CENTRAL EUROPE AUTOMOTIVE REPORT™

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The Source For Automotive Information On Central Europe™

January 1998

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Regional Market Highlights

Summary

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- *Ford Hungaria Setting Up Local Purchasing Unit*
- *Skoda Production & Sales Up*
- *Czech Republic Wants GM*
- *Goodyear and Sava Joint Ventures Finalized*

Poland

Delphi Signs Contract With MERA Blonie

In November, **Delphi Automotive Systems** in Poland signed a contract with **MERA Blonie** for the assembly of carbon canisters. Operating out of its own facility, MERA will use Delphi equipment for the assembly operation and Delphi will handle all logistics. The assembly operation, which is expected to start in mid-1998, will supply both domestic and export customers.

Poland's Assembly Rules Changed Again

In November, the Polish government amended an ordinance which affects SKD assembly. The issue of assembly permits is limited to those entities already assembling cars on an industrial scale in Poland, and those companies are restricted from starting the assembly of new models. The ordinance is temporary, effective until December 31, 1997.

The Polish government's vehicle assembly policy is under fire from local manufacturers such as **Daewoo**, local unions, and the **EU**.

Sales Of New Cars Up Over 26% In Poland

New car sales in Poland were up 26.91% during the first 10 months of 1997, according to figures released by **SAMAR**. Sales rose to 407,061 units from 320,766 units sold during the same period in 1996. Sales of locally produced cars totaled 214,766 units, up 30.62% compared to the same period last year.

Sales of commercial vehicles in Poland during the first ten months were up 13.97% to 44,923 units. Locally produced vehicles accounted for 78% of this amount. Sales in the medium commercial vehicle segment were up 38.30%, while sales in the light commercial segment were down 3.86%.

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Inside

Feature Country: Poland

Profile

Poland

Delphi Conquers Poland: Four Factories Running, Two More On The Way

In the words of Delphi Poland's Country Director Leszek Waliszewski, the year 1997 was an "explosion." The company purchased a majority interest in Polish strut and shock maker F. A. Krosno, started a greenfield steering component and driveline half shaft plant in Tychy, added a second shift at its Warsaw seat assembly plant, and is preparing to start up a seat assembly plant in Gliwice. Add to all of this management of expansion programs at Delphi's wiring harness plant in Jelesnia and at its heat exchanger plant in Ostrow, and, indeed, you've got an explosion of activity.

Leszek Z. Waliszewski

Delphi currently has 4,000 workers in its Polish operations — three years ago they had zero. The company has also built up its headquarters in Warsaw which now employs a staff of 25.

Leszek Waliszewski has been Country Director for Delphi Automotive Systems in Poland since 1994. His responsibilities were recently expanded to include coordination of Delphi growth in Eastern Europe.

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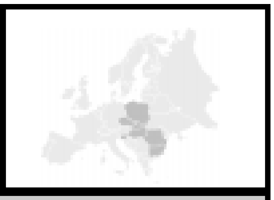

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Highlights *Continued from Page 1*

Poland Receives World Bank Loan For Road Repairs

Poland will receive a $300 million loan from the **World Bank** for road improvements. The loan will have a 15-year repayment term and a 5-year grace period.

Hungary

Clarion Investing in Greenfield Factory in Hungary

Clarion Co., Ltd. will invest over $19 million into a new Hungarian factory to manufacture car audio equipment and electronic parts. Production at the new company, **Clarion Hungary Electronics Kft**, is scheduled to begin in January 1999.

Capitalized with JPY 1.5 billion ($12.5 million), the new company will be located some 60 kilometers east of Budapest. Starting with 350 employees in 1999, Clarion expects this figure to grow to 700 by the year 2000.

Initially, electronic parts will be supplied from the Hungarian factory to European car manufacturers, as well as to Clarion's sales and production bases in Europe, including **Clarion France** and **Clarion UK**.

Clarion expects to supply original equipment electronic parts equivalent to 1 million units annually from the Hungarian factory, and in the future plans to sell its Hungarian built car audio equipment on the European after-market.

Audi Hungary Producing V8 Engines

Audi Hungaria Motor Kft. has started assembly of 4.2 and 3.7 liter V8 engines at its plant in Gyor. Planned capacity for 1997 and 1998 is 100 units a day. Four cylinder and V6 engines are already produced at the factory.

In the second quarter of 1998, assembly of the TT Coupe is scheduled to begin at the plant, with assembly of the TT Roadster to begin approximately six months later. Audi is investing about DEM 70 million into the new car assembly operations, including infrastructure investments.

Ford Alba Plant Brings Purchasing Organization to Hungary

To improve its parts localization program, **Ford Hungaria** is setting up a parts purchasing unit that will operate out of its Alba Plant. Ford currently buys about 20% of their production supplies from local companies, for a volume of about $10 million.

Opel Hungary Receives National Quality Award

The Opel plant in Szentgotthard, Hungary has won the Hungarian National Quality Award. Prime minister Gyula Horn presented the award to **Opel Hungary** Managing Director Albert Lidauer at a ceremony in November.

The criteria for the National Quality Award contest are the same as those for the European Union Quality Award set by the **European Foundation for Quality Management**. Issues considered during the evaluation process are leadership, people management, policy and strategy, resources, processes, employee satisfaction, customer satisfaction, impact on society, and business results.

Opel Hungary builds 1.4 liter and 1.6 liter 16-valve Ecotec engines for export, and Opel Astra cars, mainly for the local market.

Czech Republic

Skoda Sales and Production Up

Skoda, automobilova a.s. produced 293,564 automobiles in the first 10 months of this year, up 33% compared to the same period last year. This figure includes 153,552 Felicias, 64,908 Felicia Combis, 29,851 Pickup utility vehicles, and 45,253 units of the new Octavia.

More ***Market Highlights*** *on Page 4*

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1998 EDITORIAL CALENDAR

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Issue	Feature	Automotive Reviews	Special Reports	Ad Close Date
Jan 98	Poland	Body/Chassis	1997 Year in Review/ 1998 Forecast	Dec 10, 1997
Feb 98	Hungary	Central Europe's Executive of the Year	na	Jan 10, 1998
Mar 98	Czech Republic	Components & Systems	Auto Aftermarket	Feb 10, 1998
Apr 98	Slovak Republic	Marketing & Advertising	na	Mar 10, 1998
May 98	Romania/Bulgaria	Electronics	Auto Consultants	Apr 10, 1998
Jun 98	Poland/Slovenia	OEM Special: Who Supplies Who	na	May 10, 1998
Jul 98	Hungary	Powertrain	Exporting to Central Europe	Jun 10, 1998
Aug 98	Not Published			
Sep 98	Czech Republic	Plastics	Auto Engineering	Aug 10, 1998
Oct 98	Slovak Republic	Logistics	Human Resources	Sep 10, 1998
Nov 98	Romania/Bulgaria	Interiors	Real Estate	Oct 10, 1998
Dec 98	Poland/Slovenia	Financing	na	Nov 10, 1998

Regular Monthly Columns

Feature Country - featured country market overview and news, plus updates from around the region
Profile Interview - interviews with regional automotive executives
Opportunity Spotlight - regional companies offering investment, joint venture, or partnership opportunities
Legal Advisor - updates on legislation and legal matters pertaining to the automotive industry
Focus On Investment - investment analysis of regional automotive related companies
Accounting & Finance - updates on accounting, tax, and customs changes pertaining to the automotive industry

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Highlights *Continued from Page 2*

Skoda's sales increased 28% to 274,369 cars in January through October. Sales on the domestic market totaled 83,040 cars (up 16.3 % compared to the same period in 1996), with sales in Slovakia reaching 23,646 units (up 32.8 %), Germany 23,305 units (up 30.3 %), and Poland 21,217 units (up 70.2 %).

For all of 1997, Skoda is planning to produce and sell 340,000 automobile, a 30% increase compared to 1996. Sales of Octavias will number around 60,000.

Johnson Controls Production Plan

Johnson Controls's subsidiary in the Czech Republic is currently producing 1,700 seat sets a day for the **Skoda** A02 Felicia and Skoda A4 Octavia. The company expects to produce 315,006 sets in fiscal year 1997, and plans to produce 408,052 sets in 1998. Sales in fiscal year 1997 will total CZK 2.37 billion ($72 million), with fiscal year 1998 sales expected to be CZK 3.23 billion ($98 million).

The Czech Republic subsidiary was founded in 1994 and in September 1997 the plant was certified in accordance with VDA 6.1 and QS 9000.

Czech Government Offers Incentives to Automotive Investors

The Czech government has begrudgingly dispensed with its policy of not offering incentives to foreign investors. According to Czech press reports, most recently the government sought to lure General Motors, who is looking for a home for a new engine production plant, with free trade zones, tax breaks, cheap real estate, no-interest loans, and a federal subsidy for infrastructure improvements. At press time, it looks like the Czech Republic is off GM's short list. Germany or Hungary are the likely sites for the plant, which will reportedly produce 460,000 engines a year.

Romania

GM Executive Joins ARO of America

On November 19, 1997, **Worldwide Equipment Corp.** and its wholly owned subsidiary**, ARO of America, Inc.,** builders of the American version of the Romanian ARO 4x4 sports utility vehicle in the US, announced the appointment of Michael J. Martin as vice president of plant operations at the ARO assembly plant in Brunswick, Georgia. Mr. Martin was previously the general director of plant operations at several **General Motors** plants.

The ARO 4x4 has an American-made 3.0 liter V6 engine, drivetrain, components and accessories, and a Romanian-made chassis. The vehicle sells for around $13,000. Expected production at the Georgia plant is to reach 1,000 vehicles per month.

Slovakia

New Car Sales Down In Slovakia Compared To '96

New car sales in the Slovak Republic totaled 49,090 units during the first ten months of 1997, down from 56,170 units sold during the same period in 1996. Skoda was the best selling brand with 22,570 cars sold, up from sales of 16,980 units a year earlier. Skoda's market share in Slovakia is 45.97%.

Daewoo took second place with sales of 5,586 cars, for a market share of 11.37%. Daewoo's market share at this time last year was 17.72%. Volkswagen captured the third position, selling 3,940 cars for a market share of 8.02%.

Slovenia

Goodyear/Sava J-V Finalized

On December 10, 1997, **Goodyear** and the **Sava Group** finalized their tire and engineered products joint venture. Goodyear has a 60% stake in the tire joint venture and a 75% interest in the engineered products joint venture. The combined investments total $120 million.

The joint ventures will produce passenger and light truck tires and engineered rubber products such as air springs, power transmission products, and automobile hose. According to Janez Bahoric, president of the Sava board, within the next 10 years the Sava joint venture with Goodyear will be producing annually 8 million passenger tires and half a million light truck tires — double its current output.

Sava tire products will continue to be marketed in Slovenia and Western Europe. Engineered products will be sold as the Goodyear brand in the automotive original equipment market. Sales and marketing for the engineered products joint venture will be based at Goodyear's European headquarters for engineered products in Wilrijk, Belgium.

Sava reported total sales of about $245 million in 1996, with $177 million of that amount from car and commercial truck tire sales. The company has about 3,600 employees.

Renault's Sales Dip, Fiat & Skoda Strengthen Positions in Slovenia

New car sales in Slovenia during the first 11 months of 1997 totaled 57,323 units, down slightly from 57,539 units sold during the same period in 1996. **Renault** was the top selling company with 12,293 units sold, down almost 19% compared to the 15,049 units it sold during the first 11 months of 1996.

Volkswagen sold 6,862 cars in Slovenia, up about 2.5% compared to its sales in 1996. **Fiat** saw its sales jump from 3,738 units during the first 11 months of 1996 to 5,108 units during the same period in 1997, an increase of 36%. **Skoda's** sales jumped 20% to 3,764 units.

The top selling models in Slovenia were:

Model	**Units**	**Share**
Renault Clio	5,408	9.43%
Volkswagen Polo	3,589	6.26%
Renault Megane	3,582	6.25%
Skoda Felicia	3,285	5.73%
Fiat Punto	2,407	4.20%
Renault Twingo	2,134	3.72%
Volkswagen Golf	2,000	3.49%

International

GM Forms Global Powertrain Organization

Continued on Page 18

Body & Chassis Review

Poland Attracts Chassis Related Manufacturing

Companies are making Poland their home for manufacturing chassis related components. For example, **GKN Automotive Polska** is building a $32 million facility in Olesnica, Poland. The new manufacturing plant and offices, expected to be finished by mid 1998, will cover approximately 10,000 square meters.

GKN's factory will manufacture driveline and power transmission products, including constant velocity joints and half shafts, for supply to customers within Poland and for export. Initial production is planned at 300,000 vehicle sets, and increasing to 500,000 vehicle sets in the near future.

Delphi Automotive Systems is building a new greenfield factory in Poland, on 15 hectares of land in a Special Economic Zone in Tychy, to produce steering components and driveline half shafts. Delphi also recently purchased a majority interest in Polish strut and shock maker **F. A. Krosno**. *(for more on Delphi's plans in Poland, see Profile Interview beginning on page 1)*

Truck and bus manufacturer **MAN** has also come to Poland for chassis production. In 1996, the company started assembling truck chassis in Poland. MAN considers the chassis market in Poland to be very promising because of the obsolete technology used in locally produced vehicles.

Shares of Axle & Chassis Maker Raba Sold on Domestic Market & To Institutional Investors

In December, about 5% of the Hungarian company **Raba** was sold in a domestic retail offering, following the sale to international and local institutional investors of about 23% of the company. Raba manufactures front and rear axles for trucks, buses, and agriculture and construction equipment. The company also produces diesel engines, bus chassis, and trucks.

In September, almost 50% of the company was sold to a group of five investors: **EBRD, First Hungary Fund, Graboplast, DRB Hicom Group,** and **Raba** management. The investors provided the company with a $25 million capital infusion.

Polish Steelmaker Huta im Tadeusza Sendzimira Targets Flat Steel Market

The salvation of struggling Polish steel company **Huta im Tadeusza Sendzimira (HTS)**, may lie in the flat steel market. The company supplies steel products to Polish companies involved in the vehicle industry such as **Fiat Auto Poland, Daewoo** in Warsaw and Lublin, and truck maker **Jelcz** in Starachowice.

HTS started production of electro-galvanized sheets in 1993 under a license from **Italimpianti**. In May of 1996, the company's new continuous casting line became operational, part of a major new equipment investment program. Significant additional investment into HTS's operations, however, is still needed to allow the company to compete with strong foreign steelmakers. The most likely source of this capital is a foreign investor.

Slovak Steelmaker VSZ's Auto Body Sheet Production Program

The giant steelmaker **VSZ** in Slovakia has also targeted the automotive market for new business. Earlier in 1997, VSZ received $50 million from an international syndicated loan that was targeted for investment into the manufacture of sheets for vehicle bodies and sheet metal packaging.

In 1997, modernization of VSZ's hot-dip galvanizing line was completed, and by 2001, a new hot-dip galvanizing line will be installed. These new lines will enable VSZ to deliver hot-dip galvanized auto body sheet for internal and external auto body parts.

VSZ's current production of auto body sheet is 250,000-300,000 tons a year. The company expects to produce 30,000-50,000 tons of hot-dip galvanized auto body sheet on existing lines in 1998, as well as up to 50,000 tons of electro-galvanized sheet in cooperation with **Huta im Tadeusza Sendzimira**.

When VSZ completes its auto body sheet production program in the year 2002, it expects to have capacity to deliver annually 130,000-180,000 tons of hot-dip galvanized sheet and 150,000-200,000 tons of black auto body sheet.

VSZ currently supplies steel products to **Skoda/VW, VAZ Togliatti, Daewoo,**

Poland's Customs Duties, Tariff Quotas, and Car Assembly Regulations

By Tom Ottenheym and Roman Rosiak, Coopers & Lybrand, Warsaw

Car sales are booming in Poland — statistics show that in 1997, car sales will surpass the 400,000 unit mark. The primary reasons for this high growth are stable prices and an increase in GNP. Specific customs duty provisions, however, also contribute to increasing car sales.

Gradual Reduction of Duties

Every year, the level of customs duties is reduced, in line with Poland's commitments under its agreements with the European Union, EEA countries (Iceland, Liechtenstein, Norway), Switzerland, and CEFTA (Czech Republic, Slovakia, Hungary, Slovenia), and in accordance with Poland's duty concessions in the World Trade Organization.

Tariff Quota

In addition to the above mentioned duty rate reductions, duty free quotas (the tariff quota) apply for a small volume of imported cars. One of the most famous tariff quotas in Poland applies to cars originating from EU countries. These quotas are implemented mainly for passenger cars but there is also a small quota for trucks.

Annually, the quota volume is slightly raised by 1,750 passenger cars and 10 trucks. Therefore, from January 1, 1998 onwards, Poland can import 40,500 new passenger cars and 160 new trucks of EU origin at a 0% customs duty rate.

To use these quotas a license must be obtained from the Ministry of Economy. The quotas are granted on January 1 to applicants who are the exclusive representatives/ distributors of the respective automotive firms. The maximum quota available to the representatives at any time is 400 cars.

The quota system will remain in place until the year 2002, when, according to Poland's Europe Agreement and CEFTA Agreement, the complete abolition of duties on the import of motor industry products into Poland should be completed.

Duty Savings Strategies for Local Manufacturers

Domestic Polish manufacturers cannot benefit from the quota regime. For them the customs duty savings strategy is more complex. Any automotive manufacturer whose sourcing or sales includes cross-border transactions in the Central European region should make a detailed analysis to identify its optimum duty savings strategy.

Key elements to be included in this analysis are tariff quota, preferential customs duties, customs valuation and transfer pricing, inward processing relief, outward processing relief, storage under customs bond, and simplified customs clearance procedures.

> "Manufacturers applying for preferential customs duties in the country of export destination may jeopardize their relief (or refund) for imported components which were placed under the inward processing relief."

Which mix of these duty savings elements actually represent the optimal solution for duty savings depends on numerous factors on the company level, national customs regulations, and international trade agreements. In most cases, the implementation of certain duty savings will also have an effect on the implementation of other strategies.

For instance, manufacturers applying for preferential customs duties in the country of export destination may jeopardize their relief (or refund) for imported components which were placed under the inward processing relief. The company management must conduct a complete review of the company's supply chain of goods, prices, and ultimate destinations of the products in order to establish the best suited customs planning strategy.

New Car Assembly Rules

The Polish government recently established some new rules for companies involved in the industrial assembly of cars. The new rules are the result of negotiations between the EU and Poland regarding **Daewoo's** assembly activities in Poland.

The EU complained that Daewoo's assembly operations were not in accordance with the Association Agreement between Poland and the EU. Daewoo was exporting cars from Korea to Slovenia, where the cars were disassembled into eight parts and components (car kits), and then shipping them to Poland.

For all of these parts and components, a preferential duty rate was successfully applied for and granted on entry into Poland. After customs clearance, the kits were reassembled into complete cars. This practice was accepted by the Polish authorities, who, we assume, were encouraged by Daewoo's intentions to invest about $ 1.7 billion in Poland.

New rules that went into effect September 1, 1997 reduce the opportunities for abuse of preferential duty schemes. From that date, companies importing parts and components for industrial assembly in Poland have to present the various parts for customs clearance on different days (i.e. wheels one day, bodies/chassis another day).

If all parts of the car are declared at the same time, then the products qualify as an unassembled car bearing the essential character of the final product. This means that complete car kits can no longer be imported in the same shipment.

These changes will not terminate Daewoo's car assembly operations in Poland, but should silence the EU negotiators' criticism of the Polish system.

Mr. Ottenheym is a manager and Mr. Rosiak a customs consultant at Coopers & Lybrand's Warsaw office.

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JAN98

Best Selling Cars and Commerical Vehicles (YTD October '97)

Passenger cars			Light Commercials			Medium Commercials		
Make	**Units**	**% Change '97 v '96**	**Make**	**Units**	**% Change '97 v '96**	**Make**	**Units**	**% Change '97 v '96**
Fiat Cinquecento	47,077	5.64	FSO Polonez Truck	9,661	-20.18	FSC - Lublin	8,909	60.18
FSO - Polonez	43,173	-13.89	Citroen C15	3,408	45.64	Ford Transit	2,467	86.19
PF 126	41,690	-20.18	Skoda Pick up	1,876	574.82	FSC - Zuk	2,218	-44.09
Daewoo Tico	34,254	284.44	Fiat Cinquecento Van	1,533	-66.93	Mercedes Vito	2,136	1235.00
Fiat Uno	20,206	12.06	GM - Opel Combo	1,013	29.04	Fiat Ducato	1,134	77.46
Skoda Felicia	19,983	64.02	Peugeot Partner	918	100.00	VW Transporter	1,072	16.52
Opel Astra	18,850	56.12	Citroen Berlingo	857	100.00	Iveco Daily	710	-40.64
Daewoo Nexia	15,995	2.43	Fiat Uno Van	585	-28.57	Mercedes Sprinter 3	695	52.08
Fiat Punto	15,532	-0.19	Ford Courier Van	400	173.97	Kia Ceres	669	2.61
Opel Corsa	13,386	88.11	Renault Express	349	72.77	Peugeot Boxer	621	366.92

Source: SAMAR

Tips For Success In Central Europe

Motivating & Encouraging Excellence

Jeff Jones

Motivating employees to work at peak performance is no easy job. In Central Europe, the task is further complicated by habits and attitudes left over from years of Communism and centralized planning. From my discussions with managers about this issue, I've identified a few common strategies for motivating employees in Central Europe.

Money, like in the rest of the world, is a prime motivator in the Central European auto sector. The promise of a bigger paycheck at the end of the month gets results. In Romania, **Daewoo** uses a performance-based compensation plan tied to quality and productivity targets. If the workers achieve the targets set each month, they receive a 5% pay increase. According to Chairman Dong-Kyu Park, the program is working exceptionally well — despite the setting of demanding targets, the workers are regularly achieving them and collecting bonuses.

Another effective strategy is to create a work environment that is conducive to learning. "The most important thing is to make the company a learning organization," said Polish tiremaker **TC Debica's** President Zdzislaw Chabowski. Central European workers have a reputation for being highly skilled and well educated. Companies must challenge these workers and offer them additional opportunities to learn and improve their skills. At **Ford Hungaria's** manufacturing plant in Szekesfehervar, language, training, and continuing education programs are available to all employees.

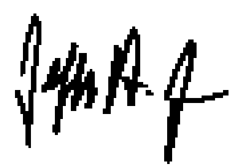
Open communication is also an effective motivational tool. At Ford Hungaria, monthly meetings for all employees and smaller team meetings encourage two-way communication, an open door policy is in effect, a plant newspaper is published, and an in-plant email system is available to everyone. According to Ford Hungaria Managing Director John Pearn, the work environment and organizational structure they've created in Hungary is behind the plant's low turnover rate.

Getting input from workers is an important part of the communication process. Since such input was not sought under Communism, workers have to be encouraged to speak up about problems or suggestions.

When **VDO Instruments** in the Czech Republic started to implement a new quality system, it sought employee input on targets. According to VDO Director Thomas Schlick, the workers were disappointed when asked for their input — they wanted to be told what to do.

By getting workers involved in the creation of such systems and communicating with them, they will understand the system better and be more likely to excel within it.

Money, education, and communication. All are essential when trying to motivate employees and encourage excellence■



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Fastest Climbers (YTD October '97)

Passenger cars

Make	Units	Change '97 v '96
Daewoo Tico	34,254	25,344
Skoda Felicia	19,983	7,800
Opel Astra	18,850	6,776
Opel Corsa	13,386	6,270
Fiat Siena	4,225	4,225
Seat Cordoba	6,775	3,728
Citroen Saxo	3,474	3,474
Fiat Brava	6,651	3,462
Honda Civic	6,787	3,295
Fiat Marea	3,284	3,284

Light Commercials

Make	Units	Change '97 v '96
Skoda Pick up	1,876	1,598
Citroen C15	3,408	1,068
Peugeot Partner	918	918
Citroen Berlingo	857	857
Ford Courier Van	400	254
GM - Opel Combo	1,013	228
Renault Express	349	147
VW Caddy	340	83
Seat Inca	151	75
Toyota Hilux	122	56

Medium Commercials

Make	Units	Change '97 v '96
FSC - Lublin	8,909	3,347
Mercedes Vito	2,136	1,976
Ford Transit	2,467	1,142
Fiat Ducato	1,134	495
Peugeot Boxer	621	488
Mercedes Sprinter 3	695	238
Citroen Jumper	527	215
Hyundai H100 P/V	323	210
Toyota Dyna	181	181
VW Transporter	1,072	152

Source: SAMAR

GM Poland Managing Director's Advice to Suppliers:

Opportunities Abound in Central Europe, Greatest Risk is Not Joining the Party

The following is an excerpt from a speech given by Scott R. Mackie, Managing Director of General Motors Poland and Opel Polska, at the IBC UK Conferences-organized supplier conference held in Warsaw last October.

In his speech, Mr. Mackie reviews GM's globalization strategy, the company's component localization plans, the new GM plant under construction in Poland, and GM's expansion into Eastern Europe.

When discussing the potential for development in the Central European auto industry, the number of cars or trucks built and sold seems to attract the lion's share of the attention of the media, the analysts, and the public. However, there exists a huge industry of components manufacturing without which these successful vehicle sales would not be possible. It is hard to imagine, but every working day 270 million components are built into GM vehicles produced in more than 50 assembly operations worldwide.

Far too often, however, the opportunities existing in the components industry are overlooked both by investors and by the politicians and decision-makers responsible for attracting investments. May I quote here one of the favorite anecdotes of David Herman, the Chairman and Managing Director of **Adam Opel**, who in the early 1980's was involved in the development of our Zaragoza project in Spain. Mr. Herman recalls that the then Spanish Minister for Industry was quite interested in the production and employment figures for the Zaragoza plant itself — which is today **GM Europe's** largest assembly plant with annual capacity of close to half a million units.

However, the Minster at the time seemed much more concerned about the technological development, investment, and employment which would be created by the components industry which would follow Opel into the region to supply the plant.

It is a well-proven strategy within GM and Opel to produce cars in the markets where we sell them — and to buy components where we produce cars. This policy is good both for the investors and the regional economy. We have discovered in numerous cases that our highest market shares occur where we are present with production facilities.

In Spain our share has climbed from near zero to about 13% since we constructed the Zaragoza plant in 1982. In Germany, the Corsa became the best selling car in the state of Thuringia, where our Eisenach plant is located. And in Poland, our sales have almost doubled year by year since we opened the Zeran plant in 1994.

> **"In the area of components, Opel has already signed contracts worth DM 400 million annually in Poland and DM 550 million in the Czech Republic, Slovakia, and Hungary, for both our operations in Poland as well as for operations abroad. Our internal goal is to source DM 1.5 billion annually in Central Europe by the year 2000."**

In the area of components, Opel has already signed contracts worth DM 400 million annually in Poland and DM 550 million in the Czech Republic, Slovakia, and Hungary, for both our operations in Poland as well as for operations abroad. Our internal goal is to source DM 1.5 billion annually in Central Europe by the year 2000. Among our suppliers are such companies as **Polmo Praszka, FA Krosno, Valeo, TC Debica, Pilkington Sandoglass, Polmo Szczecin, Szot International, Teksid,** and last but not least**,** GM's own **Delphi** operations.

Most of our component purchases are being administered by our **Central European Purchasing Office (CEP),** which is based here in Warsaw. Its role is to identify potential suppliers in the region and to work to establish their place in our worldwide purchasing network. Our regional purchasing staff assists these businesses in meeting our standard for quality, technology, and reliability.

CEP concentrates on two tasks: bringing in the existing Central European and international suppliers who may have already established a base in the region, and encouraging new companies to invest in the region with a view to supplying the Gliwice and other GM plants across Europe, and possibly worldwide.

This can be done either by investing in greenfield sites or by creating joint ventures and effecting technology transfers, capital injections, and workforce training. CEP also aims at improving product quality and reducing costs by using such established methods as product cost analysis and tools provided through the ISO and QS 9000 standards.

In our search for new suppliers, we look for durable and long-term partnerships. Cooperation with our suppliers throughout the product lifecycle is our objective, as is the sharing and coordination of our strategic business plans. As part of our globalization policy, we also look for our suppliers to follow us as we expand into new markets — not just serve us from a remote facility.

In return, we hope to offer the supplier unprecedented access to global growth potential and high unit volume, as well as new technology and innovation developed by GM and its affiliates. By using our research and development facilities we are able to support local manufacturing and to meet our global needs — a product developed once which can be produced on a global scale.

GM's procurement system is truly worldwide. As a result, large volumes of business await any local supplier that qualifies as our partner. A Polish, Czech, or Russian supplier of GM and Opel can become a global supplier.

Continued on Page 16

1997 - The Year in Review

Auto Sector Investment Still Brisk; New Car Sales Growth Softens

The rapid pace of development in the Central European auto industry continued unabated in 1997. Foreign investment poured into the region, funding new component factories and expansions at existing facilities. Even Japanese companies entered the fray and announced factories in Hungary and the Czech Republic.

New car sales softened compared to the record year of 1996, but some countries are still posting respectable growth rates, notably Poland.

Below is a review of some of 1997's investment, sales, and legislative highlights. Predictions for 1998 follow.

New Factory/Expansion Announcements. The year 1997 saw more joint ventures and greenfield investments spring up throughout Central Europe. With most of the major auto companies already established in the region or building new factories, international supply companies continued their rush into the region to provide OEMs with locally produced parts and components. Manufacturers already present in the region also contributed to the new investment activity by expanding their existing facilities.

Poland Auto Investment Highlights:

- **Hyundai Motor Corporation** formed a joint venture with Polish car maker **Sobieslaw Zasada Centrum** which will enable Hyundai to assemble cars in Poland without payment of the 35% import tax.
- By the end of 1997, **Daewoo** will have pumped $660 million of its planned $1.5 billion investment into its Zeran factory in Warsaw. About $550 million of that amount is earmarked for production of the Lanos and assembly of the Nubira and Leganza models. Daewoo also inaugurated its **Daewoo Automotive Components Group** in Poland, and started preparations for opening an R&D center in Warsaw.
- **Isuzu Motors Ltd.** is building a DEM 300 million diesel engine factory near Tychy in southern Poland, with planned capacity of 330,000 units a year.
- **Delphi** purchased **F.A. Krosno**, a Polish manufacturer of struts and shocks, and plans to invest $90 million into the company. Delphi also announced plans to build a $30 million steering systems and axle plant in Tychy.
- **Dana's Wix Filtration Products** formed a joint venture with the Polish filter maker **Filtron**.
- **A/S Roulands Fabriker** purchased a controlling interest in Polish brake lining and clutch producer **Fomar S.A.**
- **MAN** laid the foundation stone for a new bus factory in Poland and started construction of a new headquarters in Warsaw.
- **UT Automotive** started construction of its wiring systems plant in Mielec.
- **Eaton Corp.** announced its plan to build a $5 million engine valve factory in Bielsko Biala.
- **GKN** started constructing a new $32 million factory to manufacture driveline and power transmission products. Initial planned production is 300,000 vehicle sets.
- **Ford Bank Polska** was awarded a banking license and operational approval by the **National Bank of Poland**.
- **Pilkington** announced plans to invest $33 million into an auto glass plant in Poland. The plant, expected to be operational in 1998, will produce some 400,000 window sets annually.

Czech Republic Auto Investment Highlights:

- **Ford** pumped another $50 million into its **Autopal** plant to produce Escort class vehicle lighting systems for export.
- **Showa Aluminum Corp.** announced plans to invest $22 million into an auto air conditioner condenser factory.
- **Daewoo Avia** and **Daewoo Motor Poland** agreed that 1,000 Avia trucks would be assembled in Lublin, Poland and 1,300 Lublin trucks would be assembled at Avia's Czech Republic plant.

Hungary Auto Investment Highlights:

- **Denso Corporation** announced plans to pour $100 million into a new diesel injection pump factory in Szekesfehervar.
- Production started at **Thomas & Betts's** new electronic and automotive components factory outside of Budapest.
- **Ford Hungaria** expanded the manufacturing program at its Alba plant in Szekesfehervar, adding air-fuel charging assemblies to its production mix of ignition coils, fuel pumps, and starters.
- **Alcoa's** $40 million truck wheel plant in Szekesfehervar became fully operational.
- **Ford Bank Hungaria**, a subsidiary of Ford Credit Europe, was established in Budapest.

Romania Auto Investment Highlights:

- **Nomura International** purchased a 49% stake in tire manufacturing and distributing company owner **Tofan Group** for $60 million and agreed to arrange debt facilities worth another $40 million.
- **Daewoo Automobile Romania** invested $450 million for in-house production of engines and transaxles, and started production of the new Nubira model, successor to the Espero.
- Ailing **Dacia** continued its search for a foreign investor, and is rumored to be in discussions with **Hyundai**, **Renault**, and possibly **Citroen**. The company introduced two new models in 1997: one a redesigned Nova model, equipped with a Bosch injection system, and a diesel car.

Slovak Republic Auto Investment Highlights:

- **Volkswagen Bratislava** announced plans to invest DEM 124 million to expand its production facilities and workforce for production of the new Golf. Production of the new Golf started in September and approximately 60,000 units are budgeted for 1998. The company also added two new gearbox assembly lines and a third line for Passat gearboxes will be added.
- **Yazaki Debnar Slovakia** completed construction of its new 13,000 sq.

meter wiring harness factory. By 1999, the company expects yearly production to hit 133,333 units.

- Tiremaker **Matador Puchov** entered into negotiations with **Bridgestone** regarding creation of a joint venture.

Slovenia Auto Investment Highlights:

- In February, German components manufacturer **Hella KG Hueck & Co.** purchased a 50.5% stake in headlight maker **Saturnus AO d.d.**
- **Goodyear Tire & Rubber Company** agreed with the **Sava Group** to purchase over 60% of Sava's tire business and 75% of its engineered products business.
- Slovenian filter-maker **Donit Filter** was purchased by the French company **Filtrauto;** Filtrauto plans to invest $11 million into Donit over the next three years.

New Car Sales Growth More Tempered. The year 1997 saw new car sales in Central Europe soften a bit compared to the record setting sales in 1996, but some countries still showed robust sales activity.

New Car Sales Growth Rates:

Country	1997 Sales (I-X)*	1996 Sales (I-X)*	% Change
Poland	407,081	320,766	26.91
Czech Republic (I-IX)	127,995	112,177	14.10
Hungary	62,603	53,869	16.21
Slovak Republic	49,090	56,130	(12.54)
Romania (I-IX)	66,358	65,298	1.62
Slovenia	53,893	54,115	(0.4)

*Unless otherwise indicated

Legislative Highlights:

- Effective January 1, 1997, the **Hungarian** National Assembly comprehensively amended tax and accounting laws that impact **leasing transactions**. An amendment to the value added tax act requires financing companies to pay the entire amount of the 25% VAT when possession of a vehicle is transferred to the customer. *(see CEAR April 1997, November 1997)*

- Effective January 1, 1997, several major changes were made to **Hungary's corporate tax law**, including the change to an 18% tax on profits and 20% or 27% tax on dividends. *(see CEAR May 1997)*

- **Hungary** enacted a new **Commercial Advertising Activities Act**, effective September 1, 1997. *(CEAR November 1997)*

- After January 1, 1997, the **customs duty exemption** available for cars under 1500cc imported into **Slovakia** was eliminated. This exemption was partly responsible for the high new car sales growth in 1996. *(see CEAR June 1997)*

- **Slovakia's import surcharge** was eliminated from January 1, 1997, and replaced with a 20% import deposit. From July 21, 1997, however, the import surcharge was reinstated at a rate of 7% and the import deposit was canceled. Companies that import goods which are used in the production of exported goods may receive an exemption from the surcharge.

- In Poland, from July 1, 1997, an amended Protocol 4 of the European Agreement came into effect which changed the **originating status of certain goods**, thereby bringing **Poland** in line with other countries concerning multilateral cumulation and pan-European cumulation.

- Also from July 1, a full refund of customs duty collected on goods exported within free zones is possible for raw materials and semi-products regarded as originating from these zones. When goods come from third countries, refund of customs duty is restricted to 5% to 10%. *(see CEAR July 1997)*

- New **car assembly regulations** went into effect in **Poland** on September 1, 1997, a result of negotiations with the EU after the EU complained that Daewoo's assembly operations in Poland were not in accordance with the Association Agreement between Poland and the EU. The new regulations require that when a car is brought into the country in pieces, the main body of the car must be cleared on a different day than other parts.

- From July 1, 1997, **Romania** became a member of **CEFTA**.

- Effective June 16, 1997, **Romania's** Emergency Ordinance regarding **Foreign Investment** was released, which included incentives intended to entice foreign investment into Romania. *(see CEAR September 1997)*

- **Romania** instituted a **5% tax** on new cars to be used for road improvements.

- Effective January 1, 1997, the **Czech Republic's** customs law underwent certain changes that impact Czech imports and exports and foreign direct investment. An amendment was made to Protocol No. 4 of the Association Agreement between the EU and the Czech Republic which changes rules of origin. *(CEAR December 1997)*

New Car Sales Forecasts

Poland

"As far as 1998 is concerned, I think that [sales] will be flat. I don't think we will face a big increase or decrease. Of course, the situation can change if our National Bank increases interest rates, which is expected. It all depends on how big an increase we will face." *Wojciech Drzewiecki, head of SAMAR s.c., an automotive consultancy in Poland.*

Issues to Watch: *Interest rate increases*

Czech Republic

"The situation now in the government and financial markets is not so clear. It's very difficult right now. Being an optimist, I suppose it will be a little better than this year, which will be around 70,000 units. How much? Maximum 5%." *Zdenek Lnenicka, Czech Car Importers Association.*

Issues to Watch*: Governmental situation, Czech crown movement*

Continued on Page 20

Profile *Continued from Page 1*

Mr. Waliszewski started his automotive career at the FSM Tychy Fiat 126 assembly plant in 1977 as an electrical engineer. For 10 years, he worked for GM's Saturn Corporation in the US. He holds a Master of Science degree in electrical engineering from Gdansk University of Technology.

The CEAR spoke with Mr. Waliszewski in November, 1997.

CEAR: It's been a busy year for Delphi in Poland. Could you give us an update on your Polish operations?
Waliszewski: Our heat exchanger plant in Ostrow currently has 900 people and we're modernizing it, installing new equipment and starting up new programs. This plant supplies **Daewoo FSO**, **Daewoo Motor Polska** in Lublin, **Fiat Auto Polska**, **Opel**, and other Delphi facilities in the West.

When we acquired the wiring harness plant in Jelesnia at the end of 1994 it had 250 employees. Today, we have over 1100 people and are supplying **Fiat Auto Poland** and **Ford** in Germany. Our seat assembly plant for **GM's** Opel Astra is also going quite well — we recently added a second shift when GM added its second shift.

The closing for our purchase of 75% of the shock absorber company **F. A. Krosno** took place on September 3rd. This company has over 2,000 people and supplies **Daewoo FSO**, **Daewoo Motor Polska**, **Fiat Auto Polska**, and practically all the big and small manufacturers in Poland. It's going quite well and we're happy with the investment. Of course, it's still too early to see any significant changes, but the integration is happening right now.

In Tychy we purchased 15 hectares of land in the Special Economic Zone there and we're building a plant for steering components and driveline half shafts. Right now, it's under construction, and will be finished in mid 1998.

And then we are preparing to start up a plant for seat assembly in Gliwice. This is our next project. We're now in the process of negotiating for land and buildings. It will be a greenfield in terms of hiring a new workforce and installing new equipment, but we could lease the buildings.

We are also working together with **Daewoo FSO's ZM Elk**, a wiring harness company. They are like an integrated supplier for us, producing wiring harnesses for our customers in Western Europe.

"We don't want to impose a different culture on a successful operation. We're trying to use the best they have and bring to it our best, but without rapid changes and turning everything upside down."

And a couple of weeks ago, we signed a contract with **MERA Blonie** who will work like an integrated supplier to us, assembling carbon canisters. They'll use our equipment but they will have their own facility. We'll manage the logistics. The product will go directly to both domestic customers and export customers. One of these customers is **Rolls Royce**. This operation will start in the middle of next year.

CEAR: When you purchase a local company, what is your strategy for utilizing existing management?
Waliszewski: We don't want to impose a different culture on a successful operation. That has been the case with the Ostrow and Krosno acquisitions: the managing directors are the same and the management boards of those companies were maintained.

"We are looking to locate an engineering center in Poland. We're evaluating potential sites."

We're trying to use the best they have and bring to it our best, but without rapid changes and turning everything upside down. They're very good companies so we didn't have to make radical changes.

We value the workforce and management we have in Poland. Only in greenfield operations have we brought in managers from outside Poland. But this is more on a temporary basis, for start-up. Later, we intend to bring in Polish nationals.

CEAR: What's been the most challenging part of setting up Delphi's extensive manufacturing footprint in Poland?
Waliszewski: Every venture in Poland that we've been involved in has been a challenge. When we acquired the Jelesnia plant, it was challenging to negotiate with the Italian owners and the Polish company. It required a lot of coordination and was our first acquisition in Poland.

Then next was our greenfield operation in Warsaw. It's a small operation but the timing was so aggressive — we had to renovate the building and install all new equipment in 2 1/2 months. We also had to hire and train a new workforce and establish operational procedures, so that was quite an ambitious task.

With the Ostrow operation, we had to negotiate with the government and go through all of the privatization procedures and negotiate a social package for the unions.

Then came the big project in Tychy, completely greenfield, which required hiring all workers and negotiating with the government for tax holidays in the Special Economic Zone. So that was difficult and sometimes frustrating. Then came Krosno, which beat everything. Every project has been a challenge. All are quite complex.

CEAR: Will Delphi's Poland plants be used to supply customers further east, like in Russia?
Waliszewski: As with any project, we'd look at what is the most competitive place to supply from. Of course, we can supply from Poland in all directions, east and west and the domestic Polish market. Our strategy is to supply from the most competitive place.

CEAR: What's the status of your plans to move R&D activity to Poland?
Waliszewski: We are looking to locate an engineering center in Poland. We started contacts with the **Bosmal** technical center about 2 1/2 years ago and we're still in contact with them.

They've done a couple projects for us already. We are looking to use Bosmal on a contract basis for testing or engineering work. This is under evaluation, of course.

We'd like to have our own technical center as soon as possible. We're evaluating potential sites and we're reviewing the business justification for it. If we establish the tech center, it would serve more than just our Polish factories.

CEAR: How's your parts localization program progressing?
Waliszewski: We already have quite significant localization, about 150-200 local suppliers. I'd say about 70% of our content today is [purchased from local suppliers]. Ostrow and Krosno have a large number of local suppliers. I don't think we have to worry about localization for these plants.

For the Gliwice seat assembly plant and the greenfield in Tychy, we are aggressively looking for suppliers in Poland. We're also working on localization for the Jelesnia plant. We have a purchasing organization with supply and development engineers and we've established contact with a large number of potential suppliers. We are evaluating them and working with them.

CEAR: What's your assessment of the supply base in Poland?
Waliszewski: Some are very promising. Some have already worked with Western companies and a lot have ISO 9000 certification and the quality is very acceptable. Quite a few of them are sub-supplying Western suppliers so we're finding a satisfactory supply base. But some, without major changes, they don't have a chance.

CEAR: What is Delphi's strategy for keeping costs down in Poland?
Waliszewski: Right now, Poland is a low cost manufacturing base and we'd like to keep it that way. You have a few major items that contribute to costs: materials, energy, and labor. So with the materials, once we acquire a Polish company or with a greenfield, we get the purchasing organization to look at our purchases and see if we can lower the costs.

We reevaluate all the contracts we have with suppliers to see if we can use our worldwide purchasing organization to [lower costs]. But we sometimes find that our current suppliers are more competitive than the Western suppliers.

"For the Gliwice seat assembly plant and the greenfield in Tychy, we are aggressively looking for suppliers in Poland."

"The unions are very cooperative in terms of increasing competitiveness or productivity. In terms of teamwork, cooperation, worker participation, openness to change, I think they are outstanding."

With energy you can't do very much. But for labor, we expect wages will rise, so our strategy is to work on increasing worker productivity. We have our Delphi manufacturing systems based on the lean production concepts and we are working in each plant to implement those systems. We try to use our best techniques, for example from other plants, and implement them in the Polish plants. So, I think we'll compensate [for rising wages] with increased productivity.

CEAR: Are you finding it difficult to improve worker productivity in Poland?
Waliszewski: No, I would say that it's going quite well. I'm finding Polish employees open to change. I'm not finding resistance. The unions are very cooperative in terms of increasing competitiveness or productivity. It's not an issue. Of course, we have some old equipment that we have to modernize, so everything takes time. In terms of teamwork, cooperation, worker participation, openness to change, I think they are outstanding.

CEAR: How is the rush to be global in the auto industry affecting Delphi's strategy?
Waliszewski: Right now, we are a global organization and this is one of our objectives. All of our customers are global. They don't focus on just one local market. So **GM/Opel** is all over the world, practically. **Fiat** is in many countries. **Daewoo** is another example. So is **Ford**. If you look at every customer, they are all over and they are moving to different countries with the same vehicles.

What the customers require is support from the suppliers when they go to different countries. They expect the same quality, technology, performance, and competitiveness, so that forces us to be global and follow our customers and organize support for them wherever they are.

And this is not just for transportation cost reasons — when our customers move to different countries they negotiate contracts that require local content. They make commitments to the government for a specific percentage of local content. That encourages us to become global and follow our customers. This is our main strategy. We follow our customers.

CEAR: What trends in the Polish or Central European auto industry are impacting the way you do business?
Waliszewski: In Central Europe we see two major activities of the carmakers. These are emerging markets so, of course, carmakers are coming to sell more vehicles. Because of the customs and lower manufacturing costs, it makes sense to establish assembly or production operations. This is one trend.

The second trend is [that companies are] taking advantage of local manufacturing for export. **Fiat** in Poland is already doing that, exporting probably half its production to the West. The others are focusing first on the local markets, but from what I can see they are preparing for exporting, as well. In Poland, we definitely have more capacity now being built than Poland can absorb itself, so it has to be for export.

And the component industry is following the customer with the same strategy to sell locally and export.

CEAR: The year 1997 has been a year of explosive growth for Delphi Poland. What will be the theme in 1998?
Waliszewski: To keep growing and to stabilize our accomplishments■

Review of Major Investors/Potential Investors in Russia & CIS

Company	Location	Investment	Type
General Motors	Tartarstan, Russia	$250 million	Joint venture with Yelabuga Automotive Plant for Chevy Blazer assembly
General Motors	Near Finland border	$20 million	Joint venture with AvtoVAZ, Valmet, & AVVA to produce 30,000-50,000 cars a year. Vehicle not yet announced by GM. Ultimate plan is to establish full scale production of Opel car for Russia built in AvtoVAZ's existing facility in Togliatti.
Ford (Ford Union)	Obchak, Belarus	< $20 million	Small CKD plant joint venture with Lada-OMC to assemble Escorts and Transits. 120 workers.
Ford (no official announcement)	St. Petersburg, Russia	n/a	Company is considering establishing facility in St. Petersburg but apparently encoutering some difficulties with government.
Skoda (under discussion)	Smolensk, Russia	n/a	Long running negotiations to establish vehicle assembly joint venture have apparently run into major problems. Future uncertain.
Skoda (under discussion)	Near Minsk, Belarus	n/a	Negotiating for SKD assembly venture, involving some 5,000 cars a year.
KIA Motors	Kaliningrad, Russia	$1Billion (not all Kia money)	Joint venture with 3 Russian partners to produce cars, minibuses, and jeeps. Project is currently on hold due to Kia's domestic troubles.
Daewoo	Near Rostov, Russia	Under $10 million	Car assembly joint venture with Taganrog Combine Factory
Daewoo	Uzbekistan	$600 million	Joint venture with Uzbekistan government
Daewoo	Zaphorozje, Ukraine	$1 billion	Joint venture with AutoZAZ; negotiating agreement to assemble Vectras for GM (no official announcement from GM)
Fiat	Nizhnji Novgorod, Russia	$850 million	Joint venture with AutoGAZ and EBRD, initially to assemble Siena and Marea sedans and Palio station wagon. Final agreement expected to be signed in February
Renault	Near Moscow	$350 million	Signed letter of intent with City of Moscow to build Meganes at AO Moskvich factory, targeting production of 120,000 cars annually.

Avoid Transfer Pricing Pitfalls

Poland Tax, Customs, and Finance Update

Katarzyna Sawicka-Hughes, Senior Tax Manager, Arthur Andersen, Poland

Costs Must Be Incurred for the Purpose of Earning Revenue

Generally, pursuant to the Polish Corporate Income Tax (CIT) Law costs may be treated as tax deductible if they have been incurred with the purpose of earning revenues. This rule has been addressed in numerous court rulings which emphasize that in order to treat costs as tax deductible they must have or may have an influence on revenue.

These costs should be documented and supported so that there is no doubt that they were incurred with the aim of earning revenues. The results of work performed or goods delivered should support the level of charges. Each cost not related to a company's activities and incurred without the intention of increasing its revenues can be questioned by the tax authorities as non-deductible for tax purposes.

Intercompany Charges Susceptible to Review by Tax Authorities

Intercompany charges between related entities may involve a particular risk of being questioned and revised by the tax authorities. According to the Polish CIT Law, when a Polish taxpayer who is economically associated with another entity (directly or indirectly), or who is managed by the same persons as another entity, arranges the course of his business in such a way that he reports a lower taxable income than might be expected if the said association did not exist, the tax office can question the taxable income reported and estimate the taxable income which it believes could be realized if the association did not exist.

The provision regarding transactions between related parties has been present in Polish CIT Law since the beginning, i.e. February 1992. However, in 1996 instructions to the tax chambers and tax offices regarding the execution of this provision were issued by the Ministry of Finance.

Determining Market Value for Related Party Transactions

Generally, Polish tax law provides for market value to be the price used in transactions between related parties.

> **"Our practice shows that recently, tax authorities have been paying much closer attention to transactions between related entities than they did in the past."**

There are specific methods (based on OECD guidelines) for the determination of this price which can be implemented by the tax authorities during tax audits regarding transactions between related parties. These methods are:

- the comparable uncontrolled price method
- the resale price method; and
- the cost-plus method

In 1997, these methods were introduced directly into the law.

Why Care About Transfer Pricing?

The potential exposure for related companies involved in transactions which are not based on arms-length prices can be briefly described as follows:

- an unjustifiable cost can be disallowed for a buyer (or additional income can be allocated and taxed to the seller); and
- no regulations providing for the corresponding adjustment to be made for the other party to the transaction exist under CIT law.

Proper Documentation of Expenses Essential

Our practice shows that recently tax authorities have been paying much closer attention to transactions between related entities than they did in the past. Therefore, expenses incurred for the benefit of the shareholder or other related party should be properly documented.

If it is hard to determine the amount of costs incurred by a Polish entity in direct relation to its activities (e.g. world-wide cost sharing agreement), a detailed specification of the costs charged to it under any intercompany agreement should be available.

This is necessary to:

- prove the value of the transactions for the Polish entity;
- prove that all the costs are legitimate costs incurred in order to earn income (i.e. are tax deductible);
- prove that the services were actually performed;
- protect against transfer pricing issues between related parties; and
- prove that the charges are not a deemed distribution of profit.

The above requirements are the most important from a CIT perspective and have to be fulfilled in order to avoid the tax office challenging any intercompany charges.

It would be also advantageous if the method of allocation of costs applied to a Polish company was similar to that used for other subsidiaries of the group in other countries (and this fact should be documented).

Certain Transactions Require Regular Reporting to Tax Office

So far, from our experience the lack of an extensive database and computer tools prevented the tax authorities from successfully challenging complex pricing issues at the subsidiary level of big multinational companies. This constraint lead them to introduce the country-wide reporting of transactions with related parties.

An ordinance of the Ministry of Finance states that related entities under the meaning of the CIT law are obliged to submit to the competent tax office information regarding transactions with

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Advice *Continued from Page 9*

More and more suppliers have realized the inevitability of globalization and the extension of our operations to Poland, Thailand, China, and the former Soviet Union. They must grow with us and, wherever economically justified for the long-term, establish their facilities close or next to our plants. I really feel that in following us to Poland and the other markets of Central Europe, suppliers will find many benefits that go beyond the growth in the markets themselves.

They can take advantage of favorable labor costs and a well-educated workforce; hedge their foreign exposures by managing their cost footprint; and in some cases, take advantage of government programs designed to incentivize investment in the region.

However, there are two other significant trends impacting the auto industry today, and these are being realized most effectively in the new plants — including our new facility in Gliwice.

The first is to move to outsource non-core activities — or those operations which experience has taught us our suppliers can likely do better than ourselves. You are probably saying to yourself, "That is nothing new." However, I can assure you that our Gliwice operation will have a level of outsourcing that has never been attempted in an Opel plant before — and not just in the area of services. **PPG**, for example won the contract to handle all of the chemical activities for the entire facility. This trend is being repeated at automaker facilities around the world.

The second trend, which is very much a bi-product of the first, is the move to establish supplier business parks contiguous to the assembly plant. **Ford** has done it in Spain, **Mercedes** with the Swatch plant, and GM is doing the same at the Blue Macaw plant in Brazil.

Once the Gliwice plant becomes operational, we expect that the majority of modules and subassemblies will come from the suppliers based in Poland and Central Europe. We are planning a supplier business park on our site and expect to attract a number of key suppliers. The contiguous location will bring an improvement in response times, reduce logistics costs, and keep quality at its best.

The Opel lean production system to be implemented in Gliwice is based on the concept of replacing vertically integrated manufacturing with a decentralized web of long-term partnerships with key suppliers. Major suppliers will become involved with the product in the development phase by sharing engineering responsibilities for the systems that they will provide. This frees us, the manufacturer, to concentrate on the essential tasks, like the product design, or final assembly, and reduce our operations to core activities associated with vehicle development.

> **"GM's procurement system is truly world-wide. As a result, large volumes of business await any local supplier that qualifies as our partner. A Polish, Czech, or Russian supplier of GM and Opel can become a global supplier."**

In general, GM has three basic criteria that it asks every supplier to excel in: Quality, Service, and Price — and in this order. Quality is the most important criterion, and suppliers are expected to understand that this means more than just the quality of the product itself. It also encompasses the quality of the production process.

Service involves all of the activities which potential suppliers can provide to ensure that the cooperation between our companies is smooth and harmonious. This requires the supplier to have the necessary human resources and technical capabilities, and its managers to fully understand the need to meet goals common with the vehicle manufacturer.

Experience in the automotive field is very important, too, as it takes years to build up the knowledge of the requirements and standards prevalent in the industry. Price serves to complete the picture of a prospective supplier's potential. In today's world, that means a competitive global price — the same price for a component delivered to an assembly plant in Detroit, China, Poland — wherever the plant might be.

The plant we are building in the southern Polish city of Gliwice is based on the lean manufacturing concept we pioneered in Eisenach, Germany, in the early 1990's. You are probably aware that Gliwice is one of four plants that we are building in the highest growth regions of the world — the other three being in Argentina, Thailand, and China.

We have selected Gliwice for a variety of reasons. The local authorities presented

Continued on Page 18

CENTRAL EUROPE AUTOMOTIVE REPORT™

Classifieds & Investment Opportunities

Manufacturer of centrifugal oil separators, heaters, water and oil coolers for cars & trucks, water pumps for vans, trucks, and ships seeks foreign investor.
n/a
Wieslaw Kosieradzki
PIAST tel: 48-22-827-8700
fax: 48-22-826-7341
Poland

Manufacturer of fuel supply systems for car & van engines, compressors for pneumatic braking systems for cars, buses, & farm tractors, compressor units & pneumatic fittings, & spare parts for compressors seeks foreign investor
n/a
Wieslaw Kosieradzki
PIAST tel: 48-22-827-8700
fax: 48-22-826-7341
Poland

Manufacturer of pressed parts for cars, press units, electric carriages, and machine tools seeks commercial or production cooperation
n/a
Jorgen Varkonda
SNAZIR
re: BAZ a.s.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

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 $40 million.
n/a
Jan Vesely, IESC
tel: 420-2-2499-3170
fax: 420-2-2499-3176
Czech Republic

Manufacturer of driving shafts, steering shafts, steering gears, and spare parts seeks foreign investor.
n/a
Wieslaw Kosieradzki
PIAST
tel: 48-22-827-8700
fax: 48-22-826-7341
Poland

Manufacturer of hydraulic cylinders, up to 32 bars pressure, 25-160 piston diameter, up to 4,000 mm length, seeks Slovak Republic commercial cooperation, offers production to order
n/a
Jorgen Varkonda
SNAZIR
re:Rerosa s.r.o.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

Supplier of seats for Suzuki cars & spare parts for Ikarus seeks purchaser. Company undergoing privatization process.
n/a
Csaba Kilian, ITDH
re: 02/Aut/96
tel: 36-1-118-0051
fax: 36-1-118-3732
Hungary

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 $20 million.
n/a
Jan Vesely, IESC
tel: 420-2-2499-3170
fax: 420-2-2499-3176
Czech Republic

Manufacturer of car & truck air and oil filters seeks joint venture partner for production, financial, and distribution cooperation. Monthly air filter capacity for cars of 60,000, and 6,000 for trucks
n/a
Jorgen Varkonda
SNAZIR
re: Sandrik a.s.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

Manufacturer of exhaust flanges, light welded steel constructions, agricultural machines, and hydraulic components under Sauer Co. license seeks joint venture partner.
n/a
Jorgen Varkonda
SNAZIR
re: Topolcianske Strojarne a.s.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

Battery manufacturer seeks joint venture partner for processing used vehicle starter batteries.
$2.1 million
Csaba Kilian, ITDH
re: Perion
tel: 36-1-118-0051
fax: 36-1-118-3732
Hungary

Manufacturer of plastic parts for Opel, Mercedes, VW, & Suzuki seeks equity partner who is engaged in plastic processing business.
$5 million
Csaba Kilian
re: Pemu
ITDH tel: 36-1-118-0051 fax: 36-1-118-3732 Hungary

Advice Continued from Page 16

a credible and well-prepared proposal, and seemed to move mountains to deliver it. Availability of a highly trained workforce, and good domestic and international road, rail, and air links also played their part in attracting our attention.

One of the main reasons, though, was the fact that in addition to all these — and other — advantages, the site is conveniently located in the heart of a large supplier base covering the highly industrialized areas of south-western Poland, northern Bohemia, Moravia, and north-western Hungary. We intend to draw heavily upon this local supplier base. The Special Economic Zone in which the site is located offered interesting conditions for investors, and this was an additional and significant attraction for Opel.

So after this glowing report, you must surely now be convinced that Poland, and Central Europe in general, is truly the land of "milk and honey." Alas, investing in the region is not all easy sailing. As we have discovered, it requires a high level of dedication — and an equally high level of experienced resources — to make your investment in the region a success. Frequent changes of the government in Poland, and the resulting changes to policies and the business environment have made future planning somewhat of an art form.

Telecommunications and transport infrastructure still have significant room for improvement. Although English seems to be the language of the business world these days, you will find that knowledge of English outside of Warsaw is rather limited. In addition, official legal and government documents in English are few and far between; be prepared to hire an army of translators and lawyers.

At the same time, however, customer expectations and sophistication are growing exponentially with regard to quality, service, and competitive prices. Overcoming these challenges is certainly achievable, but it requires that you and your company come in with your eyes — and in some cases, your pocketbooks — wide open.

Apart from Central Europe, GM is also looking more closely at the markets of Southeastern and Eastern Europe. Within our organization we have designated a new DanAdrian unit (Danube/Adriatic) which takes in Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Slovenia, and Yugoslavia. The region still poses some potential threats to investors that are probably higher than elsewhere in Europe, but it also offers considerable long-term potential — not unlike Poland in the early '90's.

Opel has also announced plans earlier this year to increase its presence in the vast Ukrainian and Russian markets. In Russia, where in 1996 we began the production of Chevrolet Blazers, the ultimate objective is to establish full-scale production of an Opel car to be built in the existing AvtoVAZ facility in Togliatti. Opel and AvtoVAZ are to jointly adapt the specifications of a future Opel model to the Russian market.

In addition, Opel is pursuing the plan for potential production of a modern 2.0-liter engine for Russia. The engine could be fitted in the vehicle built in the joint project, but could also be available for use elsewhere.

In the Ukraine, talks are underway with regard to production of an Opel car at the present Tavria facility at AvtoZAZ. Under an agreement separate to that signed recently by Daewoo and the Ukrainian government, 25,000 units of a GM/Opel product would potentially be produced there under a contract-assembly arrangement.

In closing, let me just say that I hope I have provided you with ample evidence and motivation to consider — if you have not done so already — a move to invest in Central Europe. The opportunities are great, and the risks of not being here — are even greater■

***Highlights** Continued from Page 4*

General Motors has formed **GM Powertrain**, an organization responsible for powertrain activities worldwide. The **European Powertrain Engineering Center**, headquartered at **Opel's International Technical Development Center**, progressively will assume worldwide lead development for all small displacement gasoline (up to 2.5 liters) engines, as well as manual transmissions.

The new powertrain organization will be coordinated by Arvin F. Mueller, vice president and group executive, and will be headquartered in Pontiac, Michigan. Eckhard Zickwolf will act as regional powertrain engineering director for Europe.

Executive Changes at Ford Europe

James Donaldson has been named president of **Ford Motor Co.'s** European operations. This position has been vacant for more than three years. Donaldson will report to Ford Automotive President Jacques Nasser.

Henry Wallace, who resigned as president of **Mazda Motor Corp.**, will become chief financial officer and vice

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Tax,Customs Continued from Page 15

related parties:

- on a monthly basis about transactions where receivables or liability resulting from the transactions exceeded 10,000 ECU;
- on an annual basis with preliminary CIT return information about transactions where receivables or liability exceeded 3,000 ECU, provided that the total of payments and liabilities resulting from such transactions carried out with one entity exceeded 100,000 ECU in a given tax year.

This attempt to create a comprehensive database of market prices has imposed an enormous administrative burden on companies. Many companies have adopted a conservative approach and assume a wide interpretation of related parties and therefore report most transactions to their local tax offices. As a result, some offices receive monthly information from each company totaling some 300-1,000 pages. It's not clear whether they will be able to process the information and make wise use of it■

***Year Review** Continued from Page 11*

Hungary

"For 1997, 76,000 to 77,000 new cars, including Suzuki. For 1998, around 90,000 units." *Gabor Gyozo, Hungarian Vehicles Importers Association.*

Romania

"[For 1997], we expect to close the year with a 3-4% increase in sales over the last year [96,754 units]. We expect the market for new cars to grow by 12-15% in 1998." *Marius Carp, The Association of Automotive Manufacturers and Importers (APIA).*

***Issues to watch**: New law taking effect July 1, 1998 which allows vehicles to be registered only if equipped with a catalytic converter, thus limiting the import of old, second hand vehicles. Abolishment of law that permitted tax free imports of vehicles received as donations by charitable foundations will also limit the import of used vehicles. According to the APIA, tens of thousands of used cars were imported each year under this law*■

Russian Passenger Car Production 1994-1997

Manufacturer	1994	1995	1996	1997 (I-VI)
AMO ZIL	7	1	1	2
AO GAZ	118,159	118,673	124,284	59,805
AOKamAZ	6,118	8,638	5,935	8,908
AO AvtoVAZ	528,845	607,091	680,670	351,824
Serpukhov Plant	2,031	1,934	3,671	3,805
AZPK, Moscow	67,868	40,600	2,929	4,156
AO AvtoUAZ	53,178	44,880	33,701	23,859
AO Krasny Aksai		321	4,062	3,264
Izhmash	21,718	12,778	9,149	3,483
Total	**797,924**	**834,916**	**864,402**	**459,106**

Source: Government statistics

Exhibitions, Conferences, and Shows in 1998

1998

Jan. 10-19	**Detroit, MI** North American Int'l Auto Show
Jan. 15-21	**Delhi, India** Auto Expo '98
Jan. 16-24	**Brussels, Belgium** Int'l Commercial Vehicles Show
Feb. 23-26	**Detroit, MI** SAE Int'l Congress & Exposition
Feb. 24-26	**Warsaw, Poland** EuroForum Central & Eastern Europe Auto Conference
Mar. 5-15	**Geneva, Switzerland** International Motor Show
Mar. 27-April 5	**Belgrade Auto Show** (unconfirmed)
April 11-19	**New York, NY** Int'l Auto Show
April 15-19	**Tallinn, Estonia** Tallinn Auto Show
April 24-May 3	**Turin, Italy** International Auto Show
April 25-30	**Poznan, Poland** Int'l Fair of Auto Industry
May 12-14	**Goteburg, Sweden** Vehicle Industry Suppliers and Buyers Expos
May 29-June 7	**Porto, Portugal** Auto Show
June 3-14	**Buenos Aires, Argentina** Auto Show
June 6-11	**Brno, Czech Republic** AutoTec
June 18-20	**Beijing, China** Automotive Sourcing in China
June 22-27	**Kiev, Ukraine** Auto Show
June 23-30	**Beijing, China** Auto China '98
Sept. 15-20	**Frankfurt, Germany** Automechanika
Sept. 27-Oct. 1	**Paris, France** FISITA Congress
Oct. 1-11	**Paris, France** Int'l Paris Motor Show
Oct. 21-Nov. 1	**Birmingham, UK** Int'l Motor Show
Nov. 12-15	**Cairo, Egypt**, Cairo Motor Show
Nov. 27-Dec. 6	**Essen, Germany** Essen Motor Show

For more information, please contact the CEAR™.
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CEAR™ Slovak Automotive Parts and Components Suppliers

Company	Product	Contact	Phone/Fax
Presskam, s. r. o.	Metal sheet parts	Viliam Liedl	tel: 421-7-769-590 fax: 421-7-769-605
Motokom, s. r. o.	Gearbox consoles	Juraj Bobrik	tel: 421-7-824-061 fax: 421-7-838-701
Kuster - VS, s. r. o.	Bowdens	Jan Kostur	tel: 421-88-788-174 fax: 421-88-788-477
Tribometal, a. s.	Bearings, forging parts	Pavol Zatko	tel: 421-845-864-880 fax: 421-845-864-840
Metalsini, a. s.	Powder metalurgy	Ivan Markovic	tel: 421-845-864-356 fax: 421-845-864-436
Zeleziarne Podbrezova, a. s.	Pipes	Vladimir Sotak	tel: 421-867-605-2000 fax: 421-867-605-2002
KLF-ZVL, a. s.	Forgings, rolling bearings	Anton Jezik	tel: 421-826-212-620 fax: 421-826-212-818
PAL - INALFA, a. s.	Metal sheet parts, sunroof plastic	Ivan Gajdos	tel: 421-87-832-360 fax: 421-87-833-294
VSZ a. s.	Cold and hot rolled metal sheets	Ivan Lacko	tel: 421-95-734-109 fax: 421-95-426-890
ZVL Zilina a. s.	Ball and rolling bearings	Mr. Truchly	tel: 421-89-426-08 fax: 421-89-454-44
ZLIEVAREN Trnava s. r. o.	Iron castings	Dusan Satur	tel: 421-805-536-038 fax: 421-805-536-038
ELITEX, a. s.	Automotive components	Jozef Puschenreiter	tel: 421-816-5000-46 fax: 421-816-5000-93
Povazske strojarne a. s.	Bearings, gearbox castings	Igor Gubala	tel: 421-822-326-945 fax: 421-822-326-380
ZSNP, a. s.	Aluminum castings and parts	Jan Pitner	tel: 421-857-722-247 fax: 421-857-722-551
Kovacna Trnava s. p.	Forgings	Juraj Bobrik	tel: 421-805-536-876 fax: 421-805-536-060
VAP, a. s.	Brake systems and parts	Vladimir Karabinos	tel: 421-91-724-697 fax: 421-91-722-117
MIBA Slovakia s. r. o.	Powder metalurgy	Vladimir Toman	tel: 421-845-864-730 fax: 421-845-864-732
BAZ a. s.	Rear axles, brake parts	Pavol Bastek	tel: 421-7-273-019 fax: 421-7-273-210
AVC a. s.	Gearboxes	Dusan Haluska	tel: 421-824-210-06 fax: 421-824-215-74
ZVL a. s.	Bearings, jacks	Jan Jancik	tel: 421-801- 653-710 fax: 421-801-655-919
Slovenska armaturka a. s.	Components, forgings	Ladislav Pavlicek	tel: 421-802-212-841 fax: 421-802-212-565
Topolcianske Strojarne a. s.	Exhaust systems, drive shafts	Ivan Kroslak	tel: 421-815-243-06 fax: 421-815-323-363
Skoda Liaz s. r. o.	Steering shafts	Maria Novakova	tel: 421-854-222-39 fax: 421-854-222-54
SACHS Trnava, s. r. o.	Clutches	Peter Doll	tel: 421-805-536-312 fax: 421-805-536-313
PFS s. r. o. - PSB a. s.	Springs	Stanislav Cesnek	tel: 421-802-947-220 fax: 421-802-942-868
Sluzba VD, Nitra	Locking panels	Jan Fulop	tel: 421-87-524-245 fax: 421-87-526-508
Elektro Ludib VDI, Bahon	Small metal sheets	Jan Szekely	tel: 421-704-931-39 fax: 421-704-933-36
Magna Slovteca s. r. o.	Reflecting mirrors and wiring	Jan Bahula	tel: 421-834-718-475 fax: 421-834-718-477

The information contained in the above list was obtained from the best available sources. Omissions, typographical errors, and number changes, however, may occur. Please send any corrections to CEAR™ at the address listed on page 2.

New Car Distribution in the Czech Republic

by Elaine Hardy, Project Director, Harbour Wade Brown

Over 1,000 New Car Dealers

The Czech Republic boasts 1,035 new car dealers, representing 34 makes. This is divided into 923 main dealers and 112 secondary dealers, with the typical dealer network consisting of 50 dealers. Market leader **Skoda** however, has a large network of 233 dealers (all are main dealers), representing 23% of the total number of dealers in the market.

The average dealer sold 173 new cars in 1996. **Opel** has the highest sales per dealer (460) followed by **Skoda** (376) and **Fiat** (294). **Ford** and **VW** also achieved averages of over 200, but in many franchises dealers are selling less than 2 cars per week.

Dealers Selling US-owned Makes Most Efficient, Japanese Least

The American-owned makes (**Ford**, **Opel**, **Chrysler**) have a total of 95 franchise points but of all the franchise types, they are the most efficient with an average of 241 sales per dealer.

On the other hand, the Japanese makes (**Daihatsu, Honda, Mazda, Mitsubishi, Nissan, Subaru, Suzuki** and **Toyota**) have a total of 147 franchise points, but are the least efficient with an average of only 81 sales per dealer.

The West European-owned makes (including **Skoda** as part of the Volkswagen Group) represent the lion's share of dealerships: they have 664 main and sub dealers, with average sales of 195 which is slightly less than their Central European average of 209 sales per dealer.

Korean Network Expanding Rapidly

Throughout Central Europe, the Koreans have expanded rapidly and have established a total of 686 franchise points in these 5 countries, with a sales ratio of more than 2:1 over the Japanese. In the Czech Republic, however, they only reached 73% of Japanese sales through their 93 dealer outlets last year. But they did prove to be more efficient with 94 sales per dealer.

Car Manufacturers Investing in Czech Republic

The steady transformation into a stable European economy has encouraged car manufacturers to invest in the Czech Republic: 6 manufacturers have reported 91 open points (identified, potential dealerships) for 1998. The Czech Republic has the highest number of manufacturer-owned National Sales Companies in Central Europe (14), controlling 80% of the market. Nineteen National Sales companies are independent, but they only control a minority of sales (19%).

The dealer network density in the Czech Republic is 13 dealers per 1,000 square kilometers and 10 dealers per 100,000 people. This is also above the Central European average and approaching levels of some West European markets■

New Car Registrations Growth in Europe (YTD Oct. '97)

	Country	1997	1996	% Change
1	Italy**	2,095,300	1,493,800	40.27
2	**Poland***	**407,081**	**320,766**	**26.91**
3	Sweden	185,600	147,100	26.17
4	Greece**	136,900	120,800	13.33
5	Spain**	840,000	754,200	11.38
6	Ireland**	122,300	110,900	10.28
7	Finland	92,500	85,700	7.93
8	U.K.	1,933,800	1,812,000	6.72
9	Denmark**	130,900	123,000	6.42
10	Luxembourg	27,700	27,000	2.59
11	Netherlands**	436,700	431,500	1.21
12	Germany**	3,014,000	3,003,300	0.36
13	Norway	107,700	107,600	0.09
14	Switzerland**	237,500	238,200	-0.29
15	Belgium	352,100	355,900	-1.07
16	Portugal**	176,700	181,900	-2.86
17	Austria**	248,200	279,400	-11.17
18	France	1,412,900	1,852,600	-23.73

* Grey import not included
**Figures for these countries are provisional

Source: SAMAR

FUTURE ISSUES

Interview with Ford Hungaria's Managing Director John Pearn

Central Europe's Automotive Executive of the Year

Regional Special Report: Automotive Aftermarket

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ZK Forging Ahead in Poland

Company Spotlight

Company: Zaklady Kuznicze Ltd.
Location: Skoczow, Poland
Contact: BeataBranc-Gougosz
Business: Metal Forgings

"To be a leading supplier of die forgings and mechanically worked products for the car industry." Such is the mission statement of **Zaklady Kuznicze Ltd. (ZK),** a forging company based in the Silesia region in southern Poland**.** In addition to the auto industry, ZK produces forgings for the mining, building, and machine industries.

History. The forgings tradition in the Silesia region dates back to the 18th century with the establishment of a forging and iron producing plant in Ustron in 1772. Towards the end of the 18th century and the beginning of the 19th, some 40% of the total output of metallurgy in Silesia came from the Ustron plant.

In the 1930's, the first die forging hammers were established in the Ustron plant and production of forgings for the auto industry started. In 1968, a new plant was opened in Skoczow to meet the growing demand for forgings. In 1972, both the Ustron and Skoczow plants were made a part of the **FSM** factory (now owned by **Fiat**). Since 1995, the two forges have operated under the name Zaklady Kuznicze Ltd., with a headquarters in Skoczow. Over 1,400 workers are employed by ZK.

Ownership. In February of 1995, ZK obtained organizational independence and legal status under Polish law. Today, 100% of ZK is owned by the company **FSM WWR S.A.**

Equipment & Production. Using MAXI-type forging presses (1000-2500 tons), screw presses (250-400 tons), and forging hammers (0.5-5 tons), **ZK** produces forgings of weights between 0.5 to 25 kg. from carbon and alloy steels.

Forgings can be thermally treated, soft annealed, isothermally annealed, shot blasted or barrel finished, hot and cold calibrated, and checked for surface defects using the magnetic crack detection method.

ZK's current production capacity is 26,000-27,000 tons of forgings per year. To enhance its production capabilities, the company has invested into new machinery and tools.

Key Customers. The company is well on its way to achieving its stated mission of becoming a leading supplier to the auto industry. ZK counts among its current customers **Rockwell International, Dana Corp., Fiat Auto Poland, Daewoo FSO, GM/Opel,** and **TRW Steering Systems Poland.**

Forgings are exported to customers in Germany, US, Italy, France, and the Netherlands. ZK delivers products to its customers using road and air transportation.

Quality Control Program. Since 1986, the company has been registered with Lloyd's Register of Shipping as a plant capable of producing forgings of a guaranteed quality. In 1995, ZK received a certificate from **TUV** verifying that a quality control system was in place to meet the requirements of the DIN EN ISO 9002 norm. Quality is further ensured by use of statistical process control.

ZK is planning to obtain QS 9000 certification, and in the next two years hopes to gain certification under the ISO 14000 standard■

1998 Forecasts

	GDP % chng	Inflation % chng Dec-on-Dec	Unempl %	Indust Output % chng	Trade Bal $ mill	Curr Acct $ mill	Exch Rate local/$,Avg	Lending Rates % per annum	New Car Sales 1998 ('000)
Bulgaria	3.6	21.0	14.0	3.5	88	-433	1,685.8	42.6	6
Czech	3.6	9.3	5.0	4.8	-5,968	-2,880	33.75	11.8	191
Hungary	5.2	13.1	9.7	6.5	-2,500	-1,647	201.7	16.9	94
Poland	5.5	11.4	9.8	7.8	-14,366	-8,260	3.76	22	545
Romania	3.3	26.6	7.8	4.0	-2,369	-2,014	9,409	N/A	125
Slovakia	1.4	10.3	13.1	2.5	-1,577	-1,469	40	N/A	63
Slovenia	3.9	4.5	13.5	4.0	-550	-77	159.9	10.3	73

Source: DRI/PlanEcon, Eastern European Automotive Report 1997

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Sales Loss Leaders In Poland (YTD October '97)

Passenger cars

Make	Units	Units Change '97 v '96
PF 126	41,690	-10,540
FSO - Polonez	43,173	-6,963
Renault Megane	10,497	-1,163
Tavrija	140	-1,115
Renault 19	0	-757
Hyundai Accent	627	-612
Lada	299	-598
Renault Clio	1,793	-306
Citroen ZX	769	-276
Peugeot 405	13	-220

Light Commercials

Make	Units	Units Change '97 v '96
Fiat Cinquecento Van	1,533	-3,103
FSO Polonez Truck	9,661	-2,442
FSO Polonez Cargo	234	-341
Fiat Uno Van	585	-234
Ford Escort Van	103	-71
Fiat Fiorino	30	-46
Peugeot 306 XA	20	-3

Medium Commercials

Make	Units	Units Change '97 v '96
FSC-Zuk	227	-336
Iveco Daily	72	-66
VW Transporter	148	-61
Renault Trafic	16	-23
LDV	10	-18
Mercedes Sprinter 2	11	-17
Nissan Vanette	3	-12
Toyota Hiace	37	-8
Fiat Ducato	76	-7
Renault Master	4	-6

Source: SAMAR

Best Selling Brands in Poland (YTD October '97)

Passenger cars

Make	Volume	Market Share
FIAT	140,494	34.51%
DAEWOO	105,231	25.85%
GM - OPEL	38,477	9.45%
SKODA	19,983	4.91%
RENAULT	19,199	4.72%
FORD	14,918	3.66%
VW	12,515	3.07%
SEAT	11,055	2.72%
PEUGEOT	8,516	2.09%
HONDA	7,627	1.87%

Commercial Vehicles

Make	Volume	Market Share
DAEWOO MOTOR PL	11,127	24.77%
DAEWOO	9,895	22.03%
CITROEN	4,819	10.73%
FIAT	3,282	7.31%
FORD	2,970	6.61%
MERCEDES	2,921	6.50%
SKODA	1,876	4.18%
PEUGEOT	1,592	3.54%
VW	1,575	3.51%
RENAULT	1,061	2.36%

Source: SAMAR

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Sales of New Cars and Commercial Vehicles in Poland

	Sales (Units)					Ytd October		
	1992	1993	1994	1995	1996	1997	1996	% Change
Passenger Cars								
Local Production	144,748	170,549	199,724	206,284	260,265	280,949	214,766	30.82
Import	54,531	71,059	50,558	58,754	114,347	126,132	106,000	18.99
Total	199,279	241,608	250,282	265,038	374,612	407,081	320,766	26.91
Commercial Vehicles								
Local Production	19,665	18,475	21,413	27,984	43,015	35,061	32,957	6.38
Import	3,250	5,497	2,542	3,962	8,440	9,862	6,460	52.66
Total	22,915	23,972	23,955	31,946	51,455	44,923	39,417	13.97

Source: SAMAR

Polish Car & Commercial Vehicle Market Segmentation (YTD October '97)

Segment	**YTD SALES (Units)**		**CHANGE (%)**	**MARKET SHARE (%)**		**SALES IN OCTOBER**	
	1997	**1996**		**1997**	**1996**	**1997**	**1996**
1. Segment A	123,520	106,265	16.24	30.34	33.13	10,384	11,043
2. Segment B	99,687	72,542	37.42	24.49	22.62	7,939	6,549
3. Segment C	139,119	116,646	19.27	34.17	36.36	14,835	10,000
4. Segment C/D	38,080	22,408	69.94	9.35	6.99	2,187	3,069
5. Segment D/E	2,016	1,150	75.30	0.50	0.36	300	57
6. Segment F	187	101	85.15	0.05	0.03	7	9
7. Segment S	1,204	729	65.16	0.30	0.23	27	41
8. Segment MPV	2,615	365	616.44	0.64	0.11	303	28
9. Segment 4WD	653	560	16.61	0.16	0.17	59	79
Total Passenger Cars	***407,081***	***320,766***	***26.91***	***100.00***	***100.00***	***36,041***	***30,875***
9. Light Comm. Segment	21,865	22,744	-3.86	48.67	57.70	2,236	2,770
10. Medium Comm. Segment	23,058	16,673	38.30	51.33	42.30	2,935	2,365
Total Commercial Vehicles	***44,923***	***39,417***	***13.97***	***100.00***	***100.00***	***5,171***	***5,135***

Source: SAMAR