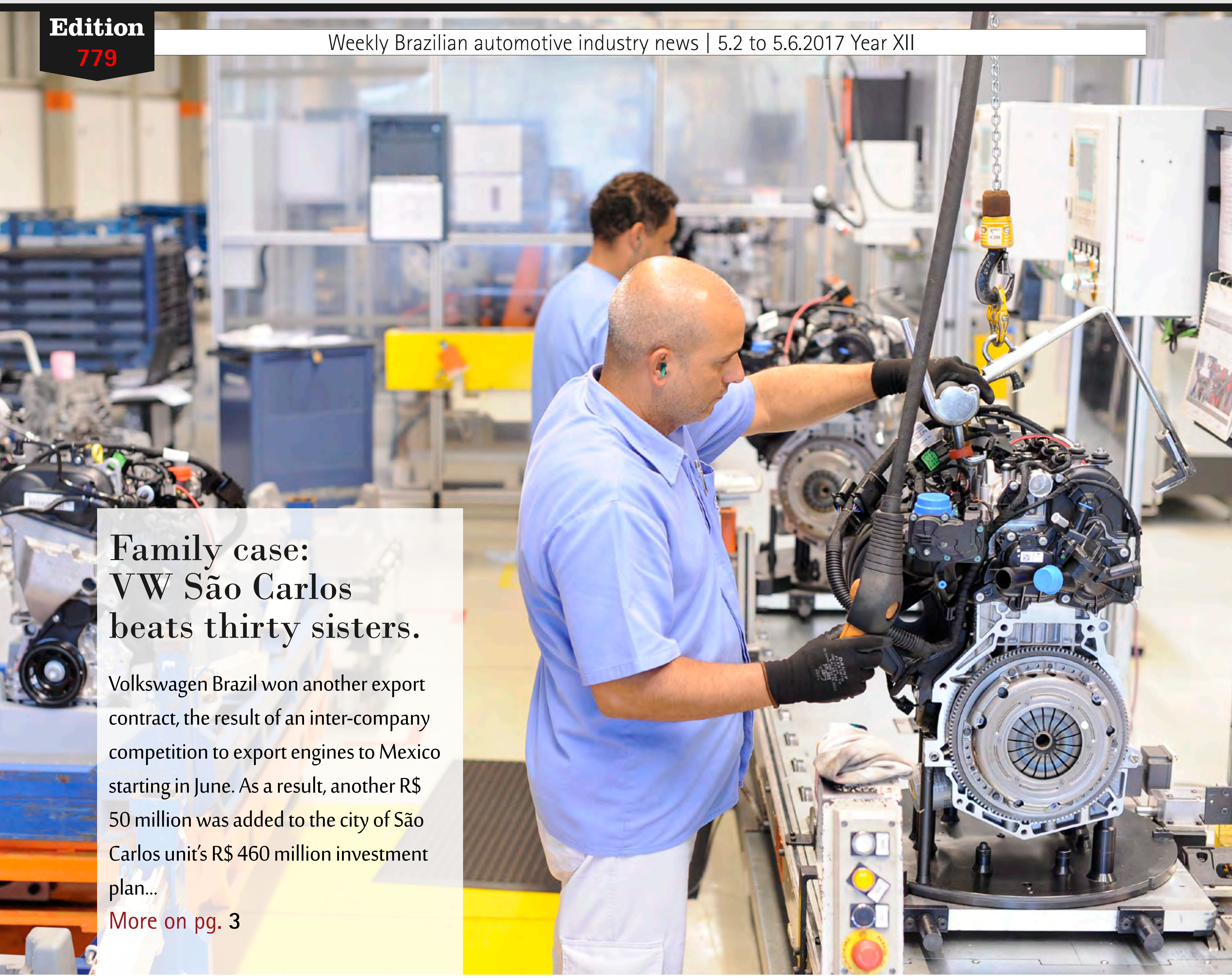
AutoData
NEWS AGENCY WEEKLY EDITION

Edition 779

Weekly Brazilian automotive industry news | 5.2 to 5.6.2017 Year XII



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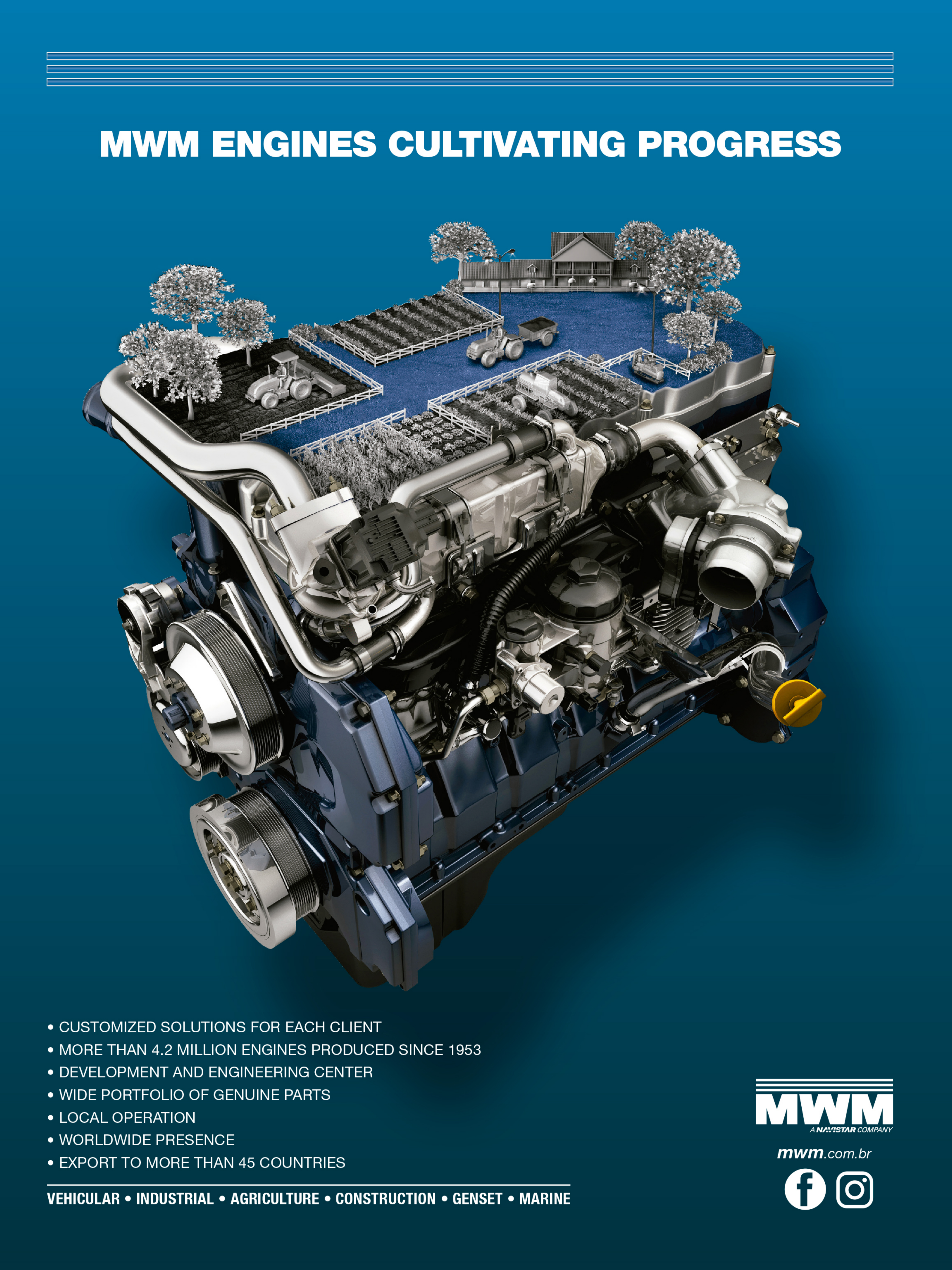
MWM ENGINES CULTIVATING PROGRESS
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• DEVELOPMENT AND ENGINEERING CENTER
• WIDE PORTFOLIO OF GENUINE PARTS
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Family case: VW São Carlos beats thirty sisters.

Ana Paula Machado | anamachado@autodata.com.br

Volkswagen Brazil won another export contract, the result of an inter-company competition to export engines to Mexico starting in June. As a result, another R$ 50 million was added to the city of São Carlos unit's R$ 460 million investment plan.

David Powels, president and CEO of VW Brazil, said the resources were used to make adaptations to the unit, and on engine validation tests and approvals:

"We competed against more than thirty company facilities in the world, and we won because we presented a competitive cost plan."

The investments include spending on technological development, adaptation of engine block machining lines, engine

VW

assembly and testing and costs related to certification and homologation of the product. To produce the 1.4 TSI export version, the machining and assembly lines of the EA211 building received adjustments to comply with the complexity of the production process that involves this model: higher number of components when compared to the current versions. The engine has different calibration temperature and fuel standards when compared to other markets.

According to Powels, the increased competitiveness of the factory was only possible after labor agreements closed last year, which enabled increased production flexibility and employee training:

"Without the agreement, which is valid for five years, we wouldn't have been able to improve our competitiveness here. It was crucial to enable us to win this competition."

With the new contract, which is effective until 2020, the company will increase the volume produced in São Carlos, in the state of São Paulo, by 30%. Today the plant's output is 1750 engines/day, which represents 50% of its installed capacity of 3.5 thousand units/ day. The contract calls for shipment of 250,000 engines – which will equip Jetta, Golf and Golf Variant models produced in the Puebla plant.

Powels added that the export contracts signed by the company are important to sustain VW's production capacity in Brazil:

"We plan to export 150,000 vehicles this year. In 2016, shipments totaled 106,000 units. The interesting thing is that we have not won new markets: we're actually expanding our involvement in countries where we were slightly active."

The executive said that in 26 Caribbean and South American countries, excluding Brazil and Argentina, Volkswagen had 2% share in sales. Just in the first three months of this year, the company's share increased to 3.2%:

"It's a market of 1.6 million vehicles a year, almost as big as Brazil, and such a growth shows our effort to improve our production capacity utilization in the country."

The plan in the Caribbean/South American region, according to Powels, is to reach a 5% share up to 2019, and increase it to more than 10%by 2027.

The São Carlos unit also closed a deal to export engine blocks of the EA211 1.0-liter family for the production of Polo and up! in Europe. WE

Sector exports total US$ 2 billion during first four months of the year

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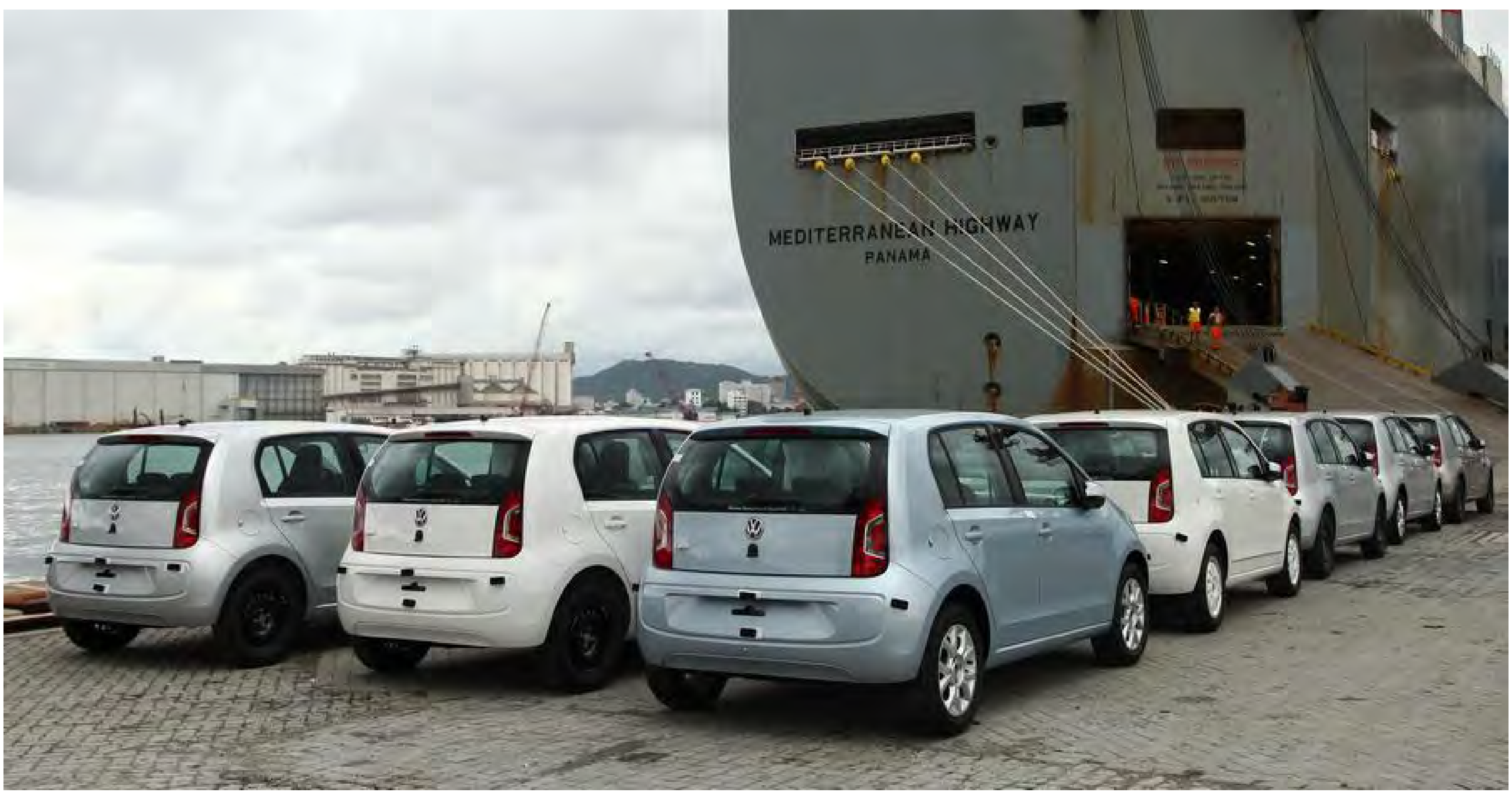

VW

Exports of passenger vehicles almost doubled from January to April compared with the same period last year. To date, foreign sales injected US$ 2.058 billion in the Brazilian trade balance, 48.6% more than the volume registered in the same period of last year, US$ 1.385 billion. The result, released on Tuesday, 2, by the MDIC, Ministry of Industry, Trade and Services, reflects the projections of Anfavea, the Brazilian vehicle manufacturers association: the automotive industry recovery this year should be based on the foreign trade results.

The segment of the heavy vehicles, trucks and light commercial vehicles registered the highest growth during the period. From January to April, exports totaled US$ 883 million, a 75.8% increase when compared to the same period last year, which totaled US$ 502 million. The auto parts another segment also registered increased exports, totaling US$ 623million, up 6.8%. Motor vehicles and parts exports performed negatively, totaling US$ 516 million, down 0.9%.

Until April, cars accounted for 3% of exports, up from 2.5% a year ago. Within the manufactured products category, this segment registered the highest performance, while the overall category registered a lower share of total exports. In 2016, manufactured products accounted for a 38.4% share of total exports, which dropped to 35.3% this year.

In value, exports of manufactured products experienced a 12% increase, totaling US$ 24.053 billion, when compared to US$ 21.476 billion registered during the same period last year.

The main destination of all Brazilian exports, not only vehicles, was China, totaling US$ 17.7 billion-in the automotive universe, vehicle engines and parts played a significant role. The United States remained in the second position, accounting for US$ 8.2 billion in sales – with fuels and cars as the highlight in the automotive segment. Sales to Argentina, Brazil's main trading partner in Latin America, generated US$ 5.2 billion, with automobiles, cargo vehicles and agricultural machinery representing the major business deals.

Macro - During the first four months of the year, exports totaled US$ 68.149 billion. The value represents a growth of 21.8% on the daily average. Imports totaled US$ 46.762 billion, an increase in the daily average of 9.5% when compared to the same period last year, US$ 42.694 billion. Total trade – imports plus exports – reached US$ 114.911 billion, a daily average increase of 16.5 percent over the US$ 98.638 billion reached during the same period last year. This year, the trade balance has resulted in a surplus of US$ 21.387 billion, an increase of 61.4% when compared to the US$ 13.25 billion registered during the same period last year WE

Argentina's government wants to attract Brazilian autoparts makers

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The government of Argentina sent representatives to Brazil from the department of foreign trade with the task of attracting investments from Brazilian companies. The measure is driven by the industrial policy launched by President Mauricio Macri to rebuild the local autoparts industry. They want to convince businesses in Brazil to produce or assemble components in Argentina.

According to Andrés Superbi, from the country's investment and foreign trade agency, the plan should be finalized this year and its content is based on tax incentives offered to foreign autoparts manufactures: "The idea is to enable companies to settle in the region where they will find our pole, in the provinces of Buenos Aires, Cordoba and Santa Fe."

In addition to the tax issue, the representative said during the 13th International autoparts, equipment and services to Automec, which the Argentine Government signals for the construction of measures that close relations of foreign companies with the local industrial pole: "not only in Brazil, but we are seeking investors in other places, such as Europe. The greatest difficulty for those who arrive is to create ties with the local market in a short time. In this sense, we are working for interested parties to be integrated as soon as possible. "

In addition to the tax issue, the representative, who spoke at the 13th edition of Automec, the international autoparts, equipment and services trade show, that the Argentinean government is signaling for the construction of measures that will enable closer relations between foreign companies and the local industrial pole: "Not only in Brazil. We are seeking investors in other places, such as Europe. The greatest difficulty for newcomers is to create ties with the local market in the short-term. In this sense, we are working to enable the fastest possible integration for interested parties.”

The vehicle market in Argentina, as well as in Brazil, has been trying to recover from periods of low sales. In the first quarter, production registered a 7.4% drop over the same period in 2016, when 98,168 units were produced. First quarter exports this year increased 14%, reaching 40,193 units, when compared to 35,258 units sold during the same period last year, according to data from Adefa, the Argentinean association that represents the vehicle manufacturers in that country.

Production in March registered a 66.9% increase when compared to February, reaching 40.107 vehicles. Exports reached 17,508 units in March, a 35.4% increase when compared to February.

The main destination of Argentinean vehicles, according to Adefa, still is Brazil. Of the total number of vehicles produced in the quarter, 24,335 units were exported to the Brazilian market, followed by the Caribbean region, destination of 3804 units, and Mexico, Argentina’s third largest market, which received 2684 vehicles between January and March of this year. WE

The smell is good

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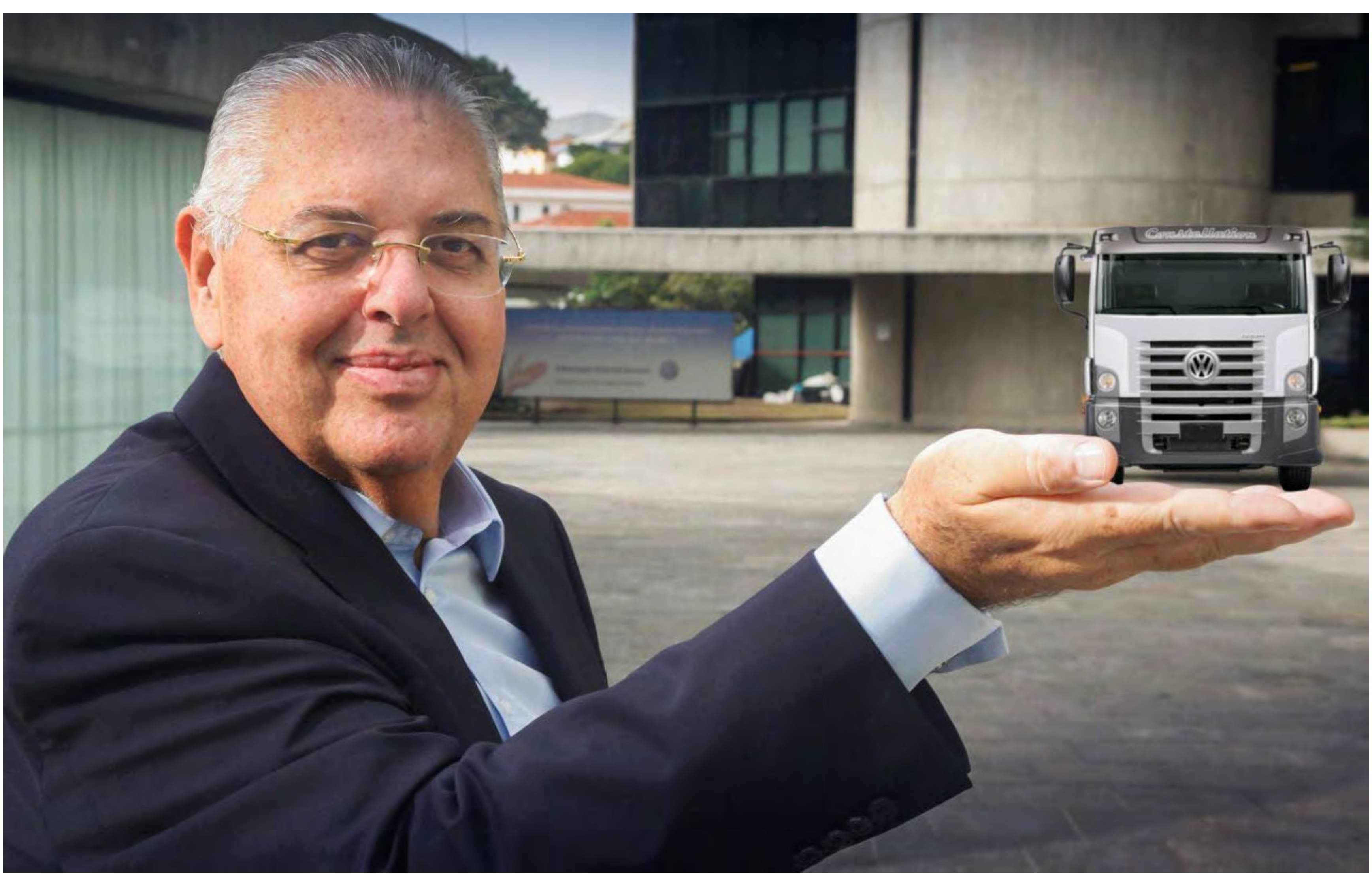
The sensitive sales increase in buses and trucks during the past three months prompted MAN to change its production pace at the Resende plant in the state of Rio de Janeiro. The company, which had an agreement under the Employment Support program, the PSE – formerly known as PPE – of halting production for four working days per month, has now returned to the regime's 2015 version, when workers had only two days off per month.

Roberto Cortes, president and CEO of MAN Latin America, said: "Conditions are improving in every sense and daily sales justify this new scenario. It's the time of necessity."



MAN

The executive believes that the ages of the fleets of trucks of small, medium and large companies have already reached the limit, and that from now on, we will see a renewal movement based on need: “We have clients running with the same truck they had seven years ago. This is not normal. The ideal are fleets with two, two and a half, years of age.”

Imbued with the feeling that the worst is over and based on worksheets that show daily sales performance, Cortes argues expertly. In the truck segment, daily sales have increased from 134 units in January to 138 units in February, then to 187 units in March, and 181 units in April: “We have the seasonality of a month of April, with fewer working days. And even so, the daily average is still very close to March.”

Despite operating with a 70% idle capacity, the Resende plant is stepping up production and preparing inventory for a resumption of business with its main customers. A positive sign that this trend can be confirmed in the short term was the delivery of 100 VW Constellation 19.330 Titan Tractor trucks to Brasspress. These units will compose the expansion of the fleet of Brasspress, in a clear sign that there is an improvement in the transport sector. According to Cortes, the current economic activity still presents some difficulties: “But orders like this one and a resumption in freight orders show that the smell of what lies ahead is good.”

He believes it is still possible to achieve a positive result in truck sales at the end of the year. But the recovery must be strong in the coming months: “From now on, sales have to grow 20% per quarter to reach Anfavea’s projection.” WE

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