKRESEARCH
Country overview

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Automotive sector overview

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WHY DO COMPANIES WANT TO ENTER THE BRAZILIAN MARKET?

BRAZIL IS SOUTH AMERICA’S MOST IMPORTANT MARKET

Economy is nowadays stable
Large ongoing investments
Established industry eager to improve
Increased purchasing power of lower classes
Size of the market

OVER 200 SWEDISH COMPANIES PRESENT IN BRAZIL

<table>
<thead>
<tr>
<th>Swedish companies present with production</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABB Ltda</td>
</tr>
<tr>
<td>Alfa Laval</td>
</tr>
<tr>
<td>AstraZeneca</td>
</tr>
<tr>
<td>Atlas Copco</td>
</tr>
<tr>
<td>Autoliv</td>
</tr>
<tr>
<td>Electrolux</td>
</tr>
<tr>
<td>Ericsson</td>
</tr>
<tr>
<td>Höganäs</td>
</tr>
<tr>
<td>Munters</td>
</tr>
<tr>
<td>Nefab</td>
</tr>
<tr>
<td>Sandvik</td>
</tr>
<tr>
<td>SCA</td>
</tr>
<tr>
<td>Scania</td>
</tr>
<tr>
<td>Skanska</td>
</tr>
<tr>
<td>SKF</td>
</tr>
</tbody>
</table>

SOURCE: INTERVIEWS AND SWEDCHAM REPORT
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IN VALUE, THE PRODUCTION OF TRUCKS AND BUSES GREW MORE THAN THE PRODUCTION OF CARS

AUTOMOTIVE PRODUCTION - THOUSAND UNITS

AUTOMOTIVE PRODUCTION - BBRL

HOWEVER TRUCKS & BUSES ARE MORE INFLUENCED BY THE BUSINESS CYCLE

SOURCE: ANFAVEA, IBGE PIA-EMPRESA
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**WORLD LEADING AUTO COMPANIES ARE PRODUCING IN BRAZIL**

**LEADING AUTOMOTIVE PRODUCTION COMPANIES**

<table>
<thead>
<tr>
<th>PASSENGER CARS</th>
<th>LIGHT COMMERCIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volkswagen</td>
<td>Fiat</td>
</tr>
<tr>
<td>Fiat</td>
<td>Peugeot</td>
</tr>
<tr>
<td>General Motors</td>
<td>General Motors</td>
</tr>
<tr>
<td>Ford</td>
<td>Toyota</td>
</tr>
<tr>
<td>Renault</td>
<td>Hyundai</td>
</tr>
<tr>
<td></td>
<td>Nissan</td>
</tr>
<tr>
<td></td>
<td>CAOA</td>
</tr>
<tr>
<td></td>
<td>Nissan</td>
</tr>
<tr>
<td></td>
<td>Peugeot</td>
</tr>
<tr>
<td></td>
<td>Citroën</td>
</tr>
<tr>
<td></td>
<td>Mahindra</td>
</tr>
<tr>
<td></td>
<td>Agrale</td>
</tr>
<tr>
<td></td>
<td>Iveco</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TRUCKS</th>
<th>BUSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAN</td>
<td>MAN</td>
</tr>
<tr>
<td>Ford</td>
<td>Agrale</td>
</tr>
<tr>
<td>Volvo</td>
<td>Mercedes-Benz</td>
</tr>
<tr>
<td>Scania</td>
<td>Scania</td>
</tr>
<tr>
<td>Agrale</td>
<td>Volv</td>
</tr>
<tr>
<td></td>
<td>Iveco</td>
</tr>
</tbody>
</table>

- In 2012 several automakers producing in Brazil started to feel the competition due to imports from abroad.
- Also, the government understood the need of providing the national industry with more strength to develop. Therefore the government created the Inovar auto programme.
- The Inovar auto programme was developed to encourage vehicle technology innovation. Inovar-auto fosters industry competitiveness by encouraging automakers to produce more efficient, safer, and technology-advanced vehicles while investing in the national automotive industry.
- Since the start of the program several automakers have announced investments in the country.

Source: ANFAVEA, IBGE.
**THERE ARE MORE THAN 154 000 UNITS OF TRUCKS PRODUCED AND REGISTERED IN BRAZIL**

SALES IN BRAZIL AND EXPORTS OF LOCAL PRODUCED TRUCKS UNITS (WHOLESALE) 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales in Brazil</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyundai (CAOA)</td>
<td>521</td>
<td>501</td>
</tr>
<tr>
<td>International</td>
<td>531</td>
<td>41</td>
</tr>
<tr>
<td>Agrale</td>
<td>10340</td>
<td>N/A**</td>
</tr>
<tr>
<td>Scania</td>
<td>11076</td>
<td>4807</td>
</tr>
<tr>
<td>Volvo</td>
<td>15877</td>
<td>3465</td>
</tr>
<tr>
<td>Ford</td>
<td>21780</td>
<td>3734</td>
</tr>
<tr>
<td>Mercedes Benz</td>
<td>33062</td>
<td>N/A**</td>
</tr>
<tr>
<td>MAN</td>
<td>41422</td>
<td>6527</td>
</tr>
</tbody>
</table>

**MAN IS THE LEADING COMPANY IN SALES OF UNITS OF TRUCKS IN BRAZIL**

*S The value of 154 000 does not account for trucks that are being imported

** Export information for Mercedes-Benz and Iveco is not available

SOURCE: ANFAVEA
THERE ARE MORE THAN 33 500 BUSES BEING PRODUCED IN BRAZIL*

SALES IN BRAZIL AND EXPORTS OF LOCAL PRODUCED BUS UNITS (WHOLESALE) 2012

<table>
<thead>
<tr>
<th>Brand</th>
<th>Sales in Brazil</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ford</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>International</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Scania</td>
<td>1037</td>
<td>1628</td>
</tr>
<tr>
<td>Volvo</td>
<td>1687</td>
<td>676</td>
</tr>
<tr>
<td>Iveco</td>
<td>1690</td>
<td>N/A**</td>
</tr>
<tr>
<td>Agrale</td>
<td>3537</td>
<td>12</td>
</tr>
<tr>
<td>MAN</td>
<td>8037</td>
<td>2491</td>
</tr>
<tr>
<td>Mercedes Benz</td>
<td>12680</td>
<td>N/A**</td>
</tr>
</tbody>
</table>

Sales of local produced buses in Brazil
Exports

MERCEDES BENZ IS STRONGER IN REGARDS TO SALES OF BUSES

* The value of 33 500 does not account for buses that are being imported
** Export information for Mercedes-Benz and Iveco is not available

SOURCE: ANFAVEA
THE AUTOMOTIVE SECTOR IS CONCENTRATED TO THE SOUTH AND SOUTHEAST REGIONS OF BRAZIL

VEHICLES AND AUTO PARTS PRODUCTION AREAS BY BRAZILIAN STATE AND NUMBER OF VEHICLE INDUSTRIAL UNITS

1st auto-parts plants cluster (608 plants)
2nd auto-parts plants cluster (102 plants)
3rd auto-parts plants cluster (29 plants)
4th auto-parts plants cluster (10 plants)

THE SOUTH AND SOUTHEAST CONCENTRATE APPROX. 95% OF AUTO PARTS PLANTS

SOURCE: ANFAVEA, SINDIPEÇAS.
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NEW PLAYERS ARE ESTABLISHING PRODUCTION IN BRAZIL

- **New trucks/buses production unit**
- **New light vehicles production unit**

### Established Companies’ Investments in Trucks & Buses

- **Mercedes-Benz**
  - Investment: 1 BBRL
  - Location: Campina Grande, PB
  - Capacity: 3,000 buses/year

- **IVECO**
  - Investment: 900 MBRL
  - Location: Campina Grande, PB
  - Capacity: 50 MBRL

- **IBRAVA (N/A)**
  - Location: Campina Grande, PB
  - Investment: 50 MBRL
  - Capacity: 3,000 buses/year

- **JAC Motors**
  - Location: Camaçari (BA), 2015
  - Investment: 1 BBRL

- **Land Rover**
  - Location: Itatiaia (RJ), 2015
  - Investment: 1 BBRL until 2016

- **Chery**
  - Location: Jacareí (SP), 2013
  - Investment: 250 MBRL
  - Capacity: 20,000 trucks/year

- **Foton Motors (2015)**
  - Location: Guaiaba, RS
  - Investment: 250 MBRL
  - Capacity: 20,000 trucks/year

- **International (2013)**
  - Location: Canoas, RS
  - Investment: 100 MBRL
  - Capacity: 5,000 trucks/year

- **DAF/Paccar (2013)**
  - Location: Ponta Grossa, PR
  - Investment: 450 MBRL
  - Capacity: 10,000 trucks/year

- **Metro Shacman (2014)**
  - Location: Tatuí, SP
  - Investment: 400 MBRL
  - Capacity: 2,500 trucks/year

### New Players Establishing Production in Brazil

- **IVECO**
  - Investment: 900 MBRL
  - Location: Campina Grande, PB
  - Capacity: 3,000 buses/year

- **IBRAVA (N/A)**
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### Sources
- ANFAVEA, RELEASES

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**BUSINESS SWEDEN**

**THE SWEDISH TRADE & INVEST COUNCIL**

**11 FEBRUARY, 2014**
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MARKET FOR AUTOMOTIVE COMPONENTS IS ESTIMATED AT 50 BILLION USD IN 2011

AUTOMOTIVE COMPONENTS MARKET IN BRAZIL MUSD*, 2007-2011

Market value
Import
Export
Production
CAGR 07-11
CAGR 14%
CAGR 13%
CAGR 5%
CAGR 13%

2007 2008 2009 2010 2011

-5,737 6,240 -3,950 -5,812 -6,975
5,936 8,248 5,992 8,323 9,768
29,725 37,621 31,965 44,093 50,265
29,526 35,612 29,923 41,582 47,472

SOURCE: IBGE AND MINISTRY OF DEVELOPMENT, INDUSTRY AND FOREIGN TRADE

* CORRESPONDING HS AND CNAE CODE LIST
EXCHANGE RATE 1USD (2007=1,94; 2008=1,83 ;2009=1,99; 2010=1,759; 2011=1,67)
BRAZIL IS MANUFACTURING 47 BILLION USD IN AUTO PARTS LOCALLY

PRODUCTION OF AUTO PARTS (2007/2011)
BILLION USD

- **Brake system parts**: 15%
- **Steering and suspension system parts**: 13%
- **Electrical system parts**: 15%
- **Gearbox and transmission system parts**: 15%
- **Engine parts**: 8%
- **Other parts**: 13%

**Airbags**
**Metal seats**
**Fume catalysts**
**Instrument panels**

**OTHER PARTS INCLUDES GROUPS WITH LOWER PRODUCTION VALUES**

SOURCE: BRAZILIAN MINISTRY OF FOREIGN AFFAIRS & IBGE
ENGINE PARTS AND GEARBOX & TRANSMISSION PARTS COVER TOGETHER AROUND 40% OF THE TOTAL IMPORT OF AUTO PARTS TO BRAZIL

IMPORT OF AUTO PARTS TO BRAZIL BY AUTO PART TYPE MUSD

IMPORT OF GEARBOX AND TRANSMISSION SYSTEM PARTS AND STEERING AND SUSPENSION SYSTEM PARTS HAVE GROWN FASTEST WITH 22% RESPECTIVE 21%
EXPORT OF ENGINE PARTS IS THE LARGEST WITH APPROX. 30%

EXPORT OF AUTO PARTS TO BRAZIL BY AUTO PART TYPE MUSD

<table>
<thead>
<tr>
<th>Year</th>
<th>Brake system parts</th>
<th>Steering and suspension system parts</th>
<th>Electrical system parts</th>
<th>Engine parts</th>
<th>Gearbox and transmission system parts</th>
<th>Other parts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>385</td>
<td>509</td>
<td>610</td>
<td>1,839</td>
<td>2,211</td>
<td>1,048</td>
</tr>
<tr>
<td>2008</td>
<td>444</td>
<td>372</td>
<td>721</td>
<td>1,957</td>
<td>535</td>
<td>2,245</td>
</tr>
<tr>
<td>2009</td>
<td>312</td>
<td>403</td>
<td>471</td>
<td>1,339</td>
<td>1,154</td>
<td>1,048</td>
</tr>
<tr>
<td>2010</td>
<td>231</td>
<td>459</td>
<td>834</td>
<td>1,834</td>
<td>1,782</td>
<td>2,245</td>
</tr>
<tr>
<td>2011</td>
<td>389</td>
<td>563</td>
<td>1,048</td>
<td>2,068</td>
<td>663</td>
<td>2,245</td>
</tr>
</tbody>
</table>

CAGR 07-11:
- Brake system parts: 0.3%
- Steering and suspension system parts: 18%
- Electrical system parts: 7%
- Engine parts: 2%
- Gearbox and transmission system parts: 14%
- Other parts: 3%

EXPORT OF STEERING AND SUSPENSION PARTS HAS GROWN FASTEST WITH 18%

SOURCE: BRAZILIAN MINISTRY OF FOREIGN AFFAIRS & IBGE
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COMPANIES THAT ARE INVESTING IN BRAZIL WON`T PAY THE 30% EXTRA ON IPI THAT THE GOVERNMENT DEFINED IN 2012

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>PRODUCTION IN BRAZIL</th>
<th>PRODUCTION ABROAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPI TAX</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>30% ON TOP OF IPI (SINCE 2012)</td>
<td>+ 30%</td>
<td>+ 30%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scenario with INOVAR AUTO</th>
<th>PRODUCTION IN BRAZIL</th>
<th>PRODUCTION ABROAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPI TAX</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>30% ON TOP OF IPI (SINCE 2012)</td>
<td>0% (Inovar auto gives discount on IPI)</td>
<td>+ 30%</td>
</tr>
</tbody>
</table>

SOURCE: INOVAR-AUTO LEGISLATION
### TO GET THE IPI DISCOUNT AUTOMAKERS NEED TO SHOW VEHICLE EFFICIENCY AND LOCAL INDUSTRY DEVELOPMENT

<table>
<thead>
<tr>
<th>REQUIRED</th>
<th>National Manufacturing Processes</th>
<th>R&amp;D Investment</th>
<th>Engineering Investments</th>
<th>Labelling Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automakers need to conduct a minimum number of processes for at least 80% of produced light vehicles: stamping, welding, corrosion treatment and painting, manufacturing of auto parts, systems assembly, plastic injection, final assembly, review and testing, invest in laboratory infrastructure for development and testing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automakers need to invest in research &amp; development in Brazil, corresponding to a minimum percentage, applied over the gross revenue of products and services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automakers need to invest in engineering, industrial technology and supplier capacitation in Brazil, corresponding to a minimum percentages, and applied over the gross revenue of products and services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automakers must comply with Brazil’s Vehicle Labeling Scheme (PBEV – Programa Brasileiro de Etiquetagem Veicular), with a minimum percentage of vehicle sales</td>
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### AUTOMAKERS NEED TO INVEST TO GET THE INCENTIVES

SOURCE: INOVAR-AUTO LEGISLATION
TRUCK PRODUCERS THAT MEET REQUIREMENTS OF INVESTMENT AND EFFICIENCY QUALIFY FOR INOVAR-AUTO INCENTIVES

Vehicle efficiency target

Target for number of local manufacturing processes

Yes

2 of the 3 Requirements:
- R&D Investment
- Engineering Investment
- Vehicle Labeling

Yes

• Up to 30% Discount in IPI
• 1-2% Additional Discount in IPI

No

Does Not Qualify for IPI tax discount

REACHING ADDITIONAL VEHICLE EFFICIENCY TARGETS THE AUTOMAKERS CAN GET ADDITIONAL DISCOUNT

SOURCE: INOVAR-AUTO LEGISLATION

BUSINESS SWEDEN

11 FEBRUARY, 2014
The FINAME is a financial instrument for the acquisition of machines and equipment. Trucks and buses are included.

### Benefits of FINAME

- **Beneficial financing:** low interest rates (to be agreed upon) and good conditions (up to 60 months)
- **FINAME** will finance up to 90% of the acquisition value for small and medium-sized companies and up to 70% for large companies.
- 60% of the product has to be produced locally (high local content).