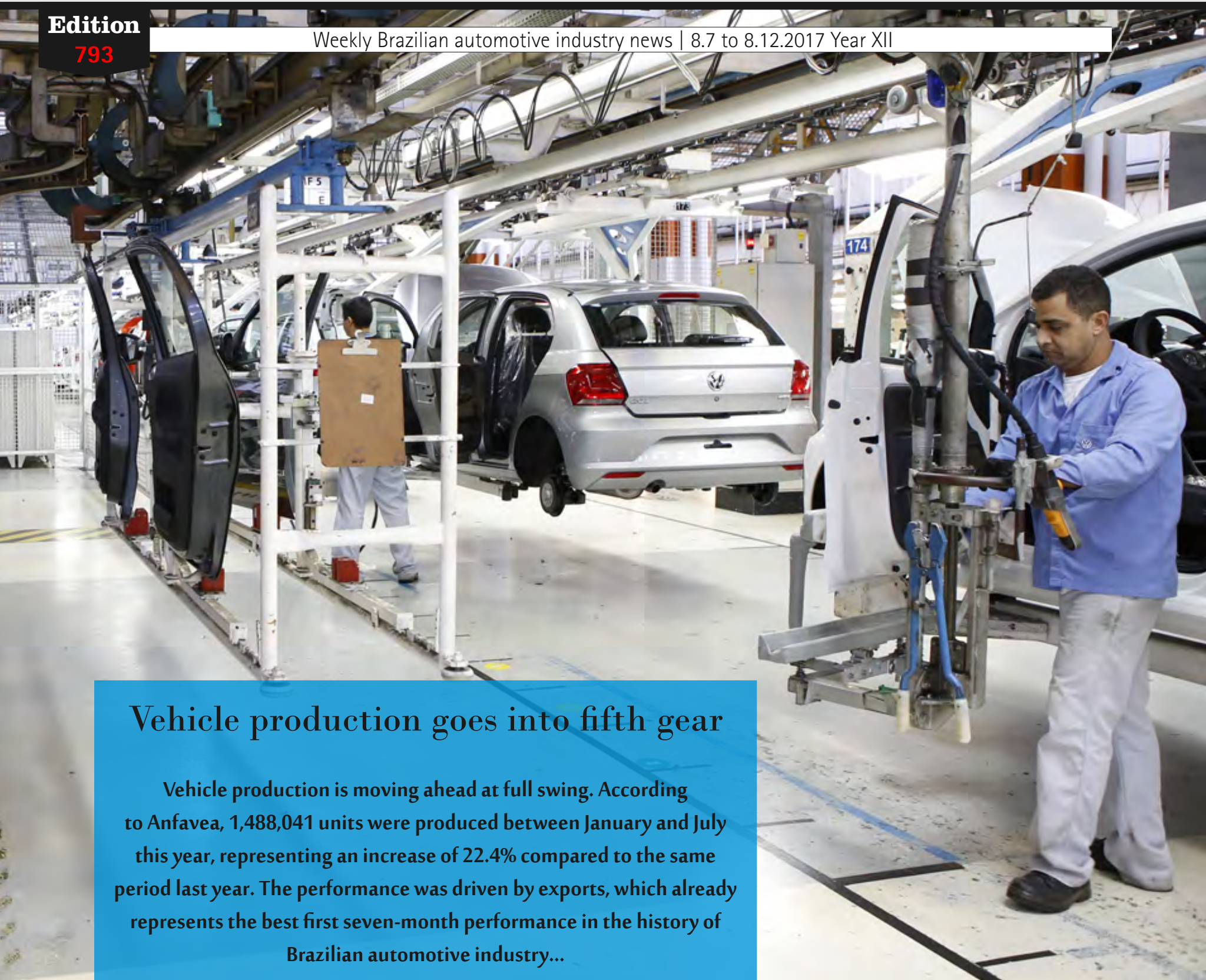


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Vehicle production goes into fifth gear

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Vehicle production goes into fifth gear

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Vehicle production is moving ahead at full swing. According to Anfavea, 1,488,041 units were produced between January and July this year, representing an increase of 22.4% compared to the same period last year. The performance was driven by exports, which already represents the best first seven-month performance in the history of Brazilian automotive industry.

Antônio Megale, president of Anfavea, said that with increased exports and vehicle license registrations in a growth mode, the industry's capacity utilization rate should improve by December, principally in the passenger and light commercial vehicles segment. Today, the industry has a production capacity of 5 million vehicles per year:

“We estimate vehicle production to reach between 2.6 million and 2.8 million units. This will help us reduce the industry’s idle capacity to below 50%. Today, idle capacity stands at 52%. However, the volume of trucks and buses still a matter of concern.” On average, heavy vehicle manufacturers are producing at 30% capacity.

In July, production also increased when compared to the same month last year, totaling 224,763 units, against 190,612 units produced in July 2016: “We are entering a period of certain stability in production. This occurs even to build inventory for the coming months. Seasonally, August is a good month in sales, exactly because there are two additional working days. Inventories are regulated for this period.”

Last month, according to the association, vehicle inventory stood at 217,000 units, equivalent to thirty-six days of sales. “The market is at an almost ideal level, and this should adjust during the coming months. In general, August is a good month for sales,” stated Megale.

With a growing production volume, Megale added that the level of employment in the industry registered a slight improvement last month, a growth of 0.2% when compared to June: “This is the reflection of hiring by a few companies.”

At the end of July, vehicle and agricultural machinery manufacturers had a workforce of 125,172 employees. When compared to July last year, however, this represented a drop of 1.3%. Last month, 12,198 workers were in some sort of flexible work program, such as layoff and the PSE, Employment Insurance Program. In July, this number stood at 12,452.

Renault announced the hiring of an additional 700 workers for its production lines in São José dos Pinhais, in the state of Paraná. This increase was driven by the opening of a third work shift for the production of the Kwid, its entry-level model. Overall, for the new work shift alone, 1300 employees were hired.

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Exports surpass historic volume of 2005

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Vehicle exports have already reached a record volume this year. Between January and July, 439,586 units have been shipped abroad, an increase of 55.3% when compared to the same period last year. With this performance, Antônio Megale, president of Anfavea, is already saying that 2017 should surpass 2005, the best year in history for the Brazilian exports by the automotive industry. Between January and July 2005, vehicle manufacturers shipped abroad 420,000 vehicles.

Megale once again said the good export performance derived from the commercial agreements within Latin America and the acceptance of Brazilian-made products in new markets. The industry representative added that the industry is working to maintain a stable monthly volume of export shipments at around 65,000 units: "The government also noticed the need to straighten commercial agreements. Exports represent an important escape valve to regulate our industry. Increasingly, our products are being accepted in the neighboring countries, and efforts to increase export volumes have provided good results." He added that, today, between 25% and 30% of production is destined to foreign markets.



He also celebrated the signature of the automotive agreement with Colombia last month: "It is an important market. The share of Brazilian vehicles in the Colombian market used to be 3%. We are already at 5% and have potential to reach 10%. The agreement is also in a process of internationalization, and I believe it should conclude in the coming two months. I hope I am not mistaken. I said this a few times before and it did not happen."

In July, 65,722 units were shipped abroad, representing an increase of 55.3% when compared to July of last year. Light vehicles represented the biggest portion of shipments, accounting for 61,984 units of passenger and light commercial vehicles. Year to date, 418,113 light vehicles were exported, representing an increase of 56.7% when compared to the same period of last year. Truck shipments abroad during the same period totaled 16,588 units, representing an increase of 47.4% when compared to the same period last year. In July, truck exports totaled 2957 units. During the first seven months year, bus shipments totaled 4885 units, representing a slight drop of 0.4%. In July, bus export shipments totaled

781 units. The major destinations, in volume, were Argentina, Mexico, Chile, Uruguay, and Colombia.

In value, revenue from exports by the vehicle manufacturers established in Brazil totaled US\$ 8.792 billion, another record. This value includes shipments of agricultural machinery and represented an increase of 52% when compared to the same period in 2016. Vehicle exports, alone, were valued at US\$ 7.32 billion, representing an increase of 54.5%.

Safety - According to Megale, failure of some locally produced vehicles to pass this year's Latin NCAP tests - an independent institution that tests the safety of vehicles - does not represent a sort of threat to the reputation of the Brazilian cars. He says that failure to pass the tests by the Chevrolet Onix and, more recently, the Fiat Mobi, represent a warning signal as for the different evaluation criteria used by the vehicle manufacturers and the testing institutions:

"There are some institutes that conduct verifications and their own evaluation. We are a little concerned with this because the protocols of these institutions are not stable.



Sometimes, the company that achieves the maximum grade in a safety item will drop in that measure because of a simple change of protocol.”

Megale said that the time for adopting new safety items should be taken into consideration when discussing vehicle safety and how this can increase the value of the vehicle to the customer: “We have to be very prudent because we produce cars for Brazilians, not for Europeans. The safety items have to be gradually incorporated into the vehicles, we cannot, in any way, increase the price of the vehicles. This is why it is important to have predictability. When the project begins, we already know that when it goes into production it will have to meet certain norms.”

The president of Anfavea said that the new industrial policy for the sector, Rota 2030, is taking into consideration the adoption of new safety items and the gradual implementation of tests in Brazil. This would allow companies to have time to adjust their upcoming product launches.

Argentina - Another thing that seems not to be a source of concern to the vehicle manufacturers in Brazil relates to the decree in Argentina that requires the anticipation of the fine on vehicle manufacturers that extrapolate the flex coefficient established in the automotive agreement. Brazil can export US\$ 1.50 for each US\$ 1 imported from Argentina, free of taxes:

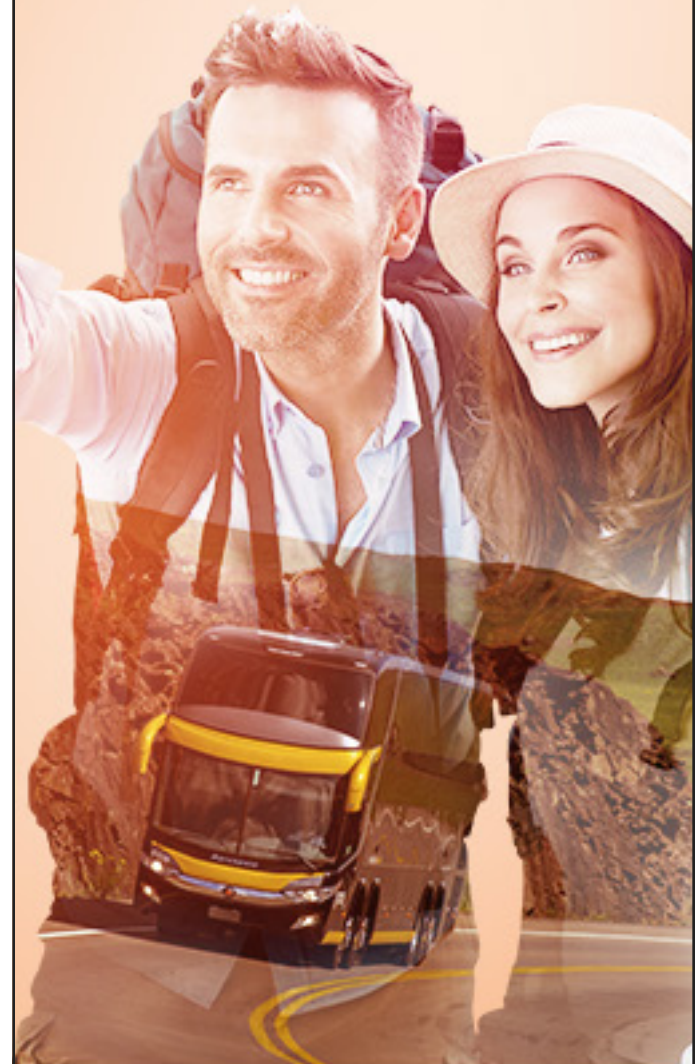
“This is the first time this happens. It is an issue between governments. We have expressed our concerns because they are our own companies. However, similar to today’s unbalanced flex, because they are exporting more to Argentina, when the investments made here in Brazil are concluded, this will generate new products and we will probably see this scenario reverse.”

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Fresh breath for the Truck segment

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Production of trucks continues to accelerate. During the seven months of the year, production volume totaled 43,223 units, representing an increase of 19% when compared to the same period last year. Production in July totaled 7202 units, representing an increase of 41.5% when compared to the 5091 units produced during the same month last year. A good portion of the production growth comes from exports, which totaled 16,588 units, representing an increase of 47.4% when compared to the 11,256 units shipped abroad during the same period last year

Argentina is the major destination of trucks produced in Brazil, accounting for 60% of exports. The country is followed by Chile, with 12%, Peru, with 8%, South Africa, with 4%, and Colombia, with 4%. Exports to Africa, the Middle East and Russia have also increased.



Domestic sales, however, continued to drop, despite improved performance when compared to the beginning of the year. In July, 4535 units were sold, representing a drop of 3.2% when compared to the same month in 2016. Between January and July, 25,990 trucks were licensed, representing a drop of 14.1% when compared to the 30,272 units licensed during the same period last year.

The segment has improved on a monthly basis, according to Luiz Carlos de Moraes, vice president of Anfavea: “The drop in sales during the first seven months of the year was 14.1%, which represented half of the 30.6% drop that occurred during the same period in 2016, when compared to the previous year. We expect a recovery to occur during the second semester, representing a growth ranging between 3% and 6%.”

Idle capacity - Increased production, however, did not lower the current idle capacity ratio, which stands at more than 70%. According to Antônio Megale, president of Anfavea, the segment should be driven by initiatives contained in the Rota 2030 Program, which should promote the renewal of the fleet, with an eye on lowering emissions:

“The emissions from an Euro 0 truck is equivalent to approximately 40 Euro 5 trucks. The operational cost represents the highest cost in trucks. A vehicle that needs to be constantly repaired generates a significant cost and affects the competitiveness of the company.”

Bus - Bus sales during the first seven months of the year total 6139 units, representing a drop of 16.9% when compared to the 7384 units sold during the same period last year. Moraes said that the segment has expectations regarding the sales of urban buses to the city of São Paulo:

“It is the biggest fleet in the country. This bid should take place in August and we hope to begin delivering the buses already this year. The bid calls for the purchase of 4000 vehicles. It will be good business for the segment.” The current fleet in the city stands at 14.7 thousand buses.

Production, which totaled 12,273 units during the first seven months of the year, represented a growth of 12.9% when compared to the 10,874 units produced during the same period. Exports, however, dropped 0.4% when compared to the same period last year, from 4904 units to 4885 units.

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Sales increases 3.4% and is on the road to recovery

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Between January and July this year, 1,204,260 vehicles were licensed in Brazil, representing an average daily volume of 9000 vehicles, according to Anfavea figures released on Friday, 4. This represented an increase of 3.4% compared to the same period in 2016. According to the association, this performance translates the confirmation of the recovery of automobile sales and lower losses in the truck segment.

Light vehicle license registrations, a category that encompasses passenger and light commercial vehicles, totaled 1,172,131 units during the first seven months of the year, representing an increase of 4% when compared to the same period last year. According to Antônio Megale, president of Anfavea, the number of vehicles licensed between January and July occurred in a uniform manner throughout the country, that is, the average volume of license registrations was considered by the Association to be similar throughout the regions: "We noticed that purchases did not concentrate at the large urban centers, but were spread out in a similar proportion throughout other regions, and this is positive for the sector."

Anfavea data shows that, in January, the number of license registrations in two of the twenty-seven states of the country, Minas Gerais and Rondônia, registered growth. In July, sixteen states showed positive growth, while eleven were still within the retraction zone, according to the association.

Imported - The share of imported vehicles in the total volume of vehicles licensed in the country during the first seven months of the year reached 11%, the smallest of the past three years. According to Megale, the lower market share of these vehicles results from the Inovar-Auto Program and the resulting construction of new manufacturing plants in Brazil. He also attributed



the lower share to the increase in locally produced vehicles in terms of quality when compared to the imported ones.

Megale said that the trend for the coming years is that the share of imported vehicles licensed in the country should be between 15% and 20%, which he considers ideal for the Brazilian automotive sector: “In the coming years, there will be a period of maturation of investments done in Argentina, and then Brazil will start importing more vehicles from that country. It is a healthy level of imports.”

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