CENTRAL EUROPE AUTOMOTIVE REPORT

AUSTRIA BULGARIA CZECH REPUBLIC HUNGARY
POLAND ROMANIA SLOVAK REPUBLIC SLOVENIA

MONTHLY COVERAGE OF THE
CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY

May 1997

On The Internet
Volume II, Issue 5 WWW.CEAR.COM ISSN 1088-1123

TM

FEATURE COUNTRY

CZECH REPUBLIC

Market Highlights

- *Skoda reports profit in '96*
- *Daewoo Avia introduces new commercial vehicle*
- *Skoda production up 10%*
- *TRW's top ten customers in 1997; projected sales*
- *Octavia introduced in Germany*
- *New Skoda Board takes office*

At its annual press conference on April 3, 1997, **Skoda, automobilova a.s.** announced that it recorded in 1996 a profit of CZK 163 million (DM 9.03) after taxes, a significant improvement over 1995's loss of CZK 1.621 billion (DM 87.3). With a 1996 turnover of CZK 58.9 billion, Skoda has taken over the position as the largest industrial company in the Czech Republic. Skoda has been a subsidiary of the **Volkswagen Group** since 1991.

In the first two months of 1997, Skoda produced a total of 50,374 cars, up 10% from last year. Skoda wants to increase production and sales by 30% to more than 340,000 vehicles in 1997, said Detlef Wittig, Board Member and Chief Sales and Marketing Officer. Of this amount, more than 60,000 will be Octavias. "The Felicia is the central product," said Mr. Wittig.

In April 1997, the new Octavia model was introduced in Germany. "We have many demands [for the Octavia]," said Mr. Wittig. The current waiting list for the Octavia is five months. "Of course, we will speed up this process," he said.

On April 16, 1997, the new Skoda board assumed its duties. The new board consists of Chairman of the Board Vratislav Kulhanek, Chief R&D Officer Wilfried Bockelmann, Vice Chairman of the Board and Chief Sales, Marketing, and Finance Officer Detlef Wittig, Chief Production Officer Rolf Zimmermann, and Chief Human Resources Officer Pavel Novacek.

*

Daewoo Avia and **Daewoo Motor Poland** have agreed to assemble 1,000 Avia trucks in Lublin, Poland and 1,300 Lublin trucks at Daewoo Avia's Czech Republic plant in 1997. Daewoo Avia manufactures and sells medium-sized Avia trucks and imports and distributes Daewoo cars for the Czech Republic. The Lublin truck will be sold in the Czech market by Daewoo Avia.

The Lublin truck will have a total weight of 2,900 kg, a 1,200 kg payload capacity, an in-line four cylinder diesel engine (2,417 ccm) and deliver power of 51.5 kW at 4,200 rpm. The truck will be initially delivered as a platform truck

Continued on page 2

Inside

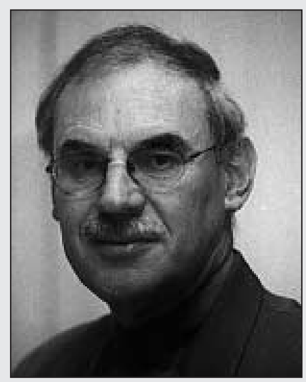
✓ *Daewoo Avia Stats: pp. 2, 3, 5, 17*
✓ *JV's in the Czech Republic: 4*
✓ *Czech Sales Figures: 7*
✓ *Calendar: 7*
✓ *Analysis of Kaucuk Kralupy: 8*
✓ *Warsaw Auto Conference: 10, 11, 12*
✓ *Czech Tax Changes: 15*

Czech Republic

PROFILE

Skoda's Wittig Discusses Marketing Strategy

Skoda automobilova a.s. introduced last year its new Octavia model, a car that it hopes will improve its image on the world market. Octavia's are manufactured at Skoda's state-of-the-art factory in Mlada Boleslav. Skoda has worked hard to improve its technological and quality standards and establish a name for itself outside of Central and Eastern Europe. Detlef Wittig spoke with the CEAR in Warsaw about Skoda's transformation and marketing strategy.



Detlef Wittig

Mr. Wittig began his career with Volkswagen AG in 1968. He has held a number of posts with Volkswagen, including President of Volkswagen Canada's Sales and Marketing Department and head of Volkswagen AG's Export Sales Division.

In 1995 he was appointed a member of the Board of Management and Chief Sales and Marketing Officer for Skoda. In 1997 he was elected Vice Chairman of the Board of Management and, in addition to his sales and marketing post, was appointed Chief Financial Officer.

Continued on page 13

CENTRAL EUROPE AUTOMOTIVE REPORT

May 1997
Volume II, Issue 5

On the Web at
http://www.cear.com

Publisher
Ronald F. Suponcic, Jr.
email: cetmrfs@ibm.net

Editor-in-Chief
Jeffrey A. Jones, Esq.
email: cetmjaj@ibm.net

Research Assistant
Michal Sastinsky

Design
Teresa Freeman
email: cetmdes@ibm.net

Webmaster
Gary J. Gustafson
email: cear@www.iocafe.net

Central Europe Automotive Report™, 4800 Baseline Rd., Suite E104-340, Boulder, CO 80303 USA, is published monthly, except August, by Central European Trade & Marketing, L.L.C. in Boulder, Colorado.

United States Office
Tel: [1](303) 784-5653
US Fax: (800) 684-3393
International Fax: [1](510) 927-2630
Email: cetmllc@ibm.net

Europe Office:
Tel. [421](7) 374-431
Fax [421](7) 361-085
ul. L. Derera 2, I./48
830 01 Bratislava Slovak Republic
Email: cetmllc@ibm.net

Feature Country *Continued From page 1*

(type 3352) and box truck. Daewoo will also deliver chassis with cabin to body makers (type 0352).

*

TRW Autoelektronika's top ten customers in 1997 are **Ford** (28%), **Skoda** (12%), **Audi** (11%), **Opel** (7%), **Peugeot** (7%), **VW** (4%), **Volvo** (4%), **Renault** (4%), **Citroen** (4%), and **Mercedes** (3%). TRW projects sales of CZK 824 million for 1997.

*

Export of Daewoo Avia Trucks in 1996 (units)

Slovakia	510
Romania	304
Poland	249
France	157
Hungary	144
Uzbekistan	46
Ukraine	37
Bulgaria	32
Russia	30
Egypt	18
Other	23
TOTAL	**1,550 units**

Last year **Skoda** raised production at its Mlada Boleslav, Vrchlabi, and Dvasiny plants 26.3% to a record 263,193 vehicles. Production of the new Octavia model amounted to 1,168 units. Current daily production of the Octavia is 178, with capacity installed for 300 a day.

Skoda sold 261,067 cars in 1996, up 24.6% from 1995, with more than 87,398 of these sales made in the Czech Republic. Sales in the Slovak Republic were up 89.9% and totalled 23,035 units.

Skoda raised Felicia assembly in Poznan, Poland to 15,840 cars, an increase of 102%. Other production increases are planned for the Poznan plant, including Octavia assembly. "We would like to go from SKD to CKD in Poland," said Chief Production Officer Rolf Zimmermann at the April 3 press conference. Skoda's goal for Poland is production of 15,000-20,000 cars a year. Skoda is also working on assembly projects in Russia and Belarus and is analyzing the possibility of producing in Egypt and India.

Skoda currently employs 16,271 workers. Because of labor shortages in the Czech Republic, the company has looked to Poland for laborers. The mean salary of Skoda workers in 1996 was CZK 14,210, and mean worker wages CZK 12,021. According to a company statement, Skoda has agreed with its unions to raise wages an average of 10.1% in 1997.

In 1996, Skoda purchased production material worth CZK 32 billion, of which CZK 23.8 billion was purchased in the Czech Republic, CZK 2.1 billion in the Slovak Republic, and CZK 6.1 billion in other countries. ■

Skoda's Major World-Wide Markets in 1996

Country	Units Sold	Change
Czech Republic	87,398	21.3%
Slovak Republic	23,035	89.9%
Germany	21,605	2%
Poland	15,840	102%
Great Britain	13,346	2%
Austria	9,457	100%
France	9,411	30%
Italy	8,859	38%
Egypt	5,841	(2%)
Denmark	5,778	63%
Syria	5,679	(20%)
Columbia	4,591	55%
Russia	4,367	166%
Sweden	4,150	684%
Turkey	4,149	14%

CENTRAL EUROPE AUTOMOTIVE REPORT

CEAR SPONSORS

Supporting the Development of the Automotive Industry in Central Europe

Daewoo Motor's Central European Investments

Passenger Cars:

Country	Subsidiaries	Capacity	Start Date	Total Cost (USD mm)	Capital (USD mm)	Daewoo's Share
Poland	Daewoo FSO Motor Corp.	250,000	03/96	1,121	648	82.8%
Romania	Daewoo Automobile Rodae CA	100,000	12/96	995	306	51.0%
Uzbekistan	Uz - Daewoo Auto Co.	200,000	03/96	658	200	50.0%
Total		**550,000**		**2,774**	**1,154**	

Commercial Vehicles:

Country	Subsidiaries	Capacity	Start Date	TotalCost (USD mm)	Capital (USD mm)	Daewoo's Share
Poland	Daewoo Motor Polska Sp. Z o.o.	110,000	10/95	340	71	75.5%
Czech Republic	Daewoo Avia as	25,000	09/95	65	65	50.2%
Total		**135,000**		**405**	**136**	

Source: Daewoo

Czech Republic

LEGAL ADVISOR

ESTABLISHING JOINT VENTURES IN CZECH REPUBLIC

Foreign companies seeking to establish a business in the Czech Republic are often surprised by and unprepared for the bureaucratic hurdles that they encounter. Foreign companies are confronted with the task of finding in a tight labor pool qualified Czechs to serve in important corporate positions. Furthermore, without the help of Czech nationals foreign companies often encounter extensive delays before they can begin doing business due to a Kafkaesque registration process.

Thus, many foreign companies desiring to do business in the Czech Republic elect to form joint ventures with entities that are already established and active in the Czech Republic. The focus of this article is limited to the establishment and management of a Czech joint venture using a Czech limited liability company as the joint venture vehicle ("company"). It is of vital importance that initial negotiations and all agreements resulting from such negotiations on the structure of the company reflect the requirements of Czech law.

Minority Rights Minority participants in the company can take some relief in the fact that Czech law affords such persons certain protections from being overruled by a simple majority of participants. The ability, however, of participants to further strengthen minority positions by means of shareholder agreements is limited.

Czech law explicitly invalidates agreements that bind a participant in a company to follow instructions given to him by the company or its bodies, to always vote for proposals forwarded by company bodies, or to vote in a fixed manner. Any such provisions in a company's statutes are invalid.

Management of Affairs The day-to-day management of the company's affairs is conducted by its executives, who are able to represent the company and bind the company in its dealings with third parties. Before a company is established two important issues must be resolved. First, how many executives will the company have and second, how can limitations upon the power of the executive be addressed.

If a company has more than one executive, each executive is assumed to be empowered to act independently in the name of the company unless the company's constituent document states that the executives must act jointly. *Unless explicitly stated otherwise in the constituent document registered at the trade register, an executive may enter into any contract without the consent of other executives.*

It is important to note that a company can limit the powers of its executives in the company's constituent document, statutes (if any), or at the company's general meeting. Such limitations, however, do not bind third parties that have concluded an agreement with an executive when the company's trade register extract, which notes an executive's ability to bind the company as stated in the company's constituent document, shows that the executive is able to act in the name of the company.

Supervisory Board Czech law allows for the creation of a supervisory board, consisting of at least three members, that has among its responsibilities the supervision of the executive. In reality, however, the supervisory board has little power. It cannot prevent the executive from concluding an agreement deemed to be contrary to the best interests of the company. At most, it can convene a general meeting and deliver information to the general meeting regarding the conduct of an executive.

Remedies for Executive Misconduct As participants in a company cannot effectively prevent the executive of a company from entering into an agreement, the issue of how a company can secure compensation resulting from executive misconduct is relevant. The sole remedy available to a company victim of such misconduct is to seek damages from the executive.

Czech law does impose a degree of liability on the executive for his decisions, as an executive is liable for not exercising due diligence and for the disclosure of confidential information that could be detrimental to the company. In addition, even if the company does not claim damage from its executive for the aforementioned actions, if the company's creditors cannot settle their claims from the company's property, then the executive remains liable to the extent of the damage that he caused the company.

Any indemnity agreement concluded between a company and its executive is *invalid*. Czech law does not address the issue of creating the effect of an indemnity by the conclusion of separate agreements between the executive and the participants in the company.

Foreign Executives A foreigner may serve as an executive in a Czech company. This person, however, must first secure a long-term Czech residency permit prior to being registered as an executive of the company. Depending on individual circumstances, it can take some time to compile the documents necessary to file for the residency permit and the administrative agency reviewing the application typically takes two months to review and issue a decision.

Business Activities The nature of the business activities to be undertaken by the company is an additional concern since under the Czech trade licensing act a company may not commence a particular business activity until it has obtained a trade license for that activity and been registered in the trade register. Czech law mandates that for each trade license awarded by the trade license office, either the businessman practicing those business activities or a "proxy" of such businessman must supervise the business activities that are to be performed.

If such businessman or proxy of such businessman is neither Czech nor Slovak, then he must demonstrate an adequate working knowledge of the Czech language in an examination administered by the relevant trade license office. In addition, as this person must oversee the company's business activities, he must have either permanent or long-term Czech residency. Finally, such person must possess the academic, personal, or professional credentials required by the trade licensing act for each trade license sought by the company.

Trade License Requirements The necessary requirements for trade licenses for "free" business activities, i.e. the sale of goods and consulting activities, are minimal. For "craft" (woodworking, standard metal working, repair activities, etc.) activities, the businessman or proxy must evidence either academic training or professional experience that qualifies him to oversee the practice of such craft. The trade license office is required by law to automatically grant trade licenses for free and craft

Continued on page 18

Results of DAEWOO AVIA, a. s. in 1996 compared to 1995:

		1995	*1996*	*index 96/95*
Production of AVIA trucks	(units)	3,924	4,375	111.5%
Sales of AVIA trucks	(units)	3,816	4,448	116.6%
Export of AVIA trucks	(units)	811	1,550	191.1%
Sales of DAEWOO cars in the Czech Republic	(units)	1,268*	4,509	355.6%
Total sales revenues (unaudited)	(CZK mil.)	2,718	4,079	150.1%

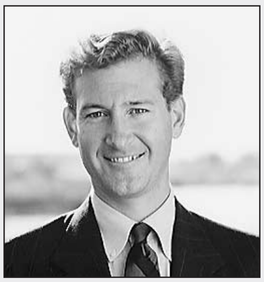
*In 1995 Daewoo Avia was not the Daewoo car importer and distributor for the Czech Republic.

Source: Daewoo Avia

CENTRAL EUROPE AUTOMOTIVE REPORT

To Our Readers:

Ronald F. Suponcic, Jr.
Publisher



Jeffrey A. Jones, Esq.
Editor-in-Chief

In addition to this month's coverage of the Czech Republic, we include special coverage of the EuroForum auto conference that took place in Warsaw on March 18 and 19. The conference brought together many of the major players in the Western and Central European automotive industries.

Participating companies revealed that they are expanding production, improving local quality standards, and enjoying a boom in new cars sales in Central Europe. In 1996, for example, car sales in Poland jumped over 40%, the largest growth rate in all of Western Europe. As one speaker noted, there is "still a lot of potential to increase car ownership levels [in Central Europe] by two or three times."

The generally positive attitude of the conference was tempered only slightly by one industry analyst's warning that manufacturing over capacity is a danger by the year 2000. "Local capacity is expected to exceed local demand, even considering exports," said the analyst. The problem? Companies continue to invest in new production facilities without shutting down more expensive factories in Western Europe.

Many conference attendees were from the Western European offices of major component manufacturers and industry service companies. Discussions with some of these representative revealed a surprising lack of knowledge about the dynamic nature of the Central European auto industry. One executive had not even heard of Daewoo, a company investing billions of dollars in Central European auto manufacturing capacity. He left the conference enlightened.

*

As always, if you have any comments, suggestions, or requests, please contact us. We value your input. The Central Europe Automotive Report is designed to give you the information you need to succeed in this exciting market

---

The mission of the **Central Europe Automotive Report** is to provide market, investment, and business information that can lead to joint venture, greenfield investment, and product distribution opportunities in the automotive sectors of Slovenia, Hungary, Czech Republic, Slovak Republic, Poland, Bulgaria, and Romania. The **Central Europe Automotive Report** intends for its information to be used to increase foreign investment in the Central European auto sector; improve the availability, quality, and competitiveness of products and raw materials available to Central European auto manufacturers and suppliers; strengthen existing Central European companies by introducing foreign capital, technology, and expertise; and provide opportunities for auto manufacturers and suppliers to expand their markets.

Czech Republic

Sales of Passenger Cars (PC) and Light Commercial Vehicles (LCV) in Czech Republic by Car Importers Association (CIA) members from January-February 1997

Make		PC units	LCV share in CIA	units	Total share in CIA	Total units	CIA share in CIA	position
AUDI		89	0.98%			89	0.80%	20
BMW		104	1.14%			104	0.93%	18
Citroen		282	3.09%	287	14.03%	569	5.10%	8
Daewoo		695	7.62%			695	6.22%	6
Daihatsu		33	0.36%	2	0.10%	35	0.31%	26
FIAT		656	7.19%	82	4.01%	738	6.61%	5
Ford		1072	11.75%	491	24.00%	1563	14.00%	1
Honda		371	4.07%			371	3.32%	11
Hyundai		249	2.73%	81	3.96%	330	2.96%	13
Chrysler		64	0.70%			64	0.57%	21
Jaguar		4	0.04%			4	0.04%	30
KIA		109	1.20%	33	1.61%	142	1.27%	17
Lada		133	1.46%	17	0.83%	150	1.34%	16
Lancia		3	0.03%			3	0.03%	31
Land/Range Rover		12	0.13%	9	0.44%	21	0.19%	28
Mazda		419	4.59%	80	3.91%	499	4.47%	9
Mercedes	*	58	8.84%	188	8%	244	2.15%	15
Mitsubishi		55	0.60%	45	2.20%	100	0.90%	19
Nissan		267	2.93%	60	2.93%	327		14
Opel		1117	12.25%	63	3.08%	1180	10.57%	2
Peugeot		261	2.86%	183	8.94%	444	3.98%	10
Proton		2	0.02%			2	0.02%	32
Renault		958	10.50%	115	5.62%	1073	9.61%	4
Rover		58	0.64%			58	0.52%	22
SAAB		13	0.14%			13	0.12%	29
Ssang Yong		40	0.44%		0	40	0.36%	24
SEAT		661	7.25%	16	0.78%	677	6.06%	7
Subaru		42	0.46%			42	0.38%	23
Suzuki		25	0.27%	5	0.24%	30	0.27%	27
Toyota		310	3.40%	56	2.74%	366	3.28%	12
Volvo		38	0.42%			38	0.34%	25
VW	***	921	10.10%	235	11.49%	1156	10.35%	3
* MB LCV only VITO			***without L80					
Total CIA		**9121**	**100.00%**	**2046**	**100.00%**	**11167**	**100.00%**	
Others								
Skoda		10126	52.61%	661	22.64%	10787	48.66%	
Tatra		0	0.00%			0	0.00%	
TAZ				108	3.63%	108	0.48%	
Skoda Elcar Beta				17	1.95%	17	0.15%	
Lublin-PL				76	8.70%	76	0.69%	
Nysa		0	0.00%	14	0.48%	14	0.06%	
Total others		**10126**	**52.61%**	**874**	**29.93%**	**11000**	**48.62%**	
Total others + CIA		**19247**	**100.00%**	**2920**	**100.00%**	**22167**	**100.00%**	
Share CIA			**47.39%**		**70.07%**		**50.38%**	

Central & Western Europe In 1997

1997

May 1	**Birmingham, England** Automotive Business Show
May 1	**Barcelona, Spain** Automovil
May 1	**Lublin, Poland** Manufacturing Technology Show
May 7-11	**Torino, Italy** Automotor
May 13-17	**Skopje, Macedonia** Commercial Vehicle Show
May 14-18	**Istanbul, Turkey** AEF Automotive Show
May 20-23	**Nitra, Slovakia** Int'l Fair of Machines, Tools, Devices, & Technologies
May 21-25	**Bologna, Italy** Autopromotec
May 27-31	**Budapest, Hungary** Industrial Hungary
June 5-8	**Madrid, Spain** Motortec
June 7-12	**Brno, Poland** Autotec Autosalon
August 1	**Hellerudsletta, Norway** Autofair
Sept. 1	**Milan, Italy** Autopromotec
Sept. 1	**Lyon, France** Salon Int'l de l'Auto
Sept. 3-7	**Nitra, Slovakia** Int'l Exhib. of Passenger Cars, Trucks, Utility Cars, & Accessories
Sept. 11-21	**Frankfurt, Germany** Autotechnica
Sept. 23-27	**Sarajevo, Bosnia** Auto Show
Oct. 1	**Katowice, Poland** Autosalon
Oct. 1-5	**Budapest, Hungary** Budapest Motor Show
Oct. 3-12	**Bucharest, Romania** Int'l Exhib. for Motor Vehicles, Spare Parts, & Accessories
Oct. 14-19	**Bucharest, Romania** Int'l Technical Fair (incl. automotive companies)
Oct. 17-22	**Kortrijk, Belgium** Car & Bus Show
Nov. 1	**Valencia, Spain** Salon del Automovil
Nov. 15-23	**Athens, Greece** Auto Show
Nov. 26-30	**Madrid, Spain** Industrial Vehicle Trade Fair
Dec. 6-14	**Bologna, Italy** Motorshow

For more information, please contact the Central Europe Automotive Report.

Czech Republic

FOCUS ON INVESTMENT

ANALYSIS OF PETROCHEMICAL FIRM KAUCUK A.S. KRALUPY

The following analysis of Kaucuk a.s. Kralupy was prepared by Aspekt Kilcullen, a leading Czech financial information company based in Prague. The information contained in the analysis is based on figures made available by Kaucuk in 1996.

Main company features:

Among the top ten Czech companies
Exports to over thirty countries
ISO 9000 certified
Set up and expanded fuel distribution network
Perspektiva subsidiary joined in the completion of the IKL oil pipeline

Kaucuk is one of the leading petrochemical companies in the Czech Republic. Its history dates from 1961 when it was founded to manufacture synthetic rubbers. The company gradually expanded, introducing plastics, standard, tough and foam polystyrene, and ABS copolymers. The opening of an oil refinery in 1975 expanded the product range to include fuels and heating gases and oils.

Kaucuk has ranked among the top ten Czech companies for the last three years. Its objective is to optimize the technical development of its production processes ensuring full use of raw materials. Linking the refinery and the petrochemical industry has allowed better use of crude oil at all stages of its processing. The current introduction of a product quality management system has created good will for Kaucuk on both domestic and foreign markets. As the company is ISO 9000 certified, its products are reliable and of high quality

Privatization & Ownership Kaucuk a.s. Kralupy nad Vltavou was founded by the National Property Fund on January 1, 1994 as the direct successor of the former Kaucuk state company, with capital assets of 4971 million crowns. Shares totaling 1,317,315 shares (26.5%) were entered in the second wave of coupon privatization, of which 1,290,267 were sold with a nominal value of CZK 1000.

A total of 171 investment funds gained 1,068,761 shares and private investors received 221,506 shares. As of November 13, 1996, principle shareholders are Unipetrol 40%, National Property Fund 26%, IS-Expandia 6%, HC&C 3%, PPF 2%, Zlaty IF Kvanto 1.5%, and IF AGB 0.95%.

Exports Products such as polystyrenes and synthetic rubbers are today exported to over 30 countries in Europe, Asia, and America. Exports came to 23% of product sales in 1994, and included polystyrene (46%), kralex (38%), heating gases and oils (10%), forsan (3%), and styrene (3%).

Strategy Trade strategy was directed towards traditional markets and customer relations. The dominant market for production is the automobile market. Kaucuk´s knowledge and logistically advantageous location enabled it to maintain its traditional share of the Czech market in 1994 in the face of competition from abroad.

Exports, particularly of plastics and elastomers, increased in the same year. One of Kaucuk´s most significant successes is the setting up and expansion of a fuel distribution network. Its daughter company K-Petrol now operates 34 filling stations. Perspektiva a.s., a subsidiary of Kaucuk, joined in the construction of the IKL oil pipeline.

In recent years much work has gone into planning and implementing environmental investments, with CZK 360.5 million invested in an Ekoprogram in 1994. Research work has concentrated on polystyrene plastics and butadlen-styrene rubbers.

Structure The company is divided into three manufacturing divisions (Refinery, Plastics, and Elastomers), and three non-productive divisions (Power, Synthetic Rubber Research Institute, Services) plus corporate management. The company has shareholdings of over 20% in K-Petrol a. s. (99%) and Kralupol s. r. o. (55%).

Economic Results Total turnover of CZK 14.9 billion breaks down as follows: plastics CZK 2.16 billion, synthetic rubbers CZK 1.51 billion, and refinery products CZK 9.36 billion (of which petrol accounts for CZK 3.23 billion). Economic results for 1994 after tax came to CZK 706.9 million, and CZK 870 million were put into investment activities.

The management of Kaucuk in 1994 was successful not only in terms of prosperity but also in terms of increased competitiveness in the sale of rubbers and plastics. The privatization process had a significant influence on the development of the company, though questions at the government level concerning the privatization of the Czech refinery and petrochemical industries did not allow privatization to be completed. ■

Kaucuk's Market Indicators

	Czech Crowns
Share price on Feb. 6, 1996	1215.0
Minimum price	1050.0
Maximum price	1315.0
Market capitalization	6 030 765 000
Free float	5 979 367 350
Average price during the period	1223.8
Average trading turnover	567 514
Total trading turnover	40 861 000
Price fluctuation	265.0
PX-50 fluctuation	56.5

Source: Aspekt Kilcullen

Kaucuk's Stock Shares

Share type	Nominal Value	Number of shares
Bearer	1000 Czech Crowns	4 921 290
Issued shares traded on the stock exchange		4 921 290
First wave shares		0
Second wave shares		1 317 315

Source: Aspekt Kilcullen

Kaucuk's Balance Sheet

	Dec. 31, 1993 (CZK000´s)	June 30, 1994 (CZK000´s)	Dec. 31, 1994 (CZK000´s)
Total assets	9 062 699	8 870 630	10 750 823
Unpaid equity subscriptions	0	0	0
Fixed assets	3 891 571	4 237 530	4 729 115
Current assets	5 166 653	4 630 144	5 973 555
Stocks	1 467 137	1 291 387	1 424 720
Receivables	3 125 017	3 191 711	3 652 264
Long-term receivables	0	0	52 359
Short-term receivables	3 125 017	3 191 711	3 599 905
Financial assets	574 499	147 046	896 571
Other	4 475	2 956	48 153
Total liabilities	9 062 699	8 870 630	10 750 823
Owners´ equity	5 565 917	6 510 569	6 256 526
Base capital	4 971 000	4 971 000	4 971 000
External resources	3 446 028	2 319 132	4 456 598
Long-term payables	3 643	3 610	3 610
Short-term payables	2 670 551	1 451 436	3 298 242
Long-term bank loans	37 361	276 687	516 012
Short-term bank loans	734 473	537 899	550 087
Other	50 754	40 929	37 699

Source: Aspekt Kilcullen

Kaucuk's Income Statement Data

	Dec. 31, 1993 (CZK000´s)	June 30, 1994 (CZK000´s)	Dec. 31, 1994 (CZK000´s)
Sales	331 979	467 131	1 404 880
Cost of goods sold	315 453	464 346	1 378 750
Sales margin	16 526	2 785	26 130
Production	0	6 762 942	13 649 873
Sales of own goods and services	12 551 858	6 497 148	13 493 876
Change in stocks	120 020	41 848	- 142 585
Total Assets	42 598	224 748	298 582
Material costs	10 837 133	5 464 364	11 288 311
Added value	1 899 875	1 301 363	2 387 692
Personnel costs	321 736	171 217	375 820
Taxes and charges	7 918	5 553	8 129
Other operating income	119 801	9 401	15 446
Other operating costs	136 908	27 522	72 385
Depreciation	222 677	123 611	261 525
Operating profit	1 330 436	938 185	1 334 873
Profit from financial operations	157 911	8 333	-17 510
Profit from ordinary activities	847 982	946 519	703 921
Extraordinary profit	-26 002	6 842	3 003
Net profit	821 979	953 361	706 924

Source: Aspekt Kilcullen

Warsaw Conference

AUTO INDUSTRY CONVENES IN WARSAW

2ND ANNUAL CONFERENCE FOR THE CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY

Automotive industry leaders convened in Warsaw on March 18 & 19 for the 2nd Annual Conference for the Central European Automotive Industry. The two days of speeches by executives from companies such as Fiat, Skoda, G.M., Daewoo, VW, Delphi, GMAC and GE Capital revealed ambitious plans for the Central European auto industry.

The conference, organized by the London-based **EuroForum,** was attended by over 180 industry players. According to conference organizer Stephen Butler, "We wanted this to be a conference that would look forward." Butler said he hopes to get more local suppliers involved in the conference next year. EuroForum also plans to hold an automotive conference in Moscow in November 1997.

On this and the following two pages are quotes and excerpts from speeches given at the Warsaw conference.

Quoted in Warsaw

"We expect new regulations to be put in force early in the second half of this year that will ensure that car assembly [in Poland] will involve new capital and significant commercial activity."

Janusz Kaczerba, Deputy Minister, Polish Ministry of Economy

*

"It is estimated that one job at an OEM creates 5-7 jobs in the supplier, distribution network, and product support sectors."

Henryk Kaminski, Director of Polish Industrial Policy Department

*

"Last year we produced over 300,000 vehicles and expect this number to grow this year. In several weeks we'll launch production of the Sienna, which is designed for sales in Poland and for export."

Enrico Pavoni, Chief Representative, Fiat S.A.

*

"I'm convinced that this spontaneous growth in lending for financing car sales has been a more significant factor behind the growth in sales in Poland than general economic growth."

Enrico Pavoni, Chief Representative, Fiat S.A.

*

"Won't development of these companies in Special Economic Zones [in Poland] be at the expense of companies at the doorstep of these zones [who don't get incentives or tax breaks]? I hope not, but I'm not sure. I think it will be necessary to think about a sector industrial policy covering not just actual producers of cars and trucks, but the whole network of suppliers."

Enrico Pavoni, Chief Representative, Fiat S.A.

*

"Local engineering is the key to success."

Tamas Borai, General Manager, MMG Automatika Ltd. (Budapest)

*

"The extent of the potential market for passenger cars [in Slovakia] is shown by a relatively low degree of motorization, with a ratio of five inhabitants to one passenger car, and 42% of the vehicle park being older than 15 years. The market for passenger cars is estimated at 75-80,000 new vehicles per year."

Jozef Uhrik, General Director, Volkswagen Bratislava

*

"The forecast for 1997 is optimistic and shows an almost 20% increase in [cars sold in Poland]. If the number is correct, we should finish 1997 with almost 450,000 units sold. Capacity of our market is estimated at 500,000 to 550,000 units sold annually which we should achieve by the year 2000.

Wojciech Drzewiecki, Managing Director, SAMAR s.c. ■

CzechInvest Speaks on Automotive Sector in Czech Republic

The following is an excerpt from the speech given by Jan Havelka, CEO of CzechInvest, at the Warsaw conference.

"Focusing on the automotive sector, Volkswagen's acquisition of Skoda Automobilova, the only major Czech manufacturer of passenger cars, has been a spectacular success. Not only is Skoda Auto the leading Czech exporter-it now reaches over sixty foreign markets-but it is creating a series of assembly plants in other emerging markets, for example in Russia and China, that will eventually make the Skoda marque a global brand.

Furthermore, the new factory in Mlada Boleslav is one of the most efficient auto production facilities in the world. This is being achieved through the assembly of six component modules in cells run by the component suppliers that are adjacent to the main assembly line. This is certainly a tribute to the flexible, consensus-minded, highly educated Czech workforce.

VW's impact on the Czech supply chain has been immense. It has been a strong catalyst to attract foreign companies which have introduced modern production and management techniques. The results of this process are now clear. From our research we know that eight of the top fifty exporting companies are vehicle or component firms. Most significantly, seven of these are under foreign management control.

What is especially important is that VW insists on its suppliers meeting ISO 9000 standards. As some Czech firms are now working towards "six sigma" quality standards-that is fewer than 3.4 defects per million-it is clear that the highest quality control standards can be achieved in the Czech Republic.

A deeper analysis shows that over one-third of the 100 leading automotive component manufacturers in Europe already have assembly or manufacturing operations in the Czech Republic. Over one third, in just five years. Household names such as Ford, Siemens, Bosch, Johnson Controls, TRW, Magna, ITT, and others. Several of these firms now have multiple plants.

These represent just the tip of the iceberg. In total around 40 joint ventures have been made and more than 25 greenfield plants set up to date in the components sector alone.

More importantly for us, we know there are other projects in the pipeline, including companies in the process of significantly expanding their Czech operations.

According to our research these Czech-based suppliers are exporting either directly to, or to suppliers of, Ford, VW, Audi, Mercedes, BMW, Opel, Volvo, Seat, Mitsubishi, Toyota, Jaguar, and Chrysler.

I think all of you are aware of the ambitious plans of the Korean conglomerate Daewoo to build up a global vehicle manufacturing capability, primarily through investment in central and eastern Europe.

Daewoo's USD 350 million acquisition of the Czech truck-maker Avia is an inexpensive way for this incoming investor to tap into long-established Czech engineering skills, resources that it is now using to develop both a new engine and a new truck model. We understand that Daewoo intends to use Avia as a key supplier in its global sourcing network.

I should also mention at this point that the Tatra and Liaz truck firms are being restructured under the leadership of Skoda a.s., which is a completely different firm from Skoda Automobilova, and one of the leading Czech engineering firms in its own right. The Japanese firm Hyundai is closely involved in plans to develop new production in this group." ■

Facing Up to the Challenges of a Greater Europe

Strategies for Succeeding in the Central European Auto Industry

What follows are excerpts from a presentation given at the Warsaw conference by Steve Young, Vice President of A.T. Kearney's European Automotive Practice.

Developments in Central Europe must be seen in a broader European context as a result of competitive pressures in Western Europe and the convergence/integration of major Central European states with the EU.

Key economic indicators show that the countries of Central Europe are attractive places to do business. The trends are positive and growth in wage levels is being managed to a level which will not compromise relative competitiveness in the near future.

High Growth in Car Sales Within this favorable climate car sales will grow 60% and commercial vehicles 37% by 2000. The high growth rates do not compensate for the fact that they are coming from a low base. As a result, greater volume opportunities exist even in Western Europe, and the combination of high growth and larger population in Asia makes it the more attractive market.

The drivers of the growth in Central European car sales are rising wages, increased credit availability, and the need the replace aging car parks. Park data is notoriously unreliable in Central Europe, as in other emerging markets, but the key message is that wages are growing and cars are high priority purchases for consumers.

Car density in Central Europe has some way to go before reaching Western European levels. Cars per thousand population in Poland, for example, is almost 200, compared with over 450 in Germany. The leading Central European states are approaching the less developed EU countries, such as Greece and Portugal, in terms of car density-a further sign of convergence and opportunity.

Two Strategic Options As a result of the combination of local and broader European considerations, Central Europe has two strategic options in addition to supporting local markets. In the short term (up to 5 years), to act as a low cost source for Western Europe of finished vehicles and components, fully integrated into an overall European strategy and organization.

In the longer term, dependent on the pace of economic development and stabilization, to act as a bridge to the former Soviet Union, capitalizing on historic trading links, low costs relative to Western Europe, and improving quality standards.

Overcapacity Looms Despite projected sales increases, existing and announced Central European production capacity will significantly exceed the projected demand for both cars and commercial vehicles in the year 2000. Projected capacity by 2000 is 1.4 million cars, compared with a projected demand for only 900,000 vehicles. This capacity investment has been based on assumptions of significant export potential, primarily to Western Europe.

However, there is already excess capacity in Western Europe (as well as in the Americas and Asia) and few signs that this problem will be addressed by manufacturers. The projected demand in Central Europe could theoretically be easily satisfied from the current excess in existing facilities in Western Europe.

The opportunity to address the excess capacity with incremental sales is not straightforward either. In real terms, car prices in Europe and North America have increased significantly in recent years. This has been mitigated in part by hidden discounts and subsidies, but these are now proving too costly to continue too indefinitely.

Difficult Choices for Manufacturers The manufacturers' "me too" investment strategy is exacerbating overcapacity problems in Central Europe. The way in which many manufacturers have rushed into Central Europe in parallel has left them with two options: Do they wait for one of their competitors with less nerve or financial resources to close capacity, or do they take a proactive approach and start to balance overall European capacity, probably by closing plants in western Europe?

Manufacturers, however, have made only limited attempts to close plants in Western Europe, and they are aided by national governments to continue operations in plants which are considered for closure. Recent examples include Renault at Vilvoorde, Belgium, and Ford at Halewood, UK.

The Strategy Central European tactics must be led by a "Greater European" strategy. "Greater Europe" is a single market, with some Central European plants exporting 80-90% of production to Western Europe. This has implications for strategy. The cost and revenue side objectives can only be satisfied by an increased level of harmonization and integration in terms of product, capacity, competitiveness, and organization.

Improvements in productivity and quality will be accelerated through limiting product variety. For example, GM at Eisennach produces a limited range of the Astra, leaving high spec variants to other GM plants, and as a result has the highest productivity of any assembly plant in Europe according to EIU statistics.

Production capacity could be added incrementally to avoid costly quantum leaps which reduced flexibility. And local market growth could be accelerated through improved distribution and financing, and a recognition of customer needs.

There are also probably untapped opportunities to share large fixed capital investments and thereby reduce break-even volumes. Examples could include outsourcing of stampings and some fabrication and paint operations to a third party who supplies a number of customer plants.

Continued on page 17

Poland

WARSAW AUTO CONFERENCE

SAMAR REVIEWS POLISH AUTO MARKET

The following is an edited version of material prepared by SAMAR s.c. and presented by SAMAR's Managing Director Wojciech Drzewiecki at the Warsaw conference.

History of Polish Market With a population of almost 40 million, Poland is one of the biggest potential car markets in Central Europe. The modern history of the Polish car industry began in 1951 when production of the Warsawa passenger car started at the FSO factory in Warsaw. In 1965, FSO started production of the 125 Fiat model under a license from Fiat. In 1978 a new model-the Polonez-was introduced, and a modernized version of the Polonez is still produced in Poland. In 1973, Fiat strengthened its position in Poland with the introduction of a new segment A model-the "126"-which is still produced in Bielsko Biala.

Car ownership in Poland started to grow at the end of the 1980's when Poland saw a significant influx of used cars over its borders. Access to new imported cars from the East and West was very limited at that time. The purchase of new imported models was possible only through "POLMOT" (the Automotive Foreign Trade Office) or "PEWEX" which sold cars for foreign currency. At that time, the car density in Poland was as low as 112 cars per thousand population. The transformation of the Polish economy that started in 1989 completely changed this situation. In 1991, car density grew to almost 160 cars per thousand population.

Current Auto Market According to the Polish Main Statistical Office, there were over 7.5 million passenger cars registered in Poland in 1995, which is an increase of over 5% compared to 1994. Car density at the end of 1995 was almost 185 cars per thousand population. The Polish government forecasts that this number will grow to 10 million in the year 2000 and to almost 15 million by 2010. Polish statistics also show registration of 1.3 million trucks and 85,000 buses.

In December 1991 Poland signed an agreement with the European Union for the import of passenger cars and commercial vehicles within a duty free quota. The quota will exist until the year 2002 when import duties will equal zero.

New Car Sales New car sales in Poland grew to 373,542 units in 1996, representing an increase of 40.94 % and putting Poland in first place compared to sales in Western European countries. From 1992 to 1996 sales of new passenger cars in Poland almost doubled.

Total imports in 1996 were 108,137 cars, compared with 58,754 imports in 1995. Sales of cars from local production has also increased from 206,284 units in 1995 to 265,405 units in 1996.

Dynamic Growth Segments The most dynamic segment in 1996 was the C/D which includes such models as Daewoo Espero, Opel Vectra, and Renault Laguna. This segment saw more than a 130 % increase in sales between 1995 and 1996, and amounts to 6.65 % of the total car market.

The biggest market segment in 1996 was segment A with 124,213 units sold and a 33.25% share of the market. Despite an increasing number of units sold in this segment, its share of the market is decreasing. In 1993, the A segment accounted for 45% of the total market. The trend is sales moving from segment A to segments B and C.

From 1993 to 1996, the B segment's market share almost doubled. With sales of 31,589 units in 1993 and a 13.07% share of the market, this segment now accounts for 22.22% of the total passenger car market.

The most stable segment of the market is segment C. From 1993 to 1996 its share of the market remained almost unchanged at about 37%. Despite this unchanged market share, the number of C segment cars sold increased from 89,563 units in 1993 to 138,378 units in 1996.

Market Forecasts The forecast for car sales in Poland in 1997 is optimistic and shows an almost 20 % increase. If this figure is correct, some 450,000 units will be sold in 1997. Capacity of the Polish market is estimated to be 500,000 to 550,000 units sold annually, which should be reached by the year 2000. When the current car density of less than 200 cars per thousand population is compared with Western European figures, this estimation for the year 2000 does not seem exaggerated.

Because of the increase in the number of models produced and assembled locally, especially those in the B and C segments which are treated in Poland as family cars, those two segments will be potential candidates for future development.

Price Still Important Price remains one of the most important factors for new car purchasers in Poland. This is confirmed by the increased sales of locally produced cars which are not subject to import duties and the big interest in duty free quota units. After the introduction of the duty free quota, customers were reluctant to purchase cars produced outside the European Union. To maintain sales above the quota, most importers try to keep prices unchanged by covering import duties from their own pockets.

The availability of competitive credits from banks had a big impact on sales in 1996. Although the proportion of cars purchased on credit increased in 1996, the level is still low. In 1993, it is estimated that only 6% of car sales were financed by credits. Today, some 30% to 40% of car are sold under a credit facility. The estimate for 1997 is that this figure will increase to 50% to 60% of total sales. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

Profile *Continued From Page 1*

CEAR: What is Skoda's biggest marketing challenge?

Wittig: I think the biggest challenge for Skoda is to now finally do away with the bad reputation from the past and to go forward and become a true European car manufacturer, with all the benefits of a European car manufacturer, [including] modern technology and the highest quality standards.

CEAR: What are some of the specific strategies Skoda uses to improve its technology and quality standards?

Wittig: Well, certainly everything in the car industry is based on product so we have concentrated for the past few years on product improvement and new products. That was first shown with the Felicia range as the successor to the previous Favorit range. [This involved] improving product quality to the highest level possible compared to all manufacturers, be they from Western Europe or Asia.

That was, I think, a very decisive step that we took with the Felicia range and it has boosted motivation internally in the company and the image of Skoda has improved, especially in the area of quality.

Now we [have] the Octavia. This is truly a modern technology product with the highest quality levels and excellent customer value. So, I think we are on the right track. Transforming the company and pulling it into a new future.

CEAR: What put Skoda onto this new path?

Wittig: Certainly it was a vision of the company, a vision of the group. A vision as to what should be the role of Skoda in the future as a European competitor in the world market. And also the role Skoda has to play as a brand within the Volkswagen group. That is not only a vision of a single person. It is a team vision. A group vision.

We wished to offer a modern product with the highest level of Western European technology, at cost structures that are no longer known to Western European manufacturers. All at world standards of product quality, something that is an attribute of all products that come from the Volkswagen group.

CEAR: What unique marketing campaigns will Skoda use to promote the new Octavia?

Wittig: Well, when it comes to how to approach the market, we are still a comparatively small manufacturer, [producing] 300,000 cars a year. That simply means that we cannot afford huge budgets for massive advertising campaigns. In order to arrive at a 1%-3% market share in the European market requires enormous amounts of money. Again, we cannot afford [this] for the time being because we have to put all our money, all investment, into the product and into the organization.

"So our approach to the market is to go to the press media. With the introduction of the Octavia we have used the instrument of press media rather than traditional advertising channels. The press was quite favorable and the coverage that we got through press media was excellent."

So our approach to the market is to go to the press media. With the introduction of the Octavia we have used the instrument of press media rather than traditional advertising channels. The press was quite favorable and the coverage that we got through press media was excellent.

And in addition to that I think our participation in the European Car-of-the-Year proved to be very valuable. Although we did not end up as the winner, I think after so many years of absence in the world market it was a very successful comeback.

Also, when it comes to advertising we show the car in full. The frontal view of the Octavia and the side view. We don't show a small car. We don't show pieces of the car. We show the full car in order to overcome this problem of being visually unknown in Western European countries. That is different from Central and Eastern Europe.

CEAR: Any other unique marketing strategies?

Wittig: In general, we are supporting the awareness level of Skoda and its image through sponsorship. We are heavily sponsoring ice hockey and that is a natural combination for Skoda because there is the tradition of the Czech Republic in ice hockey and a perception of ice hockey as a very robust sport. I think one of the values of our product is its robustness.

CEAR: Why has Skoda been so successful in improving the quality of its vehicles?

Wittig: The key was to convince everyone, and that includes employees and management, that quality is the key to success. Skoda had a special situation. We had in the past a bad reputation as far as quality is concerned so we had to approach our objective with overkill. We had to convince ourselves that this is a must. That was the first step. And then comes the implementation. Clearly we benefited from the know-how of the Volkswagen group.

[A part of our] quality improvement plan is checking the quality of our cars on a daily basis. At board meetings quality is issue number one. We have weekly quality reports and we can compare our quality performance every day with all the other brands and product ranges in the Volkswagen group. So this fosters a sporting, competitive spirit. We are not going for quantity. We are not just producing cars to increase volume if the quality levels are not satisfactory.

CEAR: Has Skoda used any special programs to get employees motivated and focused on quality?

Wittig: We have an annual bonus, paid out every six months, for our employees that is based on two targets: volume and quality. Equal shares of volume and quality targets. These quality targets are defined with audit marks and are agreed upon with our workers council and with our workers. They are published regularly every week and every month for our employees so they know where they stand. We have had situations where the agreed upon quality levels were not reached so we did not pay out the bonus.

CEAR: Any other employee incentives?

Wittig: No, that's the only one because we want to focus especially on quality and don't want to distract [our employees] from [the pursuit of] quality.

CEAR: Skoda has brought the percentage of its "A" class suppliers up from 1% in 1993 to 66% in 1997? What's been the key to raising this percentage?

Wittig: Well, I think it was the determination of our management from the very beginning to build up the supplier base. Traditionally, there was a supplier base in the

Continued on page 14

Profile *Continued From Page 13*
Czech Republic because the car industry there is 100 years old. So there's a solid supplier base. The task was not to develop a supply industry but to improve quality and to take it to a level found in Western Europe.

We had a specific department within our purchasing department that took care of supplier development, [such as] supplier qualifications, checking their production systems, and checking their quality level. And I think the result shows that they achieved their objectives because two-thirds of our suppliers have arrived at the "A" level. This also qualifies them to supply other Western European car companies [and] to have the chance to become the supplier for other brands of the Volkswagen group. A lot of our traditional suppliers followed us and have developed joint ventures with existing Czech companies.

> "For the Felicia, 70%-80% of all our material purchases are made in the Czech Republic, and another 10%-15% comes from the Slovak Republic. So we have a very high degree of local sourcing."

CEAR: What is Skoda doing to increase the percentage of locally produced supplies it purchases?

Wittig: For the Felicia, 70%-80% of all our material purchases are made in the Czech Republic, and another 10%-15% comes from the Slovak Republic.

So we have a very high degree of local sourcing. And still in there we have to develop one-third of our suppliers to this excellent "A" rating for quality. However, with the new product generation level coming up and this division of labor for the design and development of our products, we will certainly also source components from outside the Czech Republic.

CEAR: What are two of the most important parts of the Skoda production system?

Wittig: One basic principle is the modular sequence for final assembly of the car. Part of that involves the integration of Skoda suppliers into our plant, right at the assembly line giving us a just in time sequence of installation. And there's a final quality check on the line. This is a major step forward.

And then there's the concept of teamwork. Teamwork is known to everyone in the industry but we [emphasize] self responsibility on the team. Workers have the power to stop the assembly line whenever something goes wrong or whenever someone feels that quality isn't right. So it's a self inspecting situation. But we don't want them to stop the assembly line immediately, so they signal to the next team that there is a problem and they can adjust everything without stopping the whole line. It's a very open concept. It gives power to the team.

CEAR: Any other important parts of the production process?

Wittig: We also take into consideration the industrial skills of our workers at Mlada Boleslav so that they feel that they are not just a small part of the system but that they can [thrive] in the system. This honors their skills and motivation.

CEAR: Do you have plans to modify your distribution network?

Wittig: When it come to marketing per se, we have also decided to change our distribution strategy. And here again, we have two worlds when it comes to marketing: the Central and Eastern European world where we have high awareness, high market share, and comparatively high sales volume where we can support a dealer organization with high volumes per dealership.

That is a different world from Western Europe where we are confronted with lower perception, low awareness rates, low sales volume, and low market shares. There is not enough food for the dealers in order for them to survive and reinvest into their business. So that requires a different distribution approach. What we need there are large areas of market responsibility that generate a large amount of volume per dealership so that dealers can make a profit and reinvest.

The consequence of this is that you cannot cover the total geographical area and all the little corners of the market. You have to accept that you are not present everywhere. But in order to be close to the customer when it come to service, you must implement satellite service outlets. So we adopted a satellite concept that requires a couple of service outlets per regional dealer. And that regional dealer covers a larger area than is normally the case.

CEAR: What else is unique about your dealership network?

Wittig: We started with this strategy a year ago and we are in the midst of transforming the structure of the dealer organization. We're taking a look at profitability of the Skoda dealers in Europe. The Skoda dealerships in Europe, I think, have better than average returns on sales, especially in those countries where we had difficulties [in the past]. Dealer profitability has improved tremendously. That, in turn, gives us more focus towards the brand and that results in higher sales volume. So we have increased our sales volume last year and we will again increase our sales volume this year by 30%-40% in Western Europe.

> "Now we are in the midst of restructuring our spare parts supply. Things that are expected by Western European customers, such as 24-hour parts delivery, that is something we are approaching. We have set the targets. We have to work on achieving those targets."

CEAR: Are there any particular steps you are taking to improve the supply of parts to your dealer network?

Wittig: Certainly. Skoda comes from the system where the responsibility for the sale of new cars and the sale and supply of spare parts was separated. These were state-owned distribution channels. Now we are in the midst of restructuring our spare parts supply. Things that are [expected] by Western European customers, such as availability of parts any time, or at least a delivery period of 24 hours, that is something we are approaching. We have set the objectives. We have set the targets. We have to work on achieving those targets.

This requires modernization of our inventory facility and spare parts depots. We have to centralize our spare parts operations and we have to come up with modern technology systems in order to be able to deliver parts in 24 hours. We have not yet achieved this but we are on the way to doing it.

CEAR: When do you expect to have this capability?

Wittig: We will be able to finalize this in one to one-and-a-half years.

Continued on page 18

ACCOUNTING & FINANCE

CHANGES TO THE CZECH TAX AND CUSTOMS SYSTEM

In December 1996 the parliament of the Czech Republic approved amendments to the Czech Income Tax Act. These amendments contain 66 changes and further clarify existing regulations.

Summary The amendments widened the marginal tax brackets for individuals, but no reduction was made in the top marginal rate. Although code provisions regarding foreign experts were more precisely defined, the 25% expert exemption will no longer be available. The corporate tax rate will remain at 39% for 1997. Other changes include determining the level of interest that must be charged on loans between related parties and cancellation of the tax exempt status of interest income arising from state bonds.

Sale of Securities Prior to the amendments, gains realized on the sale of securities by individuals were not taxable if the period between acquisition and sale exceeded 3 months. The 3-month period has been changed to 6 months, making the Czech legislation more comparable to EU regulations.

Economic Employer As of January 1, 1997, persons having their permanent seat or address on the territory of the Czech Republic will be considered employers of seconded employees, even when the employee remains on the foreign payroll, if the authority to instruct the employee is with the Czech entity. In spite of the employee remaining on the payroll of the foreign employer, the local entity is required to withhold tax as a part of the payroll withholding process.

The code further gives guidance concerning the amount charged from the foreign employer for having provided the employee. In particular, the amount of employment income must be at least 60% of the amount charged by the foreign employer to the Czech entity. These provisions have been added to prevent abuse of international hire-out of labor used by Czech companies.

Foreign Expert Exclusion The existing provision that allowed a 25% deduction from the gross taxable earnings from dependent activity (i.e. employment) of foreign experts is no longer available as of January 1, 1997. However, the foreign expert status is still valid and foreign experts are liable for Czech income tax only from their Czech source income.

Tax Rates The following marginal tax brackets have been changed: the income range for the 20% tax bracket was increased to CZK 168,000 from CZK 144,000; the income range for the 25% bracket was increased to CZK 252,000 from CZK 204,000; and the income range for the 32% bracket was increased to CZK 756,000 from CZK 564,000. Any income over CZK 756,000 is taxed at a rate of 40%. Widening of the marginal tax brackets may contribute to a reduction in tax liability for some individuals.

Non-monetary Income of a Lessor In situations whereby certain expenses are paid by a lessee in relation to the leased property that are in excess of the agreed rent, and given that they were made with the consent of the lessor and further that the lessee is not compensated by the lessor, the amendment has extended the list of expenses which are treated as non-monetary income of the lessor. The amendment provides guidance as to the evaluation of such income and to which taxable period it should be attributed and included in the lessor’s tax base.

Loans Between Economically or Personally Related Persons The amendment stipulates that arm’s length interest from loans under the Czech Civil Code applicable between related persons in the course of normal business relations shall be equal to 140% of the discount rate of the Czech National Bank. This rate is currently at 10.5%. The Act does not contain any specific conditions for loans and credits in foreign currencies. Should the agreed interest rate be different, the tax authority is entitled to adjust the taxpayer’s income tax base by the difference.

Additional Income Tax Return The amendment has removed the time limit for submission of an additional income tax return for lower tax liability or higher tax loss. The taxpayer is no longer limited by an expressly stated time limit as under previous legislation. This means that taxpayers can file new tax returns for the tax years 1993 and after and claim back overpayment.

Interest Earnings from State Treasury Bonds Exemption from income tax withholding of interest from state treasury bonds has been removed, and they will be now subjected to income tax withheld at source according to Section 36 of the Czech Income Taxes Act. The transitory provisions, however, contain a provision whereby taxation of such bonds issued prior to December 31, 1996 is governed by the Income Taxes Act under the 1996 wording. This new regulation is expected to increase investment in state treasury bonds by foreign investors who enjoy more favourable tax rates under the concluded double tax treaties than the usual 25%.

Customs Union with Slovak Republic In the business relations with the Slovak Republic the customs free trade remains. The Slovak Republic, however, proposed at the end of 1996 to introduce new quotas and quantity restrictions for agricultural and diary products originated in the Czech Republic. As both countries’ current account situation is expected to worsen, new proposals for reduction of the free trade can be expected from the Slovak Republic.

Cancellation of EUR.2 Forms The EUR.2 forms used in some free trade agreements have been cancelled and are no longer used. The exporter can himself confirm the origin of the goods for goods not exceeding a customs value of ECU 6,000 or CZK 210,000, which can be stated on the issued invoice.

Changes in the Customs Treatment of Goods Originated in the EU Based on the European Agreement with the Czech Republic, the goods listed in the enclosure B enjoy full custom-free status when imported into the Czech Republic. The Czech Republic still enjoys certain protections for goods on list C. Automobiles are imported from the EU at a customs rate of 7.6%. Producers outside the EU (including Japan) are subject to a customs rate of 19%.

Bohumil Kos is a manager in the Tax Department at Deloitte & Touche’s office in Prague and a member of the International Fiscal Association. Marek Moudrý, a tax consultant in the same office, also contributed to this article. ■

***Warsaw Conference** Continued From Page 11*

Central European plants must avoid the mistakes made by the Spanish industry who did not ensure that productivity and quality rose faster than wage inflation. As a result, they lost much of their original total cost advantage.

There are untapped opportunities to perform more than manufacturing in Central Europe. Many of the countries have strong engineering traditions and capabilities which could be realized in product development and in specific tasks such as prototype manufacture and tool manufacture. These would allow economies to be made in product development investment which typically represents around 6% of total costs.

People issues are one of the greatest barriers to effective globalization and must be addressed though proactive policies. Top management is crucial to success, middle management is likely to be the greatest barrier, but shop floor operators are likely to respond well to training and development opportunities.

Implications for Suppliers Central European suppliers, like their colleagues in Western Europe, Asia, and the Americas, need to develop their strategies in the context of globalization, trends to systems and module suppliers, and radical supplier rationalization programs by their customers.

An independent future for a national supplier is not a realistic option unless the supplier accepts relegation to being a supplier of components on a "lowest cost" basis to larger systems and module suppliers.

Suppliers need to identify the partners, almost certainly in Western Europe or the Americas, who have the scale and financial muscle to emerge as global players. The smaller suppliers need to decide who they want to form joint ventures with or be acquired by before the best potential partners are spoken for. ■

Daewoo Avia's Business Plan for 1997 compared to 1996:

		1997	*1996*	*index 97/96*
AVIA truck sales	(units)	6,000	4,448	134.9%
Lublin truck sales in CR	(units)	1,000	—	—
DAEWOO car/commercial vehicle sales	(units)	6,500	4,509	144.2%
Total sales revenues	(CZK mil.)	6,150	4,079	150.8%

Source: Daewoo Avia

INVESTMENT OPPORTUNITIES

To submit opportunities for publication write to Trade Leads, CEAR at:
4800 Baseline Road, Suite E104-340
Boulder, Colorado 80303 USA
or **E-Mail** to cetmllc@ibm.net

Opportunity	Investment Sought	Contact	Phone/Fax
U.S. partner sought for Czech producer of crankshafts (various sizes up to 2500 mm lengths) for purpose of contract manufacturing. Company is supplier to producers of engines for trucks, tractors, ships, & stationary aggregates. 1996 turnover expected to be USD 20 million.	————	Jan Vesely IESC Czech Republic	tel: (420 2) 2499-3170 fax: (420 2) 2499-3176
Partner sought for producer of diesel injection equipment for development, production, & sale of single and multi-cylinder in-line injection pumps for all types of diesel engines, as well as for injection systems, testing, measuring, & adjustment equipment. 1995 turnover was USD 40 million.	————	Jan Vesely IESC Czech Republic	tel: (420 2) 2499-3170 fax: (420 2) 2499-3176
Producer of shock absorbers under Showa license seeks foreign partner to co-finance expansion program involving increase of annual capacity from 180,000 units to 400,000 units by 1999.	USD .5 million	Csaba Kilian (re: Berva) Hungary	tel: (36 1) 118-0051 fax: (36 1) 118-3732
Manufacturer of plastic parts for Opel, Mercedes, VW, & Suzuki seeks equity partner who is engaged in plastic processing business	USD 5 million	Csaba Kilian (re: Pemu) Hungary	tel: (36 1) 118-0051 fax: (36 1) 118-3732
Supplier of seats for Suzuki cars & spare parts for Ikarus seeks joint venture partner, technology transfer, joint manufacturing	USD 1.5 million	Csaba Kilian (re: 02/Aut/96) Hungary	tel: (36 1) 118-0051 fax: (36 1) 118-3732
Battery manufacturer seeks joint venture partner for processing used vehicle starter batteries	USD 2.1 million	Csaba Kilian (re: Perion) Hungary	tel: (36 1) 118-0051 fax: (36 1) 118-3732

***Legal Advisor** Continued From Page 4*

business activities if all applicable legal requirements have been fulfilled by the businessman or proxy.

Other business activities, i.e. the manufacture of machinery and instruments, electrical machinery and instruments, hazardous chemicals, etc., are regulated business activities requiring *stricter* professional credentials from the proxy than is the case for non-regulated business activities. The trade licensing office may only grant a trade license for such activities if the relevant state administrative agency has reviewed and approved the application to practice such activities. The administrative agency reviewing the application can decide to disagree with the granting of the license, thus preventing the company from securing such trade license.

Consequently, a company practicing simple or complex manufacturing activities needs to devote special care to finding a person that is qualified to oversee such business activities. Furthermore, if the company intends to have more than one manufacturing location, a qualified person must oversee the business activities taking place at each particular location.

This article was prepared by Todd Coop, a legal assistant in the Prague office of the law firm Baker & McKenzie. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

❑ **REFERRAL**
❑ **COMMENTS**
❑ **ADDRESS CHANGE**
❑ **SEND A FREE COPY TO**

FAX THIS PAGE TO:
[1] (510) 927-2630

Referral Name or **New Address** ______________________________

Company ______________________________

Address ______________________________

City ________________ State ________________

Zip/Post Code ________________ Country ________________

Referred by or **Old Address** ______________________________

Company ______________________________

Address ______________________________

City ________________ State ________________

Zip/Post Code ________________ Country ________________

Comments & Suggestions: ______________________________

____

____

***Profile** Continued From Page 14*

CEAR: What is one key trend in your industry that affects how you structure your sales and marketing strategy?

Wittig: When it comes to sales and marketing, one trend in the industry is [the use of different] sales methods, such as the laissez-faire way, or [use of] strict rules and methods for the sales organization to closely follow, or the personal, human touch selling, or [using] future medias like the internet or points of information installed in your dealerships or in supermarkets, for example. So, every company has to select their own way of selling cars and approaching customers. The brand profile also [determines] the approach you pick.

The customers Skoda is approaching are families and, because of the price advantage we have, younger people. We have to stick to a personal selling approach. We need the personal contact. We cannot go too much into automatic type of selling. Although, yes, we do this to a certain extent. Skoda is on the internet. Because we have the younger target group, we have to address ourselves to that group.

We have in operation also the so-called points of information where we have information on our product range and product specifications. We use touch screens where people can select the specifications of their cars, including different colors. That's there. That's one part. On the other hand, I think our dealer organization has to go with a very human approach. That's what we are trying to do.

What we want to get through the organization is this customer orientation. The personal orientation, The personal touch. All the market research says that this factor is one of the advantages of the Skoda organization. So that's what we have to look for in the future. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

"The best information available on the automotive sector in Central Europe"
Is Now On The World Wide Web

CENTRAL
EUROPE
AUTOMOTIVE
REPORT

WWW.CEAR.COM

INTERNET WEB SITES & ADVERTISEMENTS FOR AUTO MANUFACTURERS & SUPPLIERS

Use the CEAR Web Site to Sell Your Products Around the World

http://WWW.CEAR.COM, the Web Site of the **CENTRAL EUROPE AUTOMOTIVE REPORT**, is designed as a 24 Hour Per Day, Non-Stop, World-Wide sales tool for the Auto Industry. Manufacturers, Suppliers, Distributors, Consultants, and Service Providers to the Auto Industry can sell their products and services over the Internet to Central Europe, and the the entire World Market. Reach more prospects than you ever thought possible by using the Internet at an affordable price. We use designers, servers, and phone lines in the USA, so you get professional quality and high speed connections that you can depend on, at prices you can afford. **WWW.CEAR.COM offers you 3 options:**

Option #1 WWW.CEAR.COM Directory Link

Your company and products or services are listed in our WWW.CEAR.COM directory, and a **Directory Link** is created so that internet users who want information about you can click on your directory entry and be immediately linked to your company's own web site or email address.

PRICE: USD$300 for One Full Year

Option #2 WWW.CEAR.COM Advertisement

Your ad is placed on the WWW.CEAR.COM web site, and your company and products or services are listed in our search directories. Your advertisement also includes a link to your web site or email address. **PRICE: USD$400 for 3 Months**

Option #3 WWW.CEAR.COM Web Site

WWW.CEAR.COM will design and host a web site for your company. Be a sub-website of the WWW.CEAR.COM, or for an additional USD$250 we will register your web site under your exclusive domain name (i.e. www.your company name. com). Either way, you get your own web site at a fantastic price. This service includes a **Directory Link** from the WWW.CEAR.COM web site, basic web site design, search engine listings, monthly web site updates, and **one full year of hosting**. **PRICE: USD$3,200 for One Full Year**

In the USA Contact:
Ronald F. Suponcic, Jr.
Email: CETMLLC@IBM.NET
Tel. Toll Free in USA: (888)206-3548
Tel. From Outside USA: [1](303)784-5653
Fax: [1](510)927-2630
CEAR
4800 Baseline Rd., Suite E104-340
Boulder, CO 80303 USA

In Europe Contact:
Jeffrey A. Jones
Email: CETMLLC@IBM.NET
Tel. : [421](7)374-431
Fax: [421](7)361-085
CEAR
ul. L. Derera 2, I./48
830 00 Bratislava, Slovak Republic

FUTURE ISSUES

Interview with EuroStar/Chrysler

Slovakia Sales & Production Stats

More From the Warsaw Conference

Poland Sales and Production Stats

Raw Material Suppliers in Central Europe

Analysis of Slovak Steelmaker VSZ

Investing in the Slovak Component Industry

Polish Tax & Customs Update

Legal Guide to Safe Slovak Investments

Postmaster: Send address change to
CETM, 4800 Baseline Rd., Suite E104-340
Boulder, CO 80303 USA

ADDRESS CORRECTION REQUESTED

CENTRAL EUROPE AUTOMOTIVE REPORT™