

Market Report



Polish Automotive Market: Passenger Cars, Supplier and Aftermarket

2007 - 2010

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Summary

Poland is, with a population of almost 40 mio., the largest market in Central and Eastern Europe ("CEE"). With a GDP per capita slightly over 10.000 USD in 2007, GDP growth rates between 5% and 6%, and average wages at 700 EUR / 950 USD, Poland is also a relatively prosperous market in CEE.

Poland's car penetration is still much lower than in Western European markets and also some other CEE markets like Bulgaria are better positioned in terms of car penetration. In terms of car parc however, Poland is leading the CEE countries. The car parc is relatively old, with over 50% of cars far older than 10 years.

Since Poland has become a member of the EU in 2004, the Polish car market has been flooded with imports of used cars. These imports reached almost 1 mio. in 2007, mainly consisting of relatively old and hence very cheap cars. Poland has no regulations in place to effectively reduce the imports of old cars.

In the course of this development, the new car market broke down to less than 50% of sales of 1999. It is only since 2007, that the new car market rebounds. We predict growth of about 7% for the years until 2010. Nevertheless, the Polish new car market is and will remain the largest in CEE and the third largest of all former communist countries (CEE and CIS together), only surpassed by Russia and Ukraine. We strongly expect the new car market to increase further, while imports of used cars will decrease over the next years.

Dealerships had to cope with reducing sales of new cars and most of them are now earning additional income with a lively trade in second-hand cars. There is still substantial room for growth of dealership-networks of the OEMs.

Financing of cars is well established, with loan financing being the preferred method by private individuals and leasing being the preferred method by corporate buyers. Financing used car purchase is also widespread, which supports the short holding cycle of Polish car owners.

Poland has no own passenger car brand. FSO was its last independent brand and is now owned by ZAZ, an Ukrainian car maker, using FSO as a production base for the Ukrainian markets. FSO is manufacturing Daewoo-based models. Apart from FSO Fiat, Opel and VW are producing cars in Poland. Other OEMs are manufacturing components with engines becoming a specialty of the Polish automotive market. OEMs and other suppliers use Poland as a low-cost manufacturing base for the European market. They rarely produce for the Polish market itself. The production of cars will likely exceed 1 mio. units in 2010. Even though some OEM are considering new projects or the expansion of existing ones in Poland, the wage increase of recent years and the shortage of qualified personnel are becoming serious limitations to further growth of the industry.

Given the development of production projects, the components market will grow by 14% annually over the next years to 2010. Most of that market potential is captive through existing suppliers to the OEM.

The aftermarket is growing by over 5% over the next years to 2010. The aftermarket is one of the most attractive sectors of the Polish automotive industry over the next years. With further additions to the parc, whose average age is decreasing and with more demanding consumers, better and more frequent service and better parts are needed. Today, Poles perform minor repairs and maintenance by themselves in about 30% to 40% of all cases.

There are numerous parts manufacturers present in Poland, but only few of them are still in Polish hands. As with OEMs, parts manufacturers are mostly targeting export markets and rarely cater the local aftermarket.

The Polish distribution system for spare parts is dominated by about 10 larger importers and distributors. However, there are many smaller importers active as well. It is likely, that further consolidation will reduce the number of players. For foreign parts manufacturers, the main challenge is access to service stations, to spare part shops and eventually to the end customers.

In total, the Polish market for passenger car vehicles and the Polish aftermarket are very attractive markets. For companies active internationally, a strong pres-

ence in Poland is a must. The main challenge for OEMs operating in Poland is the competition through used car markets. Convenient financing options and an aggressive sales network with good coverage are the key to success. The main challenge for parts manufacturers is to find and manage the right sales channels to ultimately reach consumers.

To prepare this market report, we used primary and secondary research methods: expert interviews and consumer surveys – in particular for the market of automotive parts, which is not covered yet by any substantial statistical data – and standard analysis of secondary information available on the topic. Based on our experience and developed competencies we have built proprietary market models to forecast future market development. The report was compiled in the period from October 2007 to January 2008 and hence includes statistical data until December 2007, if available.

Globis is a Germany-based consulting company with broad international coverage regarding strategy development, especially entry strategies into new markets.

1 Country Basics

Population (mio.)	38,1
Area	330.000 sq. km
Territorial arrangement	16 Voivodships
Population density (inhabitants / sq. km.)	122
Life expectancy at birth (years)	Male: 70,93 Female: 79,62
Birth rate	1,27
No. of households (mio.)	14,1

Table 1: Main Country Facts

The Republic of Poland is, with a territory of 312.685 sq. km., the largest country in Central Europe. It has borders to the EU-countries Germany, Czech, Slovakia and to the CIS-countries Belarus, Ukraine, Russia, and Lithuania. In the North there is a coastline to the Baltic Sea. With about 38,5 mio. inhabitants or a population density of 122, Poland is slightly more densely populated than European average (which is around 114). The biggest Polish city is Warsaw, the capital, with 1,7 mio. inhabitants, followed by Lodz, Krakow and Tricity (an agglomeration of Gdansk, Gdynia, Sopot) with each between 750 to 760 thousand people.

The biggest industrial agglomeration is in Katowice with 3,5 mio. inhabitants on 3359,7 sq. km. Poland is divided into 16 voivodships and 379 counties (see Figure 1).

Poland has a coastline in the North to the Baltic Sea. To the East Poland has borders with Ukraine, Belarus, Lithuania and Russia. To its South, there are borders with Czech and Slovakia and to the West with Germany. The latter three are also members of the European Union. Poland is the EU's Eastern border to CIS countries, protecting the EU's free trade zone.

The largest voivodships are Mazowieckie, with Warsaw as its biggest city, and Slaskie with the main city Katowice, followed by Wieklopolskie and Malopolksie (see Table 2).



Figure 1: Polish Voivodships

With an average age of the Polish population of 37,3 years (35,4 for men and 39,3 for woman), Polish population is relatively young. However, with a birth rate of about 1,27 children born to each woman at fertility age, Polish population is decreasing at an average rate of 0,15% annually.

Voivodship	2006	F2010	Change (CAGR)
Poland overall	38.125.500	37.899.200	-0,15%
Dolnoslaskie	2.882.300	2.852.800	-0,26%

Voivodship	2006	F2010	Change (CAGR)
Kujawsko-Pomorskie	2.066.400	2.059.600	-0,08%
Lubelskie	2.172.800	2.151.000	-0,25%
Lubuskie	1.008.500	1.004.700	-0,09%
Lodzkie	2.566.200	2.527.800	-0,38%
Malopolskie	3.271.200	3.289.500	0,14%
Mazowieckie	5.171.700	5.165.100	-0,03%
Opolskie	1.041.900	1.013.500	-0,69%
Podkarpackie	2.097.600	2.097.700	0,00%
Podlaskie	1.196.100	1.189.900	-0,13%
Pomorskie	2.203.600	2.210.600	0,08%
Slaskie	4.669.100	4.574.200	-0,51%
Swietokrzyskie	1.279.800	1.263.600	-0,32%
Warminsko-Mazurskie	1.426.900	1.422.900	-0,07%
Wieklopolskie	3.378.500	3.388.300	0,07%
Zachodniopomorskie	1.692.800	1.688.200	-0,07%

Table 2: Population development in Voivodships, in 1.000, 2007-2010 .

Source: GUS

1.1 Economic Development

With a GDP at constant prices at 980 bn. PLN in 2007, Poland is one of the strongest economies in Central and Eastern Europe. At exchange rates of 1 EUR to 3,6 PLN and 1 US\$ to 2,5 PLN, this translates into 270 bn. EUR and 390 bn.

US\$. Poland has seen stable growth over the last year, with an economy growing at over 4% year by year in the past and above 5% in the future (see Figure 2). A main driver for the economy is exports. However, exports mostly do not originate from Polish companies but largely from foreign investors using Poland as a production base.

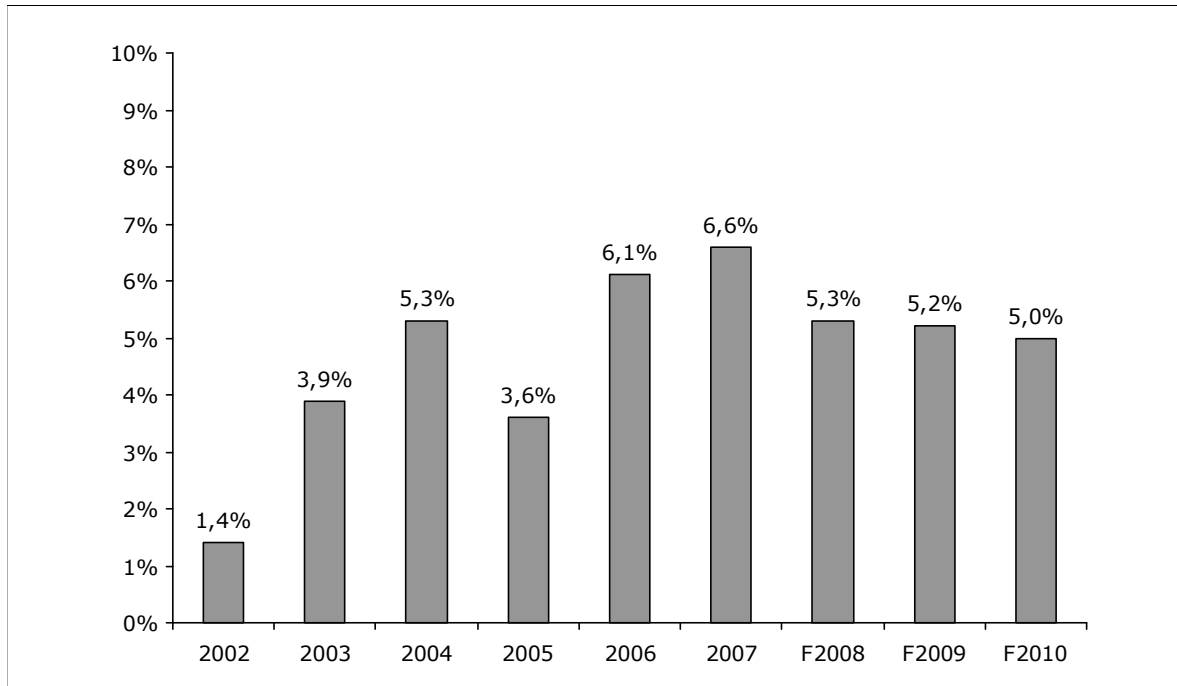


Figure 2: GDP Growth Rates at Constant Prices, Change to Previous Year, 2002-2010

Source: GUS, IMF, Globis

This main driver of the economy might not be as strong a driver in the future: Poland's main advantage in the past was cheap but qualified labor. Poland's average monthly income was at 2.703 PLN or almost 700 EUR / 950 US\$ in 2007. Over the last 4 years average income increased about 30% in total (see Figure 3), with the automotive industry scoring an increase of 40%. Unions are very strong in the automotive sector – at least in larger companies – and reach a share of members up to 40% (compared to 15% on average in Poland). With this rise and with many skilled workers leaving Poland, many of them to the UK, there are signs that Poland's original competitive advantage loses its strength. Investors looking for a cheap production base are starting to consider other countries like Romania or

Ukraine. One example is the Polish Tier 2 supplier Inter Groclin, who is opening its second factory in the Ukraine these days – to achieve a better cost position.

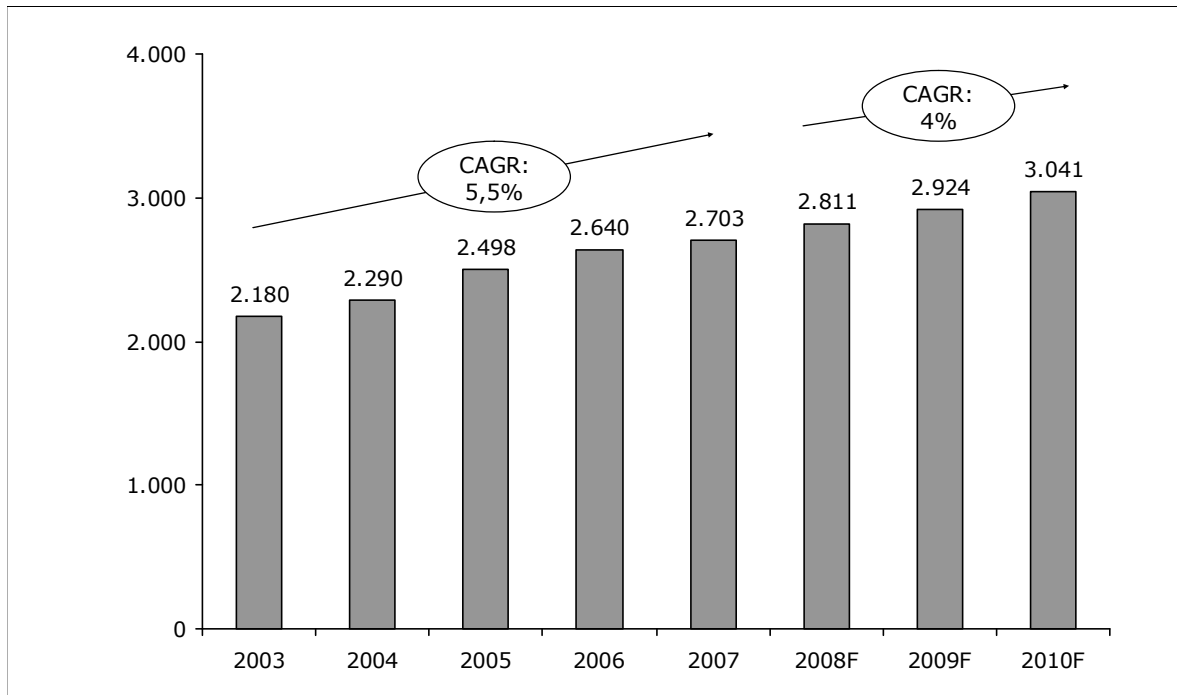


Figure 3: Development of Nominal Wages in PLN, 2003-2010

Source: Globis

Another important factor is the reduction of unemployment down to a rate of 14% (which is still one of the highest in the EU), coming from 20% five years ago. With 10% long-term unemployed people, there is not much qualified workforce left to be added to the market. This in turn leads to an increase in wages as well.

Inflation in Poland was at more than 10% at the beginning of the new millennium but has since then been heavily reduced to less than 4% (see Figure 4). With inflation better in check, increasing wages lead to more purchasing power of the Polish consumer. This makes Poland an increasingly attractive market to sell to.

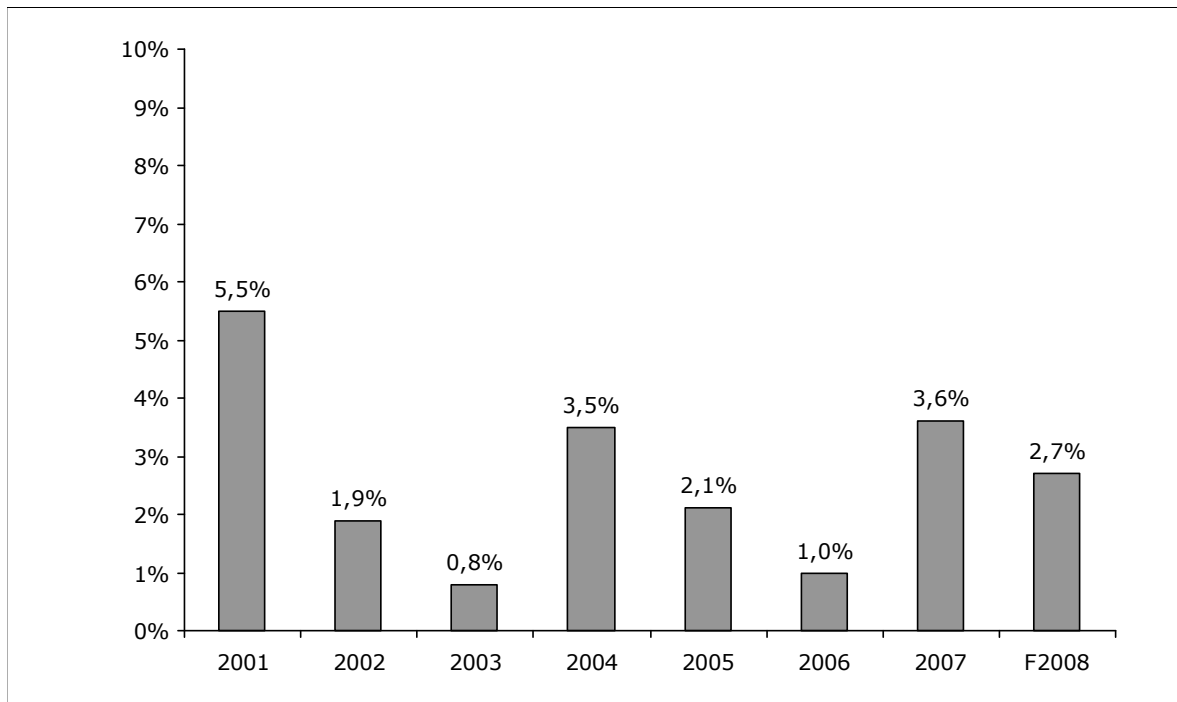


Figure 4: Inflation Rates 2001-2008

Source: GUS

1.2 Regional Economic Development

Poland with its vast territory can not be viewed as one market. The Voivodships differ strongly with respect to economic indicators as well as the ease of accessing customers in these regions.

The economically strongest region is Mazowieckie, with Warsaw as the main city. This region alone accounts for about 20% of Poland's GDP. Second in place is Slaskie with almost 14% (see Figure 5). Both Voivodships are also leaders in terms of GDP per capita. In Mazowieckie the GDP per capita is – with 36.600 PLN – 35% higher than in Sklaskie, which is second in place. Both Voivodships also have the largest population and hence are particularly attractive.

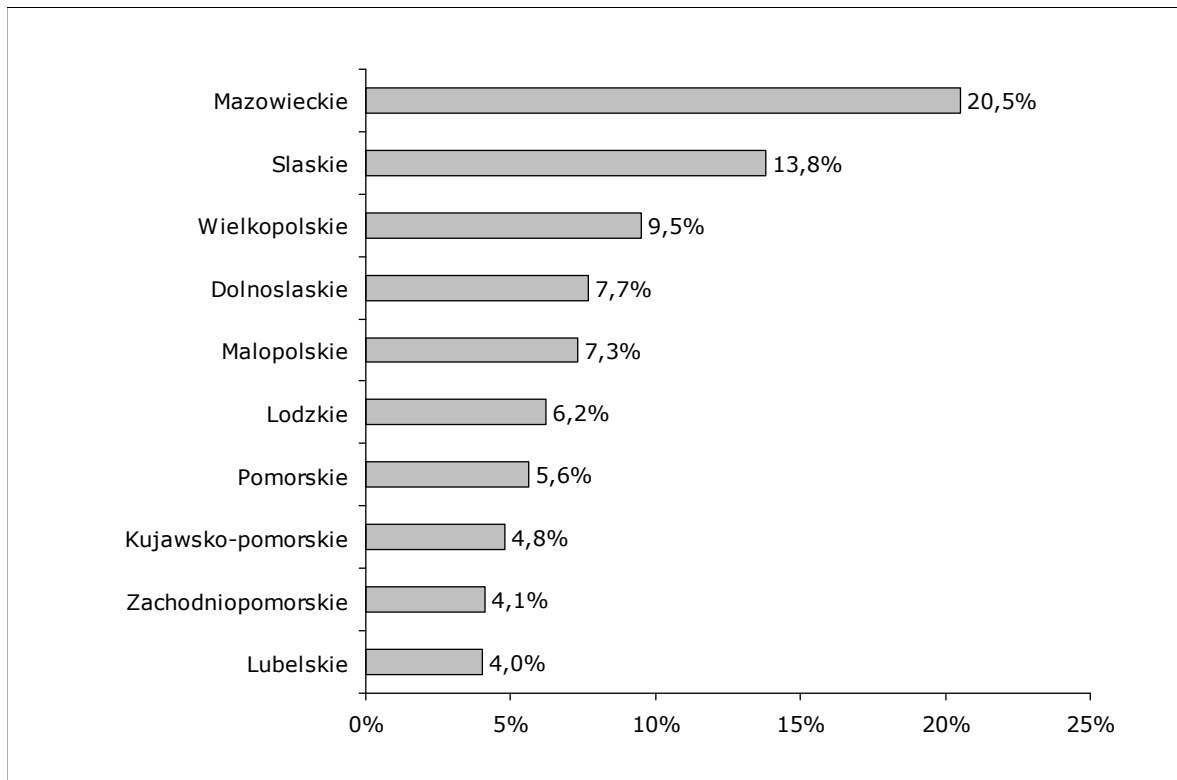


Figure 5: Share of Leading Voivodships in Total GDP, 2006

Source: GUS

Access to consumers in Voivodships is mainly a function of population density in the region as well as the number of major cities in this region (for a list of major cities and their location, see Appendix, chapter 5.1). Slaskie is by far the most densely populated Voivodship – with 379 people per sq. km. In Slaskie there are major cities like Katowice, Gliwice, Zabrze and Tychy. Second in place is Malopolskie, with 215 people per sq. km. Third is Mazowieckie with a density of 145. However, through Mazowieckie's Warsaw alone one can reach 1,7 mio. consumers.

Also in terms of average monthly income Mazowieckie and Slaskie are in the lead: 3.381 PLN per month in Mazowieckie and 2.730 PLN per month in Slaskie. For details on regions see Table 3.

Voivodship	Population	Population density	GDP per Capita in PLN	Average salary per month in PLN
Poland	38.125.500	122	24.203	2.637
Dolnoslaskie	2.882.300	145	24.632	2.617
Kujawsko-Pomorskie	2.066.400	115	21.633	2.269
Lodzkie	2.566.200	141	22.274	2.288
Lubelskie	2.172.800	86	16.777	2.291
Lubuskie	1.008.500	72	21.641	2.235
Malopolskie	3.271.200	215	20.671	2.443
Mazowieckie	5.171.700	145	36.636	3.381
Opolskie	1.041.900	111	20.785	2.368
Podkarpackie	2.097.600	118	16.886	2.180
Podlaskie	1.196.100	59	18.256	2.038
Pomorskie	2.203.600	59	23.616	2.650
Slaskie	4.669.100	379	27.177	2.730
Swietokrzyskie	1.279.800	109	18.714	2.264
Warminsko-mazurskie	1.426.900	120	18.778	2.218
Wielkopolskie	3.378.500	113	26.001	2.389
Zachodniopomorskie	1.692.800	74	22.494	2.407

Table 3: Income per Capita in Regions, 2006

Source: Ministry for Economic Development

1.3 Poland and the European Union

Since 1st of May 2004, Poland is member of the European Union. Starting from 2008, Polish people can travel freely to other member states of the EU. Hence, for investors from outside the EU, Poland could be a good starting point to conquer the rest of Europe. With its low cost of labour, it could be a good place for the production of goods which are then sold within the EU.

Table 4 gives a short impression on the EU market overall, in comparison to viewing Poland as a single market.

	European Union	Poland
Population (mio.)	495	38,1
Area (1000 sq. km.)	4.325	312
Population density (inhabitants per sq. km.)	114	122
Life expectancy at birth	75,8	74,5
Number of households (mio.)	165	14,1
Real GDP (USD bn.)	14.900	392
Real GDP per capita (USD)	28.213	10.284
Exports, total (€ bn., 2006)	1.062	93,2
Imports, total (€ bn., 2006)	1.176	97,1

Table 4: Economic Key Figures EU / Poland, 2006 / 2007

Source: GUS, Eurostat

2 Polish Passenger Car Market

2.1 Polish Car Parc

The passenger car parc in Poland is growing relatively fast. The total number of passenger cars has increased from 5,3 mio. in 1990 to more than 14 mio. at the end of 2007 (see Figure 6). Since 2000 the car parc grew at a rate of 5,1% annually. In comparison, the growth rates in Western European markets reached 1-2% annually. We estimate further growth towards 2010 at a rate of 4,3% annually.

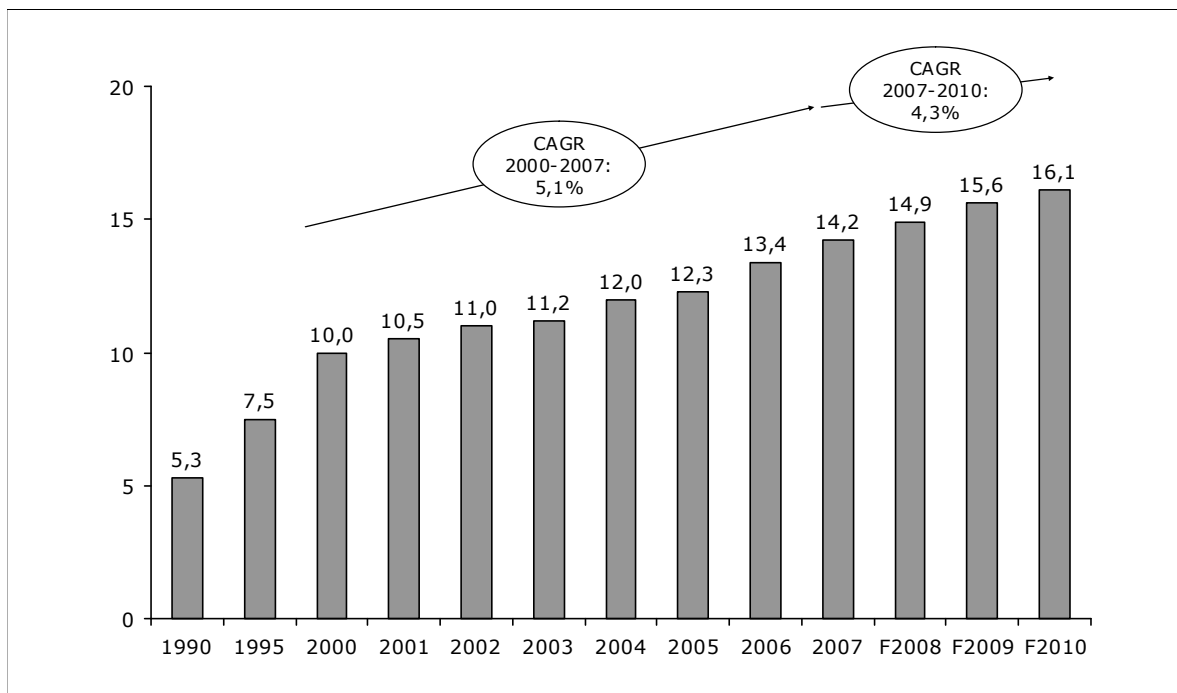


Figure 6: Development of Passenger Car Parc, in Mio., 1990-2010*

Source: GUS, Globis Analysis

* Here and further the data on car parc is on 31st December of the respective year.

The main growth driver has been the import of used cars, mainly from Western Europe. After becoming an EU-member, import procedures and lower cost made imports into Poland more easy. With relatively low income levels, the best choice for Polish people was to import older used cars at low prices. New additions to the parc in 2007 were made up by used cars to almost 80%, coming from 30% in

2000. Still, with almost 300.000 new cars sold in 2007, Poland is also an attractive market for OEMs.

Poland today has no domestic brand. In 2002 the last Polish brand FSO (Fabryka Samochodow Osobowych), which became part of Daewoo until 2005, stopped the manufacturing of its model Polonez. Today, FSO is part of UkrAVTO, an Ukrainian car maker. GM since recently also holds a share in FSO through a manufacturing joint venture.

Although there is a substantial car production in Poland, foreign car makers do not produce in Poland to serve the domestic market like it is the case in Russia. They mainly use the good manufacturing conditions (access to EU, tax breaks, skilled and cheap labour) and export the major share of their production.

With its more than 14 mio. passenger cars in parc, Poland's car penetration of 363 cars per 1.000 inhabitants is still at the lower end inside the European Union. Compared to CIS-countries, however, Poland's car penetration is much higher (see Figure 7).

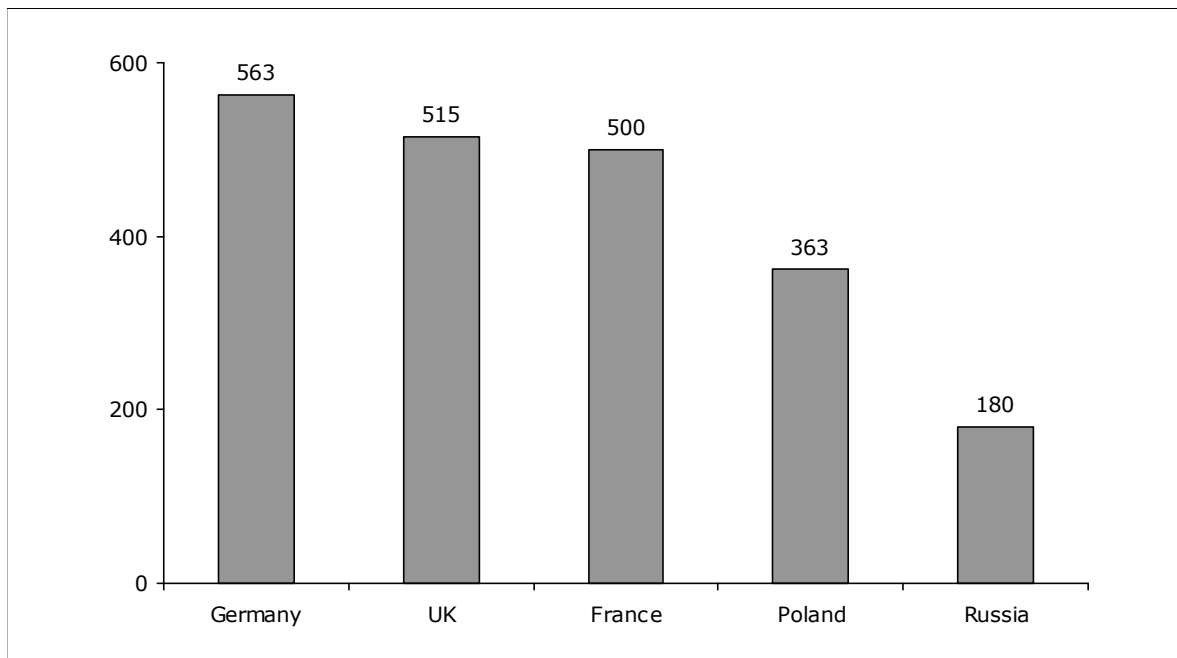


Figure 7: Car Penetration in Poland and Selected Other Countries, 2006/2007

Source: Globis

2.1.1 Structure of Car Parc by Age

The Polish car parc is relatively old compared to Western European standards. This is to be expected from a country with relatively low levels of income and no domestic brands. In comparison to other Eastern European or CIS-countries, however, the parc is a little younger. Almost 56% of the car parc is 10-15 years old and 10% is older than 15 years (see Figure 8).

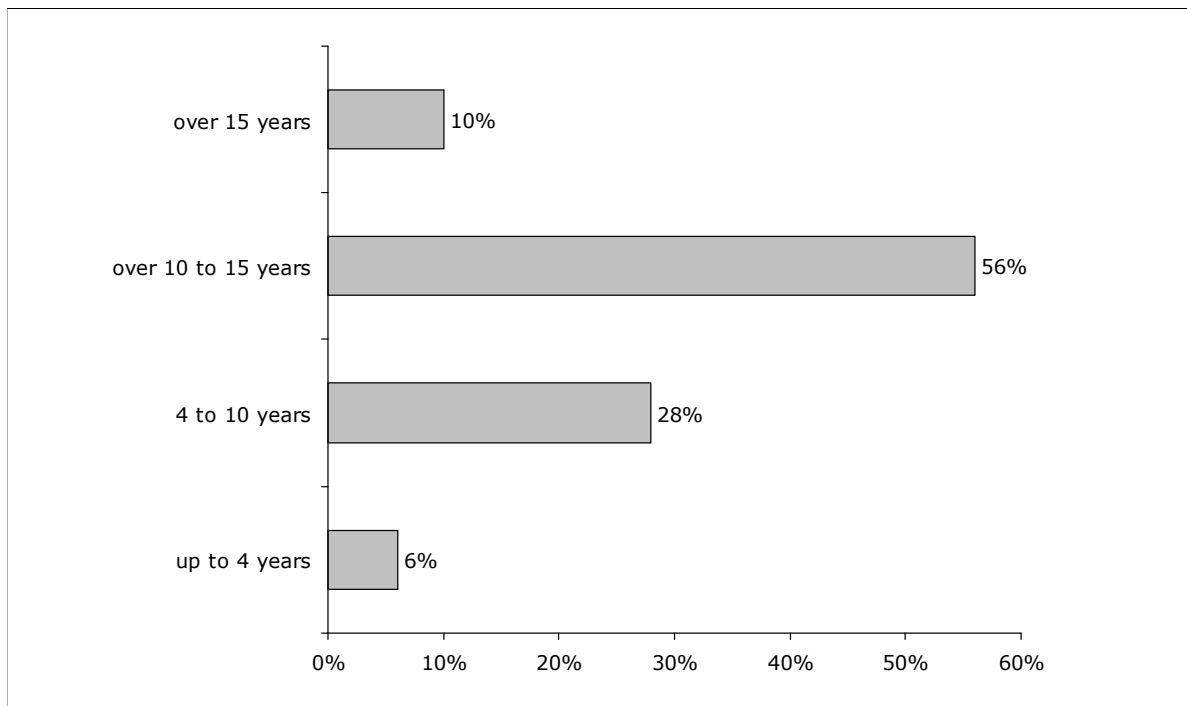


Figure 8: Structure of Polish Car Parc by Age, 2007

Source: Samar

The structure of additions to the parc is rather cementing this age distribution. First of all, the vast majority of cars added to the parc is imported used cars. The age distribution of the imports mirrors the current age distribution of the parc or is even a little less favourable (see Figure 9). However, there seems to be a trend to younger imported used cars.

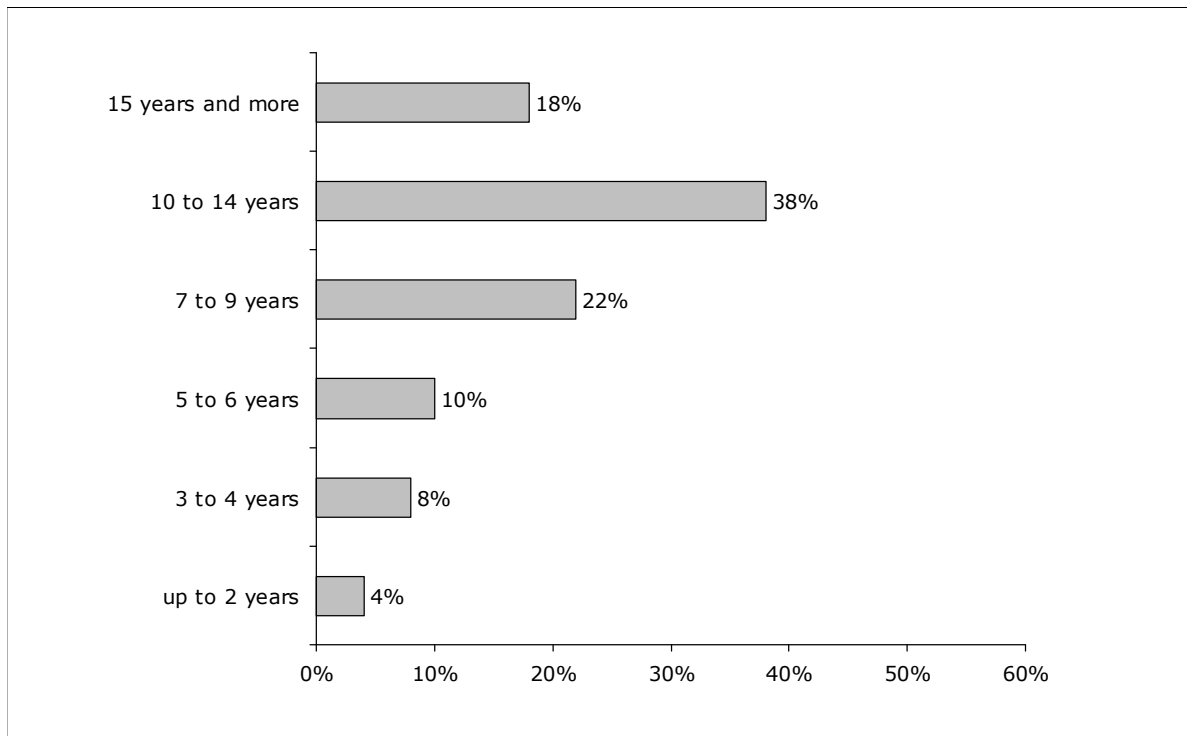


Figure 9: Structure of Imported Used Cars by Age, 2005-2007

Source: Motofocus

In Poland there are rules for the technical inspection of transport vehicles, which stipulate for cars to be checked yearly for cars older than 5 (first control after 3, then after next 2 years) years. The check comprises basic function tests of for example the braking, lighting and steering system. This test costs 98 PLN, a price stipulated by legislation. These rules prevent the car parc from getting too old, since older cars have more difficulties to pass the test.

Some OEM offer new car owners the option to extend the warranty period, if the first regular technical inspection and diagnostic service after three years is done at an original service station.

2.1.2 Structure of Car Parc by Brands and Models

The Polish car parc is still dominated by its heritage: Poland started its own car production in 1951, with the Warszawa, a model which was licenced from Russian GAZ. In 1965 Poland, through its car maker FSO, licenced various models from Fiat. First, they were marketed under the name of Fiat. Later, after the end of the

licence contract the cars were marketed under the name FSO (main models FSO 1300 and FSO 1500). These models had only minor changes compared to the old Fiats. In 1978 FSO introduced an own model, the FSO Polonez, which was also similar to the Fiat models. The FSO Polonez was manufactured until 2002. In 1995 Daewoo took a major share in FSO and the company was renamed into Daewoo-FSO. In the following years Daewoo-FSO assembled and later manufactured various Daewoo models (like Nexia, Lanos, Matiz) and sold them domestically. With Daewoo in trouble in the beginning of the new millennium and used car sales on the rise – reducing the market for new cars – FSO came into trouble and in 2001 had to file for bankruptcy. Even the intervention of the Polish government did not help in the first place. Management of FSO then succeed with a restructuring plan and also negotiated a deal to further manufacture Daewoo models with GM, who took over part of Daewoo's operations. Through its subsidiary ZAO ZAZ, UkrAVTO, a major Ukrainian car dealer and long-term client of FSO, in 2005 took a majority share of FSO which gave him command over about 85% of the companies votes. The purchase price is estimated to be 80 mio. USD. ZAO ZAZ and FSO do have substantial synergies because of both companies manufacturing Daewoo models. UkrAVTO is producing various models developed from the basis of Daewoo models and plans to produce them also through FSO in Poland, mainly to serve the Ukrainian market as well. In the beginning of 2007 FSO started a contract manufacturing agreement with GM to manufacture the Chevrolet Aveo. FSO and GM entered in a manufacturing joint venture with a 40% stake of GM and 60% of UkrAVTO. GM is said to have invested about 250 mio. USD for this stake. FSO will be the manufacturing base in Europe for this model which provides good outlooks for FSO with Chevrolet being the fastest growing brand in Europe and Aveo being its top-selling model.

With this heritage, Fiat is the dominating brand in the Polish car parc (see Figure 10; models marketed under the name FSO but being effectively Fiats were summarized under Fiat as well). Fiat is also constantly among the top 5 in terms of sale of new cars. Also strong in parc is Daewoo-FSO, which still ranks fourth.

With the opening to the West, a continuous inflow of the German brands Opel and Volkswagen took place. Both are now also represented with their own manufacturing facilities. Opel (GM) opened its production in Gliwice, Volkswagen in Tychy. However, in the case of Volkswagen, they do not manufacture the main models sold in Poland.

Japanese cars still do not play any major role in the parc. Toyota ranks 11th in the parc. During the last years, Toyota was continuously among the Top 3 in terms of sale of new cars. However, with almost 20-times more used Opels und Volkswagen being imported as used cars, Toyota will not play any major role *in the parc* in future.

Cars from CIS-countries do not play any role in the parc as well. VAZ with Lada has a share in the parc of about 1%. This is set to shrink, since there is no inflow of VAZ cars into Poland today. ZAZ, the Ukrainian car maker which took a majority share in FSO, could start selling some models in Poland in the future, but has not done so today.

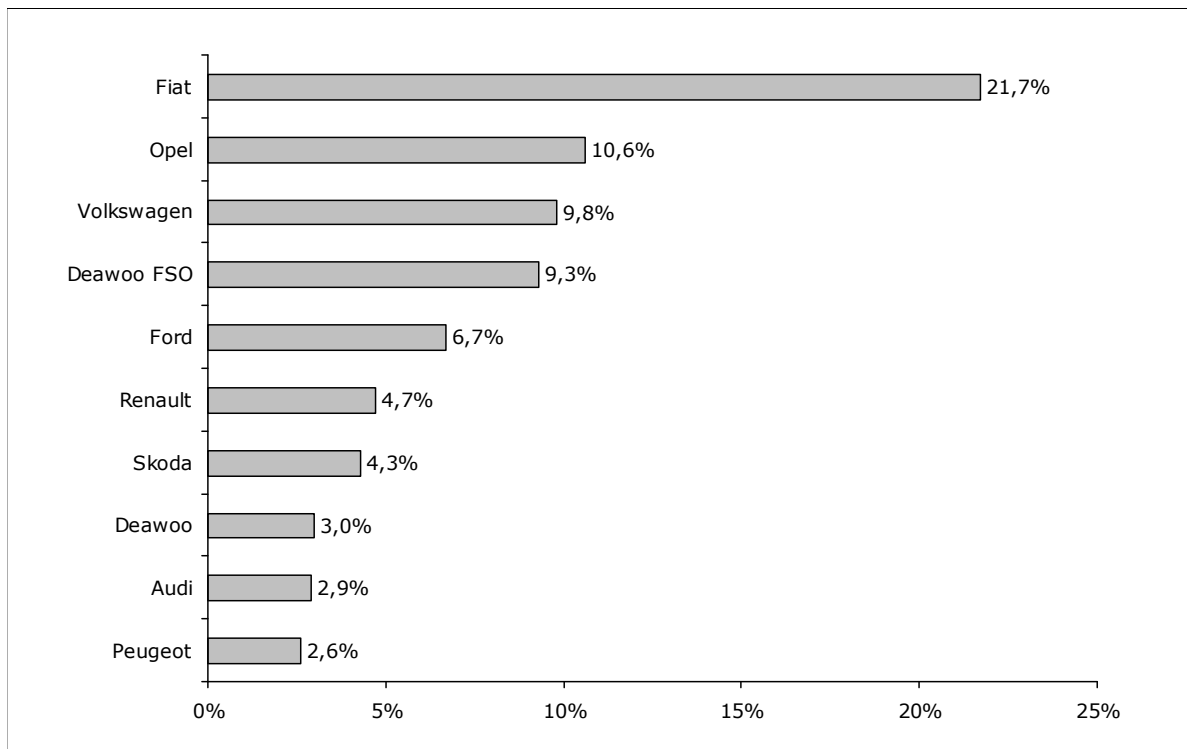


Figure 10: Top-Ten Brands in Polish Car Parc, 2007

Source: Globis Analysis

The single most numerous model in the Polish parc still is the Fiat 125 or Polski Fiat 126p. Table 5 gives an overview over the most popular models in the Polish parc.

Brand	Parc in 1.000	Popular models
Fiat	3.135	Fiat 125, Polski Fiat 126p
Daewoo FSO	1.370	Nexia, Lanos
Opel	1.365	Astra
Volkswagen	1.204	Golf, Passat
Ford	858	Escort

Table 5: *Most Popular Models by Top 5 Brands in Polish Car Parc, 2006/2007*

Source: Globis Analysis

2.1.3 Car Parc in Regional Markets

Poland consist of 16 voivodships. The regional distribution of cars among voivodships in Poland, measured by cars per 1.000 people, is relatively even (see Table 6). Car penetration on average is at 363 cars / 1.000 people. Lowest penetrations are in Zachodniopomorskie, in the North-West, and in Warminsko-Mazurskie, in the North-East (290 and 299 cars / 1.000, respectively). These voivodships are traditionally the ones with the highest unemployment rates in the country. Highest penetrations are in Opolskie and Mazowieckie (with Warsaw as main town), followed by Wielkopolskie (with Poznan as main town) and Lubuskie.

Slaskie, which has a rather strong economy and where the factories of GM / Opel and Fiat are located, is not among the top voivodships in terms of car penetration.

The voivodships with the largest parc in total are Mazowieckie (2,1 mio. cars), with Warsaw as the main city and Slaskie (1,7 mio. cars), with Katowice as the main city. Many companies register their cars in Warsaw, although this fleet is

driving around all over Poland. Hence, there is a slight distortion in the distribution of cars.

Region	Car parc, in 1.000, end of 2007 (F)	Population, in 1.000	Cars/1.000 people
Dolnoslaskie	1.106	2.885	383
Kujawsko-Pomorskie	630	2.069	304
Lubelskie	766	2.178	351
Lubuskie	417	1.010	412
Lodzkie	891	2.575	346
Malopolskie	1.217	3.262	373
Mazowieckie	2.150	5.159	416
Opolskie	444	1.047	423
Podkarpackie	779	2.098	371
Podlaskie	419	1.198	349
Pomorskie	790	2.196	359
Slaskie	1.723	4.679	368
Swietokrzyskie	453	1.284	352
Warmisko-Mazurskie	428	1.430	299
Wielkopolskie	1.392	3.374	412
Zachodniopomorskie	490	1.691	290

Table 6: Regional Car Parcs by Number of Vehicle and Car Penetration, 2007

Source: Statistical Yearbook Poland, Globis Analysis

The main driver for the regional distribution of the parc today is the import of used cars. Imported used cars are rather old – more than 50% are over 10 years of age when imported into Poland. People import used cars mainly because of the low price. Hence, voivodships with a rather poor population but with good access to the used car markets in the Western countries import the largest numbers. This will lead to a gradual shift in the distribution of the parc. Therefore, the distribution in the parc does not follow straightforward economic patterns. The sale of new cars, which is rather concentrated in the bigger cities, is too small in numbers to prevent the shift. Table 7 shows which voivodships import more than their current share in the market. Wielkopolskie, with Poznan as the main city, is clearly leading by this measure, with a share in the parc of about 10% and import share of about 15%. For Mazowieckie, with Warsaw as main city, the numbers are vice versa: 15% share in the parc and 10% share in imports.

Region	Car parc, in 1.000, end of 2007 (F)	Share of Market; end of 2007 (F)	Imported Cars, in 1.000, 2006	Share of Imports, 2006
Dolnoslaskie	1.106	7,8%	66	8,2%
Kujawsko-Pomorskie	630	4,5%	42	5,1%
Lubelskie	766	5,4%	40	4,9%
Lubuskie	417	3,1%	43	5,3%
Lodzkie	891	6,3%	44	5,3%
Malopolskie	1.217	8,6%	55	6,7%
Mazowieckie	2.150	15,2%	82	10,1%
Opolskie	444	3,1%	24	2,9%
Podkarpackie	779	5,5%	32	4,0%
Podlaskie	419	3,0%	19	2,3%

Region	Car parc, in 1.000, end of 2007 (F)	Share of Market; end of 2007 (F)	Imported Cars, in 1.000, 2006	Share of Imports, 2006
Pomorskie	790	5,6%	47	5,8%
Slaskie	1.723	12,2%	72	8,8%
Swietokrzyskie	453	3,2%	30	3,7%
Warmisko-Mazurskie	428	3,0%	31	3,8%
Wielkopolskie	1.392	9,9%	130	15,9%
Zachodniopomorskie	490	3,5%	39	4,8%

Table 7: Share of Parc and of Imports by Regions, 2006/2007

Source: Statistical Yearbook Poland, Samar, Globis Analysis

2.2 Passenger Car Sales and Imports

2.2.1 Size of Market

The Polish car market, defined as new cars sold, has experienced a strong downturn compared to the end of the 90th. Coming from over 0,5 mio. sales in 1998 and 1999, the market today is a little over 50% of these numbers (see Figure 11). The years 2005 and 2006 earmarked the bottom line. The market will increase again in the future, but the numbers from 1998 and 1999 are out of reach for now. Altogether, there was no clear growth trend over the last years.

There are numerous reasons for this development, for example the economic situation, high sales taxes, extensive other spendings of households – like housing loans, increasing credit rates – as well as the downturn of Daewoo as a prime manufacturer in Poland. However, the most influential reason was the elimination of import duties on cars from the EU.

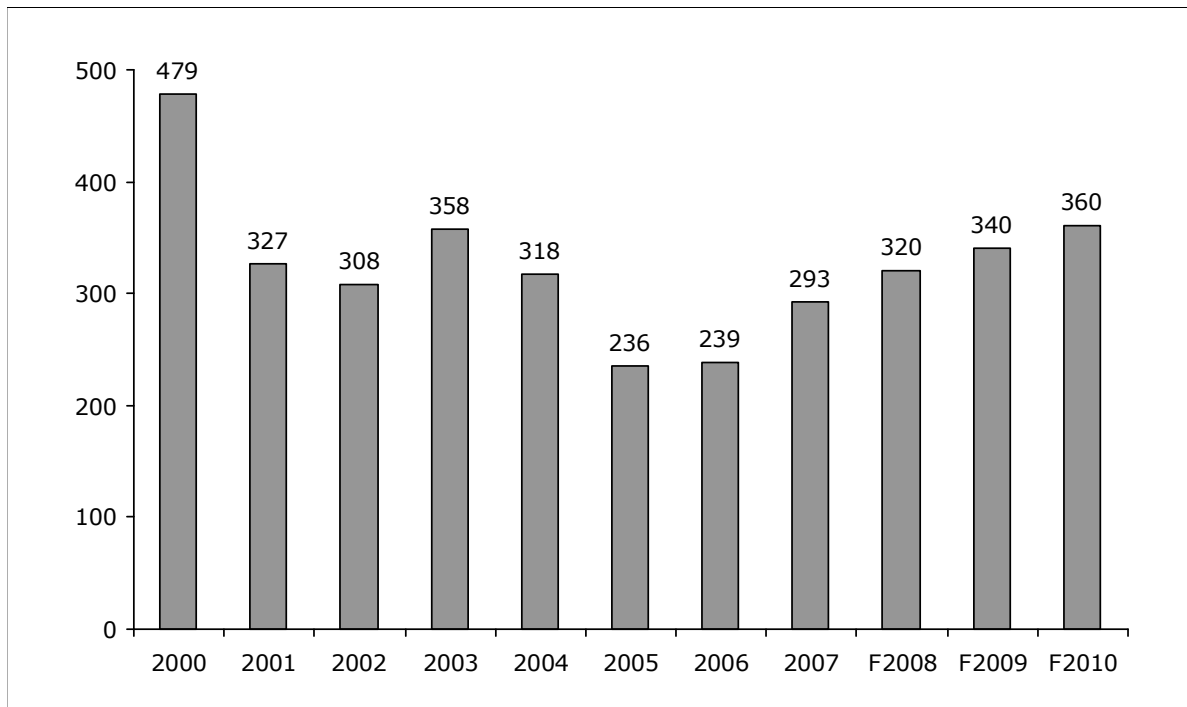


Figure 11: Sale of New Cars in Poland, in 1.000, 2000-2010

Source: GUS, Samar, Globis Analysis

The elimination of import duties made it possible for Polish people to buy used cars from Western Europe – mainly Germany – at substantially lower prices than new cars from Poland. In 2002, the regulation prohibiting imports of cars older than 10 years into Poland was abandoned. From this time on access to cars – in the form of very old used cars – was possible at prices, a large portion of Polish families could afford, either as their first car or as second and third cars.

After imports doubled at the beginning of the new century, there was a short but dramatic downturn of imports of used cars in 2003. By this time sales taxes on imported used cars were increased, technical requirements for imported cars were strengthened and people were waiting for Poland's access to the EU. From 2004 onwards, with Poland being in the EU, imports increased dramatically. In 2007, imports reached a record high with 1 mio. used cars being registered first time in Poland. Because of these huge imports of partly very old cars (over 50% older than 10 years, see Figure 9), Poland today has acquired a reputation of Europe's car dump. We predict imports to reduce again, since there are some signs of over-supply and increasing income allows the purchase of a new car in more cases. Al-

ready today, statistically each Polish household owns a car. However, Polish mentality today is to switch cars rather frequently. 42% of all registered cars (new and second hand cars) was bought in last 2 years. Therefore, an oversupply is not felt as strongly as in rather slow moving markets.

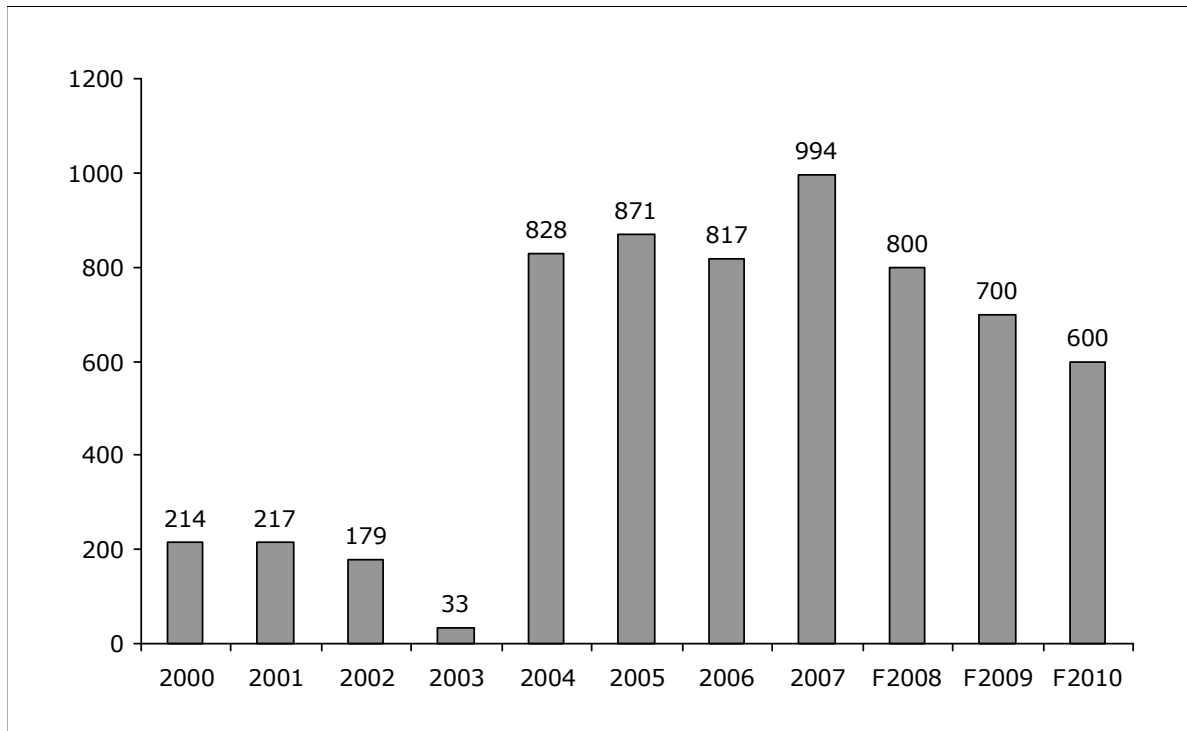


Figure 12: Import of Used Cars into Poland, in 1.000, 2000-2010

Source: GUS, Samar, Globis Analysis

This dynamic, the reduction of new car sales corresponding with increasing imports of used cars, characterizes the Polish car market today. 77% of additions to the parc came from imports of used cars. Only 2% of additions were through locally manufactured new car sales (see Figure 13). Even though Poland as a production base of new cars will gain further growth, the market for new cars in Poland will not strongly outperform other markets.

Also, an increasing share of new cars sold in Poland does not come from local production. In fact, there is a limited number of models being produced in Poland today. These models are mostly exported, which further underlines the strategy of the OEMs to use Poland as a production base for worldwide demand.

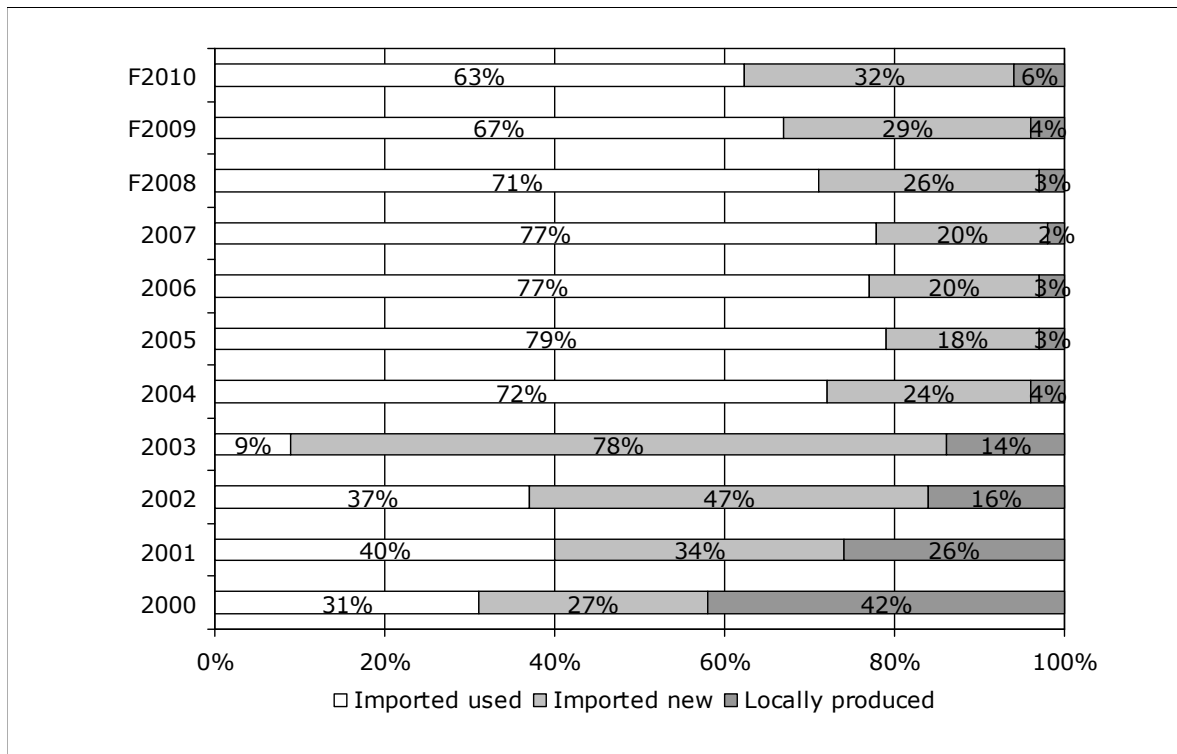


Figure 13: Relative Sales and Import Structure of Car Market, 2000-2010

Source: Globis

Annual additions to the car parc were around 1 mio. cars over the last years and will remain at this level (see Table 8). However, the parc is not growing at this pace. There are about 3% of the cars in the parc being deregistered annually.

Year	Total sales / additions	Foreign "second-hand" imports (sold)	New foreign	
			Imported new	Locally produced
2000	681.795	213.670	183.505	284.620
2001	537.772	216.517	183.437	137.818
2002	482.484	179.059	226.052	77.373
2003	387.131	33.496	300.590	53.045
2004	1.146.235	828.142	271.651	46.442
2005	1.106.299	870.777	203.255	32.267

Year	Total sales / additions	Foreign "second-hand" imports (sold)	New foreign	
			Imported new	Locally produced
2006	1.055.479	816.789	210.286	28.404
2007	1.287.883	994.546	264.003	29.334
F2008	1.120.000	800.000	288.000	32.000
F2009	1.040.000	700.000	299.200	40.800
F2010	960.000	600.000	306.000	54.000

Table 8: Sales and Import Structure of Car Market, 2002-2010

Source: Samar, GUS, Globis Analysis

2.2.2 Market Characteristics New Cars Market

Local production of cars does not impact sales to a great extent. Only 10% of new cars sold in Poland were manufactured domestically. Poland as a market today is too small to set up production facilities mainly for the local market. Poland is rather used as a production site in the international manufacturing strategy of OEMs.

The only locally producing OEM with a potential focus on the Polish market could be UkrAvto (the owner of ZAZ), which took a major stake in FSO and is producing Daewoo-based models, which were adapted by UkrAvto – similar to what FSO was doing before. Daewoo models have a relatively strong position in the market (Daewoo-FSO ranks fourth in the parc) and UkrAvto is building on this to serve the Polish market. It is unclear, whether UkrAvto will use its European production base to serve the rest of Europe with its models. Hence, sales are impacted mostly by the attractiveness of cars but not some type of loyalty towards a local brand or local production site. In 2007 Toyota surpassed Skoda as the top selling brand in Poland. Skoda, No.1 of the year 2006, is now second in place, followed by traditionally strong Fiat and Opel. Only Fiat and Opel have a production base in the country. Kia experienced the strongest growth, with over 100%. Noteworthy in general is the appearance of Asian brands (Japanese and Korean), which do not

have a major share in the parc but become a strong competitor in new car sales. Table 9 shows the details.

	Brand	2007	2006	Growth 2007 / 2006
1	Toyota	33.848	27.883	20,27%
2	Skoda	32.905	28.783	12,87%
3	Fiat	27.817	24.283	14,83%
4	Opel	26.764	24.942	7,44%
5	Ford	21.558	17.712	20,32%
6	Volkswagen	20.468	15.135	33,15%
7	Peugeot	18.675	14.934	28,60%
8	Renault	16.208	15.450	4,83%
9	Citroen	13.674	12.028	16,27%
10	Honda	13.025	9.911	32,96%
11	Kia	8.664	4.111	111,1%
12	SEAT	8.004	4.693	70,6%
13	Nissan	7.464	7.198	3,69%
14	Suzuki	7.299	4.019	81,62%
15	Chevrolet	5.305	4.346	22,08%

	Total	293.078	238.690	22,79%

Table 9: Top Selling Brands (New Cars), 2006-2007

Source: Samar, Globis Analysis

Noteworthy is the appearance of two Chinese brands: Great Wall and China Motors are already present in Poland, with dealerships in Radom (Great Wall) and Gdansk (China Motors). They currently sell on price and on design mostly very similar to other automaker's models.

Skoda has the two top selling models in Poland, the Fabia and the Octavia (see Table 10 for details). Toyota Yaris was the third best selling model in Poland. Toyota's Corolla, the sale of which was stopped in 2007, naturally experienced the most substantial decline in sales numbers. Together with the sale of the Auris, Corolla / Auris ranked fourth in sales in Poland in 2007.

Model	Sales in 2007	Sales in 2006	Growth 2006/2007
Skoda Fabia	17.017	16.455	3,3%
Skoda Octavia	12.477	10.543	15,5%
Toyota Yaris	11.754	8.427	28,3%
Ford Focus	10.325	8.094	21,6%
Fiat Panda	9.271	10.142	-9,4%
VW Passat	7.505	6.491	13,5%
Opel Astra	7.254	6.006	17,2%
Opel Corsa	6.568	3.178	48,4%
Opel Astra Cl	6.469	7.937	-22,7%
Toyota Corolla	5.833	7.868	-34,9%
Toyota Auris	5.568	New model	
Kia cee	5.780	New model	

Table 10: Top Selling Models (New Cars), 2006-2007

Source: Samar, Globis Analysis

The Fiat Panda, which is also one of Poland's best selling models, experienced a rather strong decline. Also, Opel Astra's sales numbers reduced substantially.

In Poland, most new cars sold are small cars. Compact cars, however, are on the rise and in some months of 2007, they were the market leader in terms of sales of new cars. Small and lower medium cars account for about 60% of the new car market (see Figure 14).

In Poland one can also note the overall trend to SUV and MPV – a segment that more than doubled over the years. The luxury car segment also grows stronger than the overall market, but does outperform the market growth by only 10 points.

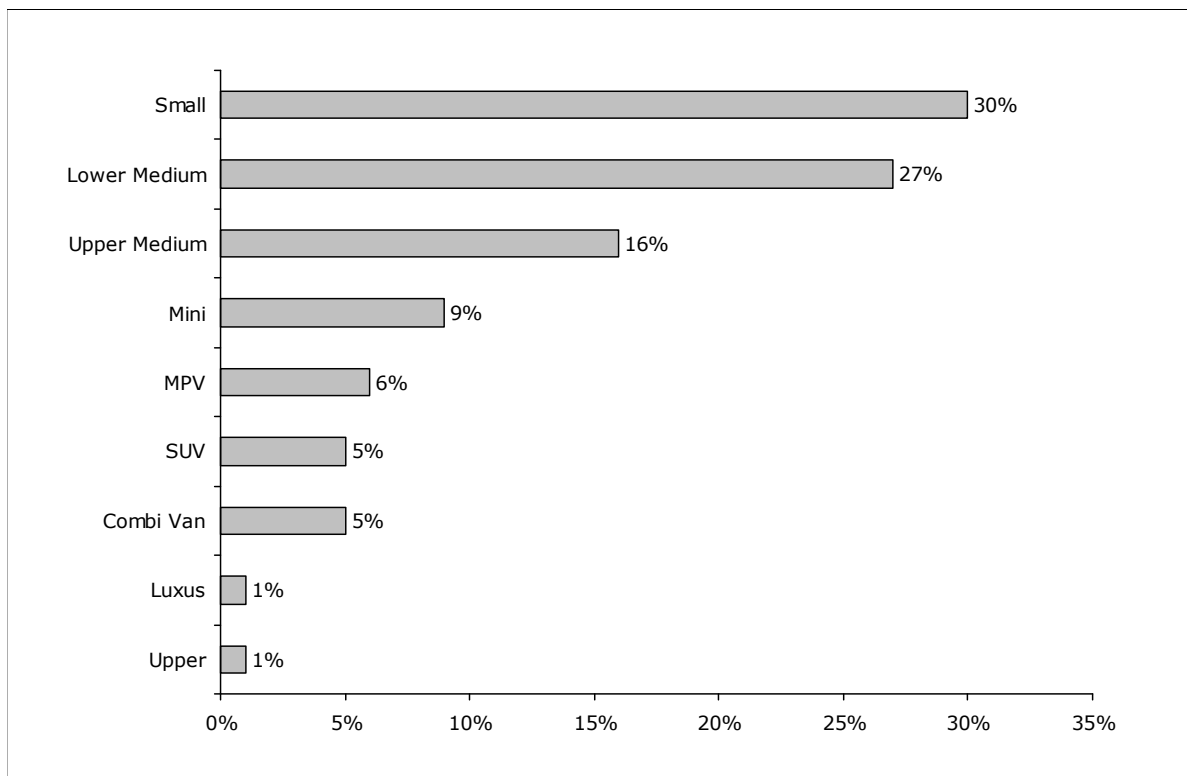


Figure 14: New Car Sales by Segment, 2005

Source: Samar, Globis Analysis

This trend to slightly bigger-size models is also reflected in the development of the average price for new cars, which increased from about 12.400 EUR in 2003 to 16.800 EUR in 2006.

The market for new passenger cars in Poland is particularly driven by corporate buyers. In 2007 about 30% of passenger cars – without vans – was bought by corporate buyers, coming from about 20% two years ago. Hence, the economy has a direct impact on car sales. Of course, the buying process of business car owners is different to private consumers and most cars bought by companies are leased.

Diesel plays an important role in the Polish new car market. 37% of new cars sold run on diesel, coming from 31% the years before (see Figure 15). Fuel is still the dominant energy source with a share of over 50%. Gas has a share of about 10%. However, many Poles buy fuel-type engines and remodel them into gas-engines. Remodelling has become a rather cheap business in recent years and will likely grow further with rising prices on fuel and diesel.

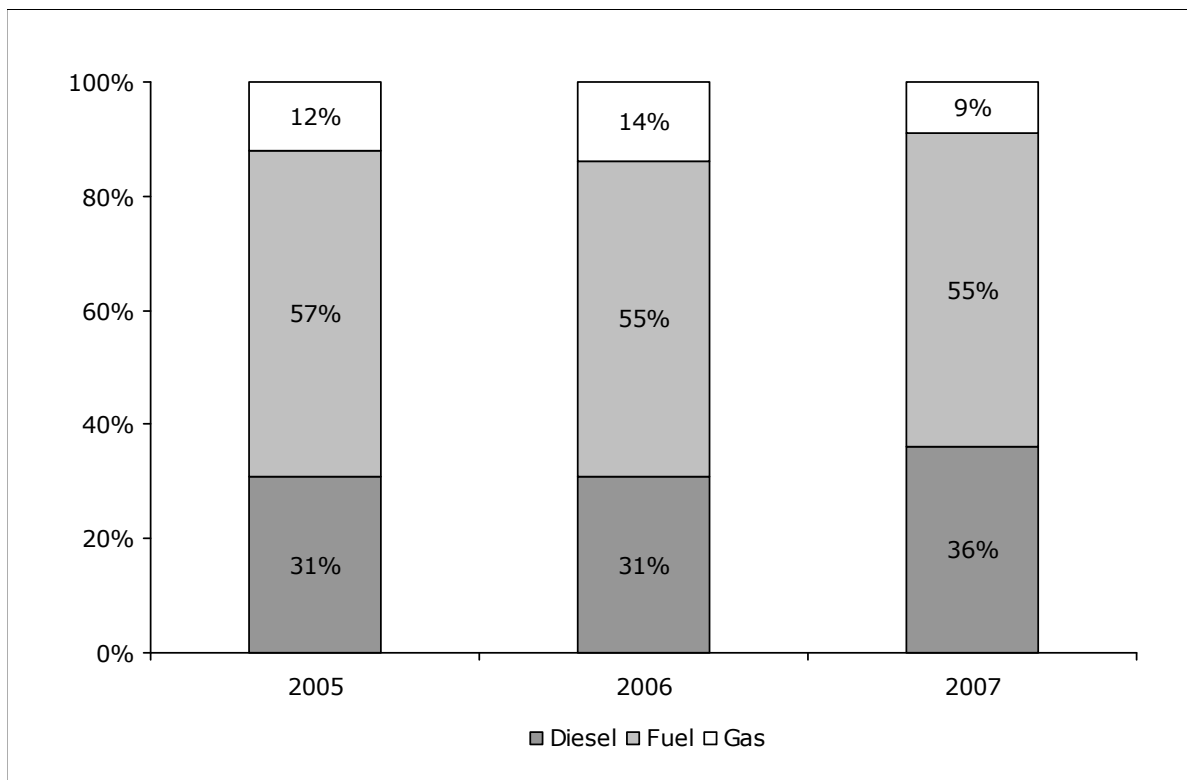


Figure 15: New Car Sales by Typ of Engine, 2005-2007

Source: Gazeta Wyborcza, AutoFocus, Globis Analysis

2.2.3 Market Characteristics Used Car Imports

As already mentioned, the Polish car market is dominated by imports of used cars, mainly from Western Europe and particularly from Germany. Since 2004, when Poland entered the EU, imports of used cars has skyrocketed. In the course of this massive import of used cars, Poland acquired a reputation of Europe's car dump. This trend is set to continue for some years. New car sales will, for some years, not exceed imports of used cars.

Most imports are through private individuals. The organized used car imports sector does not play a major role in Poland. Most Poles therefore do have a sound knowledge of assessing and fixing cars.

The main brands imported as used cars in 2007 were Volkswagen and Opel, which are second and third in parc. Figure 16 shows the distribution of brands in the used car import market in 2007, which totalled 994.000 cars.

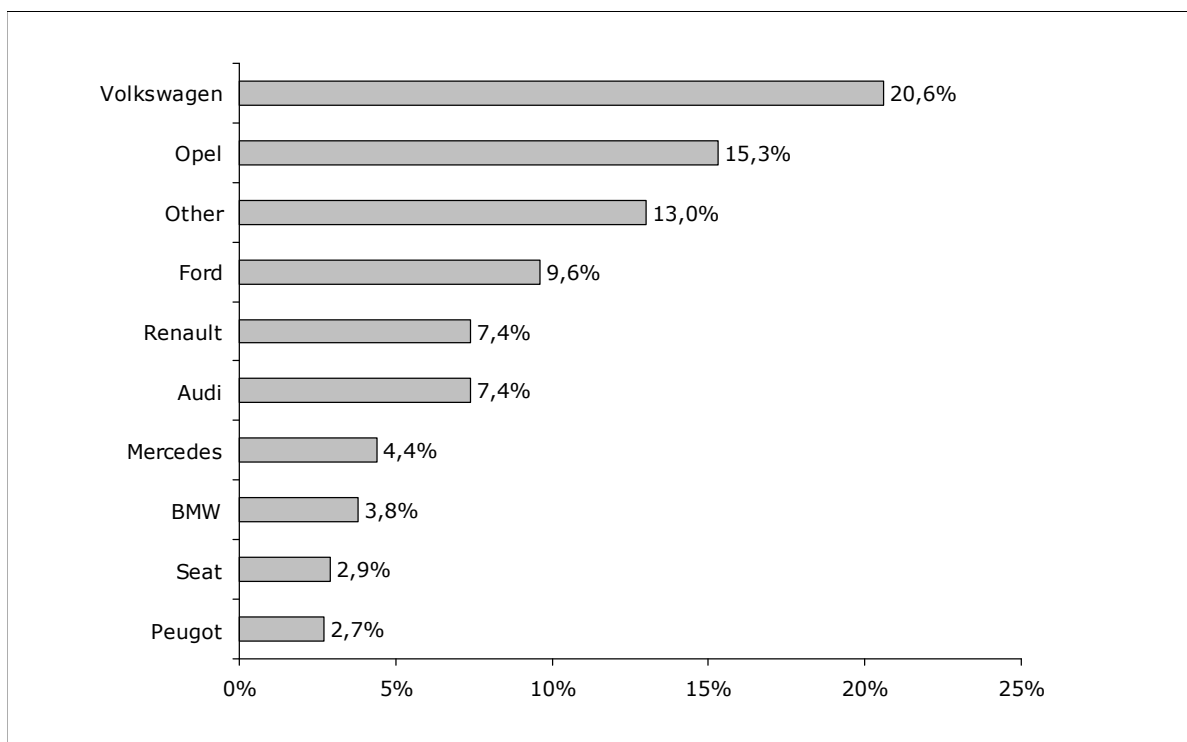


Figure 16: Top Ten Brands of Imported Used Cars, 2007

Source: Samar, Globis Analysis

The top ten brands are followed by Japanese brands Nissan, Mazda and Toyota. The most frequently imported models are from the lower medium segment. Imported cars are somewhat larger than new cars, with are mostly from the small or mini-segment. VW Golf is the clear leader in imports. Table 11 shows the details.

	Model	Imports in Units
1	VW Golf	86.382
2	Opel Astra	53.595
3	VW Passat	46.938
4	Opel Vectra	34.290
5	Opel Corsa	26.100
6	Ford Mondeo	25.358
7	Ford Escort	24.412
8	Audi 80	21.383
9	Audi A4	20.806
10	BMW series 3	20.646

Table 11: Sale of Used Cars by Model, 2006

Source: Samar, Globis Analysis

The age structure is continuously improving, meaning that the age of imported cars is gradually reducing. However, in 2007 there were still over 40% of imported cars older than 10 years. With rising income, this trend is set to continue. With imported used cars getting younger, the price gap to new models is narrowing. In the long run, new car sales will benefit from this trend. In the short run we do not expect any substantial trade off in favour of new car sales.

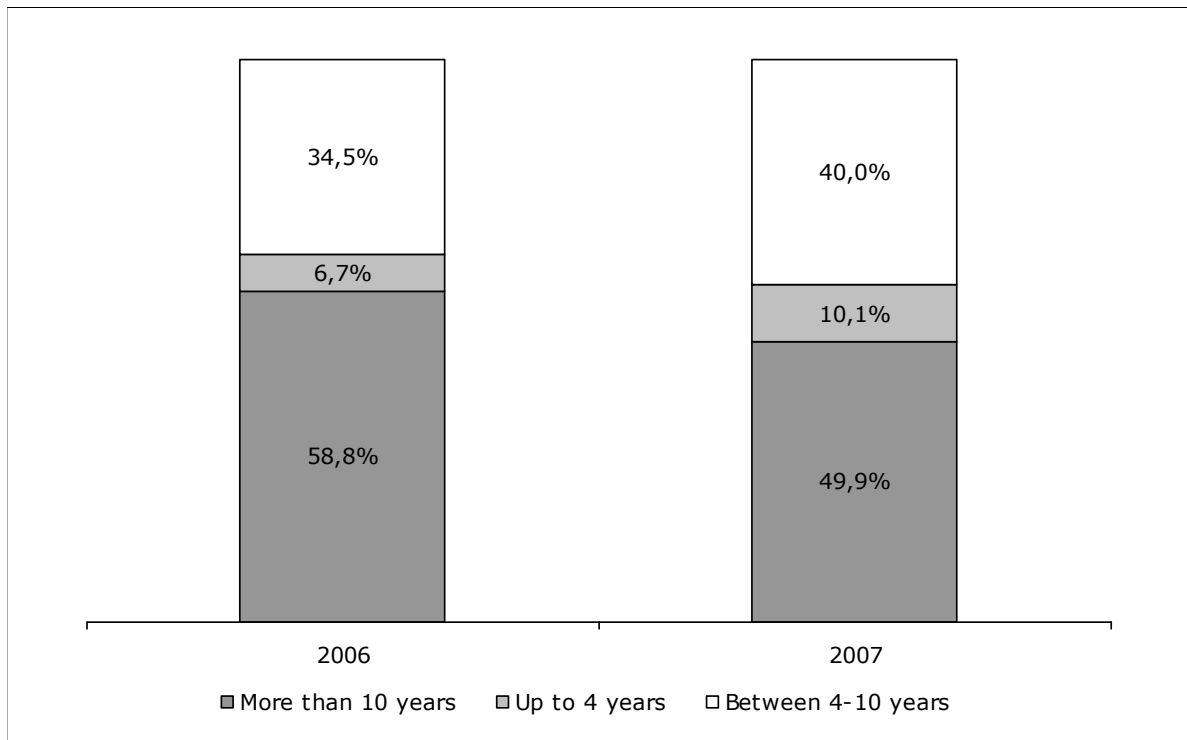


Figure 17: Age Structure of Newly Imported Used Cars into Poland, 2006-2007

Source: Samar, Globis Analysis

2.2.4 Sales Drivers for New Cars

The automotive market in Poland is the most attractive one in CEE in terms of sales of new cars. However, the market has not shown continuous growth in the past. There are several factors influencing the market size:

- Economic growth and income levels
- Used car imports
- Changing regulatory environment
- Development of credit system and car loans
- Expansion of dealership networks
- Consumer behaviour.

2.2.4.1 Economic Growth and Income Levels

The economy in Poland is expanding at a rate in excess of Western industrialized countries. Poland's GDP will be growing at a rate in excess of 5% for the next

years. The growth is driven by foreign investments (mostly production facilities) and by the service industry. The later one leads to an increased demand for cars – passenger cars and small delivery vans. Today already 30% of the market of new cars is bought by companies. This share is set to further increase and will drive the expansion of the new cars market.

The average wages in Poland were increasing at a rate of about 5,5% annually. Although this rate is likely to reduce – we estimate a growth rate of 4% over the next years – the current average monthly wage level of about 700 EUR or 900 USD is increasing the number of consumers who are actually able to buy a new car - not just a mini or smaller car, but a lower medium car. Hence, income levels will have a continuous positive impact on the market of new car sales.

2.2.4.2 Used Car Imports

With Poland entering the EU, there are no import duties levied on new cars brought into Poland from the EU. Still, the cost of a new car is too high for many Poles. The income level, although increasing but still low, is just one reason. The ready supply of used cars from Western Europe is another: It is very easy to buy a used car, which is still in relatively good shape, for a substantially lower price than a new car: in 2002, the regulation prohibiting imports of cars older than 10 years into Poland, was abandoned – in order to give Polish families a chance to own a car at moderate cost. There are also no more import duties on used cars and the tax environment has been changed so that there is no more discrimination against imported used cars. So many Poles opt to buy used cars at a lower price.

The tendency of Polish people to switch their car almost every two years is another reason not to invest too much into a new car. And there is another reason: In the past the majority of cars stolen in Germany was transferred to Poland (often further East). Now Polish people with new cars have the same fears Germans have about their new car: the risk of the car getting stolen is very high.

The import of used cars has seen a strong increase since the 2002, when the regulatory environment changed in favour of importing used cars. With a cars-to-population-ratio of about 0,4, which is almost one car per household (over 60% of

Polish households possess a car, among them 86,3% with one car, 12% with 2 cars and almost 2% with 3 or more cars), the imports should reduce in the future. However, we do not expect a strong tendency of Poles to exchange their old car for a new one. This could only happen with a tightening of the regulatory environment.

In total, we believe that the new car market will, for the years towards 2010, still be strongly influenced by used car imports. There will only be gradual growth in the new car market, but no race to replace the relatively old car parc.

2.2.4.3 Changing regulatory environment

There are two regulatory developments with a strong impact on the new car market:

1. The restrictions and sales tax regime for the imports of used cars
2. The VAT regime for businesses purchasing cars.

Currently, there are no restrictions as to the import of used cars into Poland. Age and Euro-norm-fulfillment are not relevant. Many other countries of the former Eastern Block do have such restrictions in place. With the increased discussion on climate change restrictions might come in the near future.

The only “burden” for importers of used cars from other European countries is a required technical check-up and some slightly higher rates of registration. These, however, are already contested by the European Court of Justice on the basis, that these rules do not apply for domestic sales of used cars and hence are discriminatory.

End of 2006 the excise tax rates on cars were unified. Imported used cars are now treated the same as other cars: Excise duty is only applied once at the same rate. Before this change, excise duty on imported used cars was higher than for new cars, when these cars were older than two years. With the old regulation excise duty could reach up to 65% of the value of the tax base – which was the value of the car. After the change, the following rates apply uniformly:

- The standard tax rate now is 3,1% of the value of the car

- For cars with engine capacity exceeding 2.000 ccm, the rate is increased to 13,6%.

The move was preceding a decision of the European court of Justice (the so-called Brzezinski case (C-313/05)). The ruling was to unify excise duty so as not to discriminate against imported products (in this case cars).

With this move, the excise tax on the import of older used cars was substantially reduced. Altogether, these new regulations do not set a hold on the imports of used cars. Various industry members therefore suggested to introduce an eco-tax to ensure a higher taxation of older cars or cars which do not comply with certain Euro norms. The idea was to boost the sale of new, environmentally friendly cars. However, the Polish government opposed this idea. The current situation remains in favour of imported cars – or simply not discriminatory against imported used cars. Whatever the Polish government would do to boost sales of new cars, it can not be discriminatory against the import of used cars from other EU-countries. From this point of view it will be difficult to use the regulatory regime to foster new car sales. In fact, also the leasing business for new cars is affected (slightly), since the residual value at the end of the leasing period would increase, with less alternatives through used cars in the market.

The VAT tax regime is, as in other European countries, not neutral for the business buyer. This practice seems to be contested by European Courts on the basis of an EU directive on VAT. Companies buying new cars can only deduct part of the input VAT, thus leaving an additional effective cost burden on the buyer. The part of input VAT that can be recovered is subject to frequent changes since income from VAT on new car sales is an integral part of the state budget (in 2005 VAT income on new cars sales was PLN 2.8 bn., on excise duty almost PLN 1 bn. – of which 30% was from used car imports). Recent changes had a negative impact, effectively reducing the amount of tax recoverable. These regulations have an impact on the new car business, especially with respect to corporate buyers. In 2007, about 30% of new cars in Poland were bought by Polish businesses.

2.2.4.4 Car Financing

The availability of car financing has a strong impact on the new car market. Today, car financing is offered by numerous institutions, in form of leasing or loan financing. The market still has some growth potential through deeper penetration of financing, but is relatively mature. The car financing market grows mainly through growth in sales. Both the purchase of new cars as well as used cars is financed through loans. Leasing is available only for new or very new used cars.

About 70% of new car purchase by private individuals is financed through loan arrangements, with leasing arrangement only accounting for around 1%. New car purchase by businesses is financed almost entirely through leasing arrangements (see Figure 18). In total, loans are the dominant form of car financing in Poland.

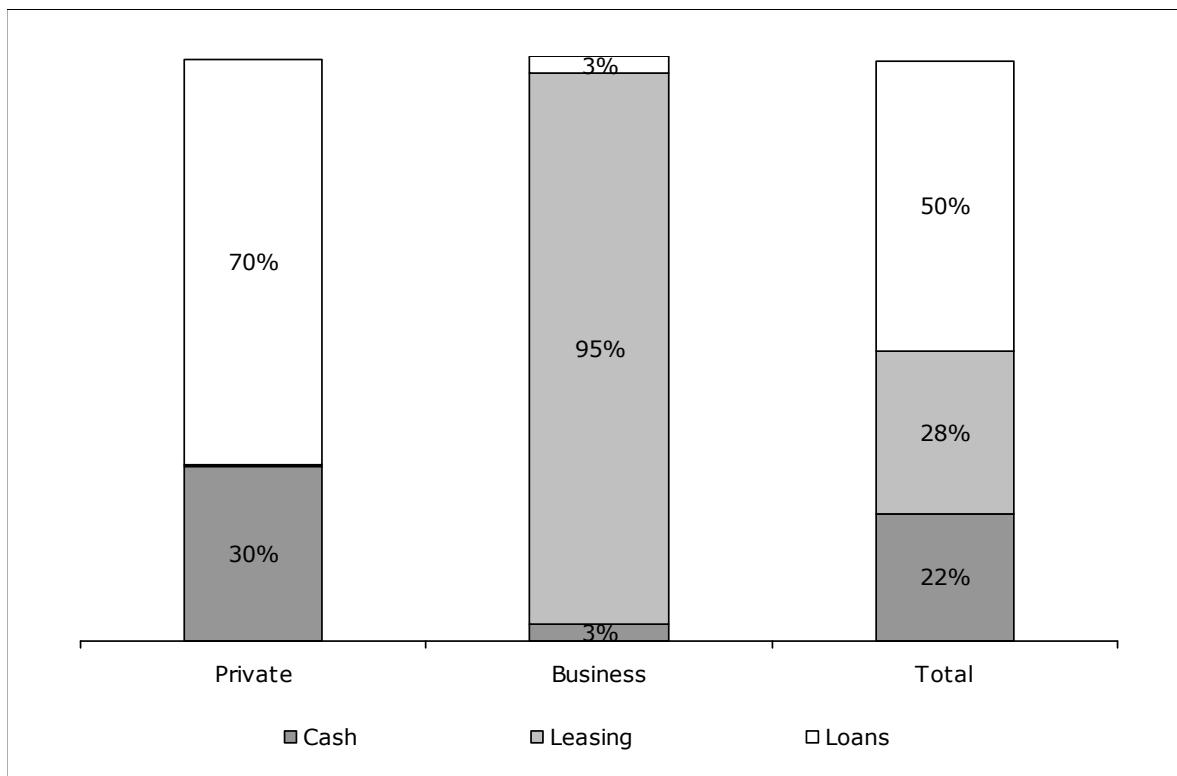


Figure 18: Share of Financing Arrangements for New Car Purchase, 2007

Source: Globis

Interest rates were ranging from 5% to 7% in June 2007 and hence are at an affordable level, especially with inflation around 3% to 4%.

Both loan financing as well as financing through leasing have become increasingly popular over the last years. The value of new leasing contracts increased 10-fold from 2003 to 2007 (see Figure 19), a tremendous growth which will experience a slow down in the next years.

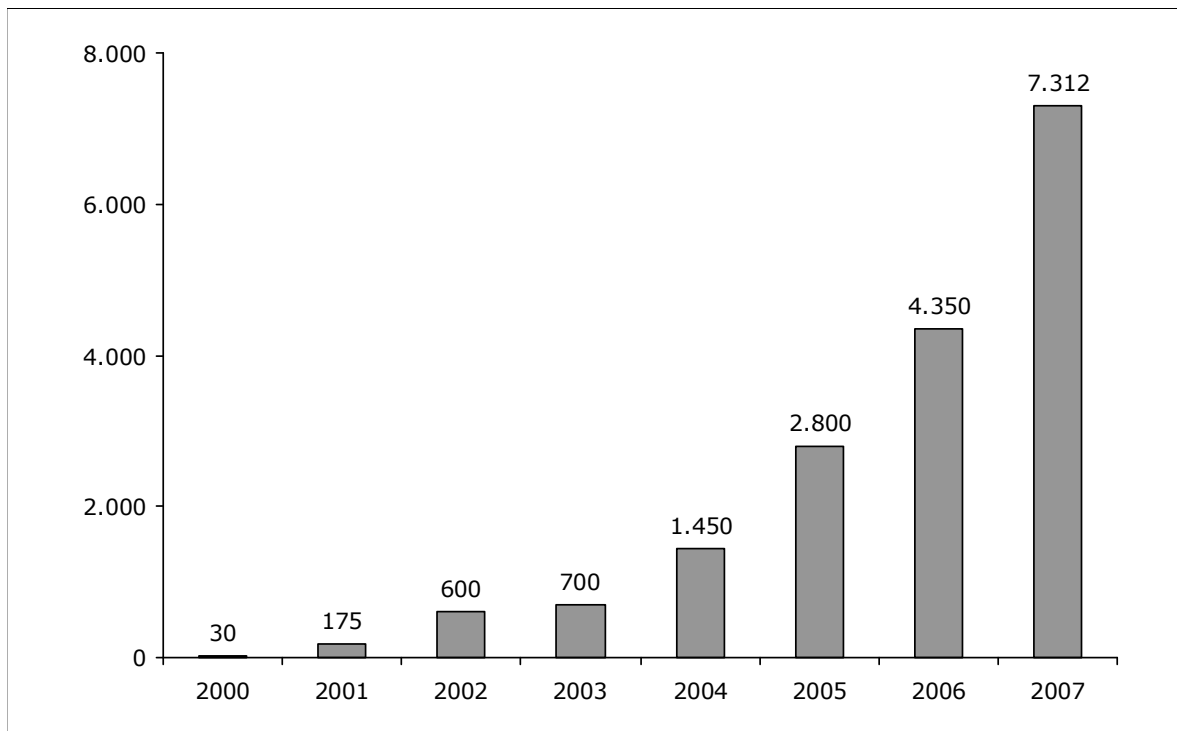


Figure 19: Volume of New Leasing Contracts for Passenger Cars, in Mio. PLN, 2000-2007

Source: Polish Leasing Association

With these growth rates, the market has attracted some attention in recent years. Fortis from UK, for example, bought up Dominant, a major used car financing provider, end of 2006. With an increase in the value of used cars and the number of imports and domestic transactions going up, financing is becoming more relevant for used car buyers.

Car financing in Poland will support a growing Polish car market, both in the new as well as the used car segment. In the new car segment, however, there is little room for more penetration of financing arrangements.

2.2.4.5 Dealership Networks / Distribution Systems

Dealership networks represent the reach of OEMs to their customers. In Poland automotive dealers, as in many other markets as well, are independent businesses, mostly bound to an OEM by contractual arrangements. Around 30% of dealerships are multi-brand dealers. This rate is supposed to grow slightly. Different to other markets like Russia, car dealerships are not dominated by chains. Only 5% of dealer companies have two or more outlets (Table 12 lists the largest new car dealerships in Poland). The market power of dealers hence is limited but the expansion of dealership networks is a rather detailed business. This might change with continuing growth in the new car market.

Dealer	Outlets	Represented Brands
Polska Grupa Dealerów Sp. z o.o.	9	Ford, Nissan, Suzuki, Fiat, Mitsubishi
Carservis S.A.	8	Fiat, Alfa Romeo, Lancia, Hyundai, Kia
Krotoski – Cichy s.j. / Skodex	5	VW, Audi, Skoda
Toyota Marki / Toyota Żeran	2	Toyota
Grupa ProMotors	7	Seat, Hyundai, Suzuki, GAZ
Pol Mot Holding	9	Skoda, Fiat, Opel
Auto Żoliborz Sp. z o.o.	3	Chevrolet, Opel
Grupa BEMO	5	Ford, Volvo, Suzuki, Mitsubishi
Toyota Bielany Sp. z o.o.	1	Toyota
Summit Motors	3	Ford, Honda

Table 12: Largest Car Dealerships in Poland, 2007

Source: E&Y

Poland does not have a large “problem” of grey dealerships, meaning non-authorized dealers selling new cars. The market-penetration by authorized dealer-

ships is relatively good. However, grey dealers exist, like in other developed markets as well, but are mostly focussed on speciality brands.

In 2007 the traditional Polish brands Fiat (and along with Fiat: Lancia and Alfa Romeo) and FSO had the largest network of authorized dealerships and authorized service centers. Skoda is third. Table 13 gives an overview.

Brand	No. of Outlets (Authorized Dealer & Service Stations)	Brand	No. of Outlets (Authorized Dealer & Service Stations)
Fiat	270	Nissan	49
Lancia	270	Iveco	40
Alfa Romeo	248	Mercedes	39
FSO	190	Audi	34
Skoda	120	Lada	25
Peugeot	118	Dodge	23
Opel	116	Chrysler	21
Renault	116	Jeep	21
Citroen	102	BMW	18
Intrall	80	Ssangyong	18
Volkswagen	79	Volvo	17
Andoria	71	Subaru	16
Ford	69	Saab	14
Chevrolet	68	Land Rover	13
Kia	68	Lexus	8
Hyundai	65	MINI	7

Brand	No. of Outlets (Authorized Dealer & Service Stations)	Brand	No. of Outlets (Authorized Dealer & Service Stations)
GAZ	62	Smart	7
Dacia	60	Cadillac	5
Honda	60	Corvette	5
SEAT	60	Jaguar	5
Toyota	60	Porsche	4
Mitsubishi	54	Maybach	1
Suzuki	50		

Table 13: Dealership and Service Networks of OEMs in Poland, 2007

Source: Globis

The business prospects of dealerships in Poland are mixed. Used car imports dominate the market and essentially reduce profits of new car dealers. Many dealers therefore are already active or becoming more active in the used car business, not just selling imported used cars but also serve the domestic second hand market. Also, fleet sales to companies is becoming an increasing business.

Besides used car imports, the frequently changing regulations, especially with respect to VAT payable and deductible by car buyers as well as excise duties, do make the business of car dealers somewhat unpredictable. See Figure 20 for the most influential factors on car dealers' businesses.

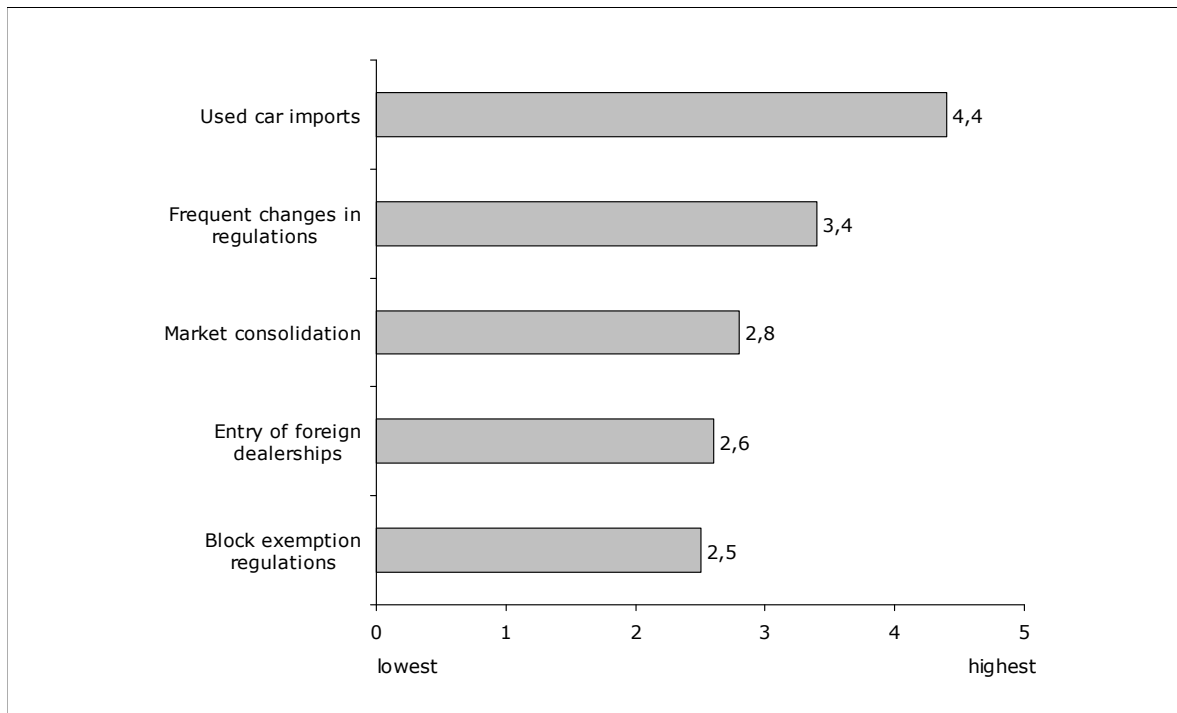


Figure 20: Factors Influencing Car Dealers' Business / Overall Market, 2007

Source: PWC

The strongest dealership are in the regions of Mazowieckie as well as Slaskie. This is not surprising, since these are the voivodships with the largest car parc in total numbers.

The official dealer centers, if multi-brand, are normally built according to the "3S" distribution system: each brand is sold in a separate house, with an official service and original spare parts offered there.

2.2.4.6 Consumer preferences

There is no real local brand in Poland, although Fiat and FSO have been around very long and are almost seen as local brands. Hence, consumer preferences are not biased by any loyalty to a local brand.

For many Polish consumers (about 50%) the most important factor when buying a new car is its economy – mainly the price of purchasing a car. This of course partly explains the rush for cheap, imported used cars. The second most important criteria is brand, with 40% of consumers seeing it as important when buying a car.

Comfort and size, with about a quarter of consumers being conscious about it, is not too much of an issue. Polish consumers still prefer small and compact cars.

Only for 7% of consumers service is an issue. Polish consumers, as of yet, are not concerned about the service for their car – this also explains the rush for imported used cars with unclear service situations. Figure 21 shows the details on consumer preferences.

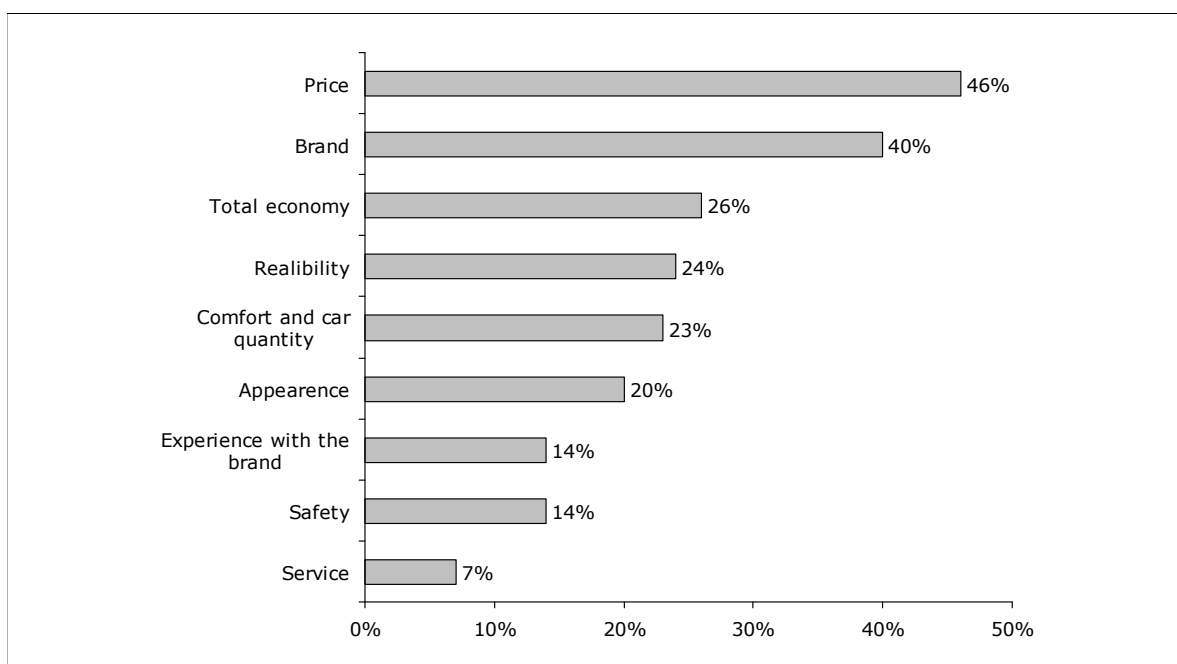


Figure 21: Key Criteria Influencing Car Choice in Poland, 2007

Source: TNS OBOP

An important factor of consumer behaviour in Poland is the frequency of people switching their cars. Polish consumers have a trend to switch quite often. 42% of all cars in parc were bought over the last two years. This tendency speaks more in favor of the purchase of a used car, since the loss of value of a car is greatest (relatively and absolutely) when it is newly bought. Buying used cars is an economically wise strategy when switching cars very often.

3 Polish Components and Spare Parts Market

3.1 Car Production and Components Market

3.1.1 Production

Poland has positioned itself as a production base for automobiles. There is a large, skilful labour-base and investors can get a variety of investment incentives, including tax benefits. The combined incentives shall not exceed certain thresholds. In Warsaw the threshold is 30% of the investment, in other regions it is 50% of the investment. Since the Nineties, Poland has 14 SEZ. Within SEZ foreign investors could receive a tax break of up to 10 years for income taxes. With the EU accession the further existence of these SEZ was unclear but now the regulation were extended to the year 2017. Automotive investments were frequently made in SEZ. For example, General Motor's factory in Gliwice or Fiat's factory in Tychy are build in SEZ.

Traditionally, the labour force was also cheap compared to Western European standards. While wages are still below Western European standards (700 EUR average wage in 2007), the gap has become more narrow and the case for Poland has become less clear. Still, Ford is planning to produce some of its models in Poland, in a co-operation with Fiat.

Today there are 4 major car manufacturing sites in Poland:

- Volkswagen in Poznan / Wielkopolskie
- Open / GM in Gliwice / Slaskie
- Fiat in Tychy / Slaskie
- FSO (UkrAvto / GM) in Warsaw / Mazowieckie

In 2007, they produced a combined 760 thousand passenger cars (without vans). Table 14 shows the details.

Car Maker	Passenger Cars Manufactured 2007, in 1.000	Passenger Cars Manufactured 2006, in 1.000	Growth 2006 / 2007
Fiat	346.177	281.642	22,91%
Opel	187.265	186.810	0,24%
VW	75.133	89.377	-15,94%
FSO	153.310	50.846	201,52%
Total	761.885	608.899	25,13%

Table 14: Passenger Cars Manufactured in Poland, 2006-2007

Source: GUS, Globis Analysis

Today, Fiat is the main producer of cars in Poland. However, Fiat is only concentrating on the Mini- and Small-Car-Segment. It is manufacturing the following models in Poland:

- Fiat Nuova 500 (since 2007)
- Fiat Palio III/IV
- Fiat Panda
- Fiat Seicento.

Fiat Panda, with about 240.000 cars produced, is the most numerous model produced in Poland.

Opel is second in place in terms of production of passenger cars (VW in total produces the same volume but half of it are delivery vans). Opel is producing the following models in Poland:

- Opel Agila (only until end of 2007)
- Opel Astra (after a few unclearities, production will remain in Gliwice)
- Opel Zafira.

With almost 120.000 cars the Opel Zafira is the second most numerous car produced in Poland.

Volkswagen does not produce any passenger cars in Poland but is concentrating on LCV:

- VW Caddy
- VW T5.

It has to be noted, that the Caddy is sometimes counted for as a passenger car, sometimes as LCV. In the above numbers, it is counted for as a passenger car. With almost 70.000 units, the Caddy is the third most numerous car produced in Poland.

FSO is coming out of a difficult phase: With Daewoo in problems, FSO was going through a difficult period. Today, FSO is owned by ZAZ, an Ukrainian car maker and, until mid of 2007, produced Daewoo models under a licence from GM, which took over part of Daewoo's business. In 2007, FSO started producing Chevrolets under a contract with GM, which now resulted in a joint venture of UkrAVTO, the holding company of ZAZ, and GM. GM is planning to ramp up production of the Chevrolet Aveo, its best selling European car, at FSO in Poland, with estimated production of 60.000 in 2008 and 100.000 in 2009. Therefore, FSO today is producing a mix of models:

- Chevrolet Aveo
- Daewoo Lanos/FSO Lanos
- Daewoo Matiz/FSO Matiz

In 2006, the FSO Lanos ranked fourth in terms of production numbers (about 50.000). Especially the production of the Aveo will be expanded in the future and likely make FSO the second largest producer of cars in Poland in 2009.

Because there are some public funds invested into FSO in the past – with FSO being in trouble – the EU has set a cap of production numbers for FSO which is at 150.000. This ruling is being contested and GM even seems to be prepared to pay back the subsidies just to get rid of the cap, which hinders the execution of its global manufacturing strategy.

Another producer is Intrall, which is producing mainly SUVs, but at numbers to be neglected for an overall market analysis (between 80 and 250 units / year).

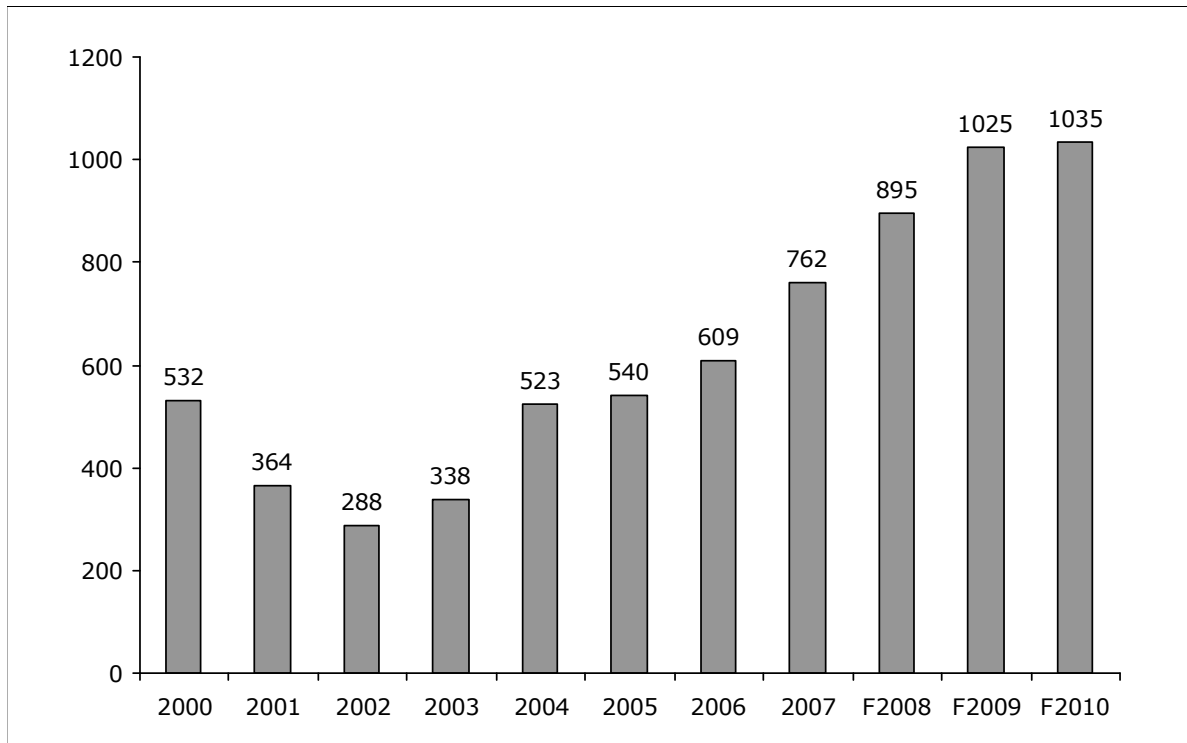


Figure 22: Production of Passenger Cars in Poland, in 1.000, 2000-2010

Source: GUS, Samar, Globis

It seems clear, that passenger car production in Poland will be further expanded, especially with the growing demand for smaller cars worldwide. We estimate a production volume of over 1 mio. passenger cars in Poland in 2010 (see Figure 22). Current major expansion plans are the following:

- GM with its Chevrolet Aveo at FSO plants
- Ford will start producing the successor of the Ka in Fiat's plant in Tychy and is investing above 200 mio. USD. Ford however, is not planning to build an own factory in Poland.
- Opel and VW do not have particular plans to increase production. However, Opel will produce the Astra III also in Poland, which could increase production numbers.

Fiat, on the contrary, is planning to move some of its production for the 500 and the Panda to Italy. However, we do not see any effects for the Polish market, since the demand for especially the Fiat 500 is well above current supply.

There are also Trucks and Buses produced in Poland. Major producers are MAN with three production facilities in Poznan, Starachowice and Niepolomice, near Krakow, Solaris, a Polish bus manufacturer and Volvo, which produces buses in Wroclaw.

3.1.2 Components Market

The components market, that is the delivery of components to the assembly line, depends on the volume of new cars assembled and produced in Poland, the pricing of components and the value-added of the manufacturer.

The value of the market for external components used in Polish-produced passenger cars grew at a rate of 28% annually from 2002 and has reached 5,4 bn. EUR today (see Figure 23). We expect growth to slow down, mainly on the basis of a slower growth of production numbers of passenger cars. In 2010 we expect a value of 8 bn. EUR in total.

The main drivers for this development are the degree of locally generated value added delivered in Poland, and the growth of the production volume in total.

There are no localization rules requiring certain local content of the production. The times when foreign cars were just assembled in Poland are over. There is an increasing degree of value added delivered in Polish factories which normally provides opportunities for suppliers. But car manufacturers tend to co-operate with suppliers on a basis of worldwide standards, so as to minimize co-ordination efforts, ensure quality and reduce prices. The prime suppliers follow the OEMs and almost all major tier 1 supplier are present in the Polish market. Therefore, a substantial share of the market is captive.

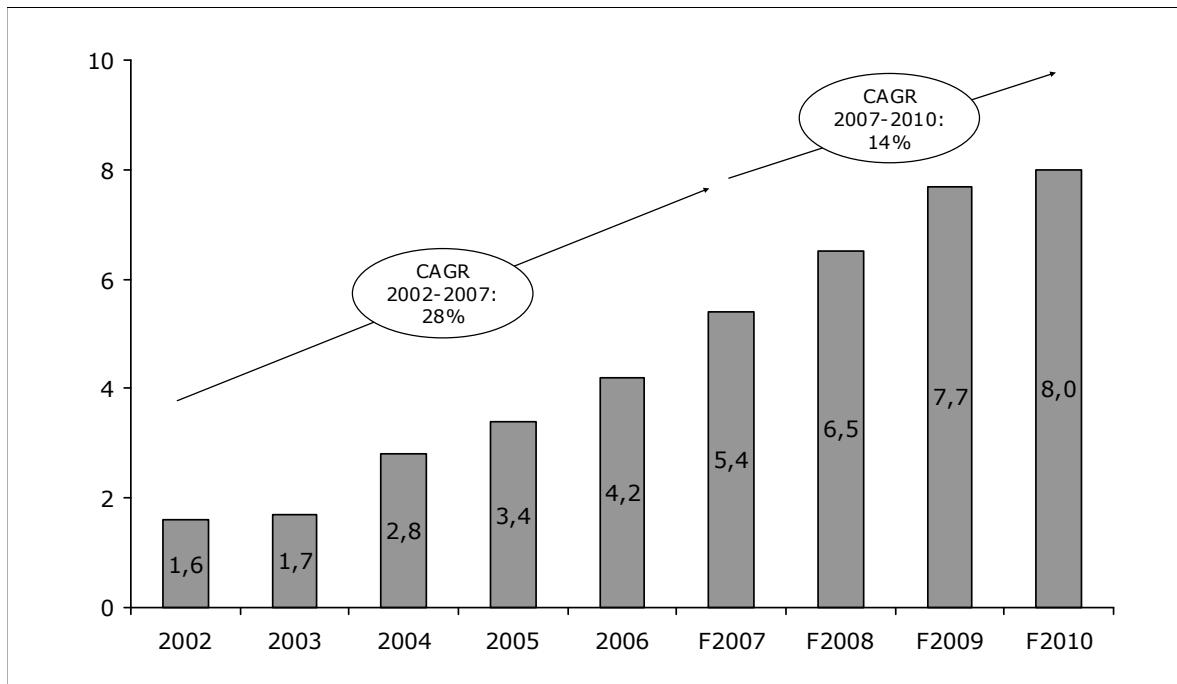


Figure 23: Development of Automotive Components Market in Poland, 2002-2010

Source: Globis

Today there are over 650 suppliers and service providers to the automotive industry in Poland, both of Polish and of foreign origin. Given this number, the market is relatively mature. Quality of Polish suppliers was always at a good standard and today is comparable to other suppliers.

There are few tier 1 supplier among companies still owned by Poles. The majority of Polish automotive companies is providing machining services with employment levels of up to 200 employees. Table 15 lists the largest automotive supplier companies in Poland, which are still in Polish hands.

Enterprise	City / Voivodship	Production	Supplies to, among others
Alumetal	Kety/Slaskie	Producer of aluminium castings	Various OEM and tier 1 / 2 companies
Asmet	Czersk/Pomorskie	Exhaust systems and mufflers for cars and delivery vans	Citroen, NYSA delivery vans (outdated Polish brand)

Enterprise	City / Voivodship	Production	Supplies to, among others
ASSO	Ostrow Wlkp./ Wielkopolska	High-quality oil, fuel and air filters for commercial vehicles, trucks, farming machinery	Wix-Filtron, subcontractor to other Filter-producers and distributors, aftermarket
Auto Power Electronic	Opole/Opolskie	Car electronics and electrical engineering appliances	FSO, Andoria, MotorPal, Aftermarkets in Russia and Germany
AutoMet	Sanok/Podkarpackie	Bus seats, plastic elements	Mercedes, Iveco, VW, Opel
Dolsin	Wroclaw/ Dolnoslaskie	Electric cables	Mercedes, MAN
EBCC	Wroclaw/ Dolnoslaskie	Brake callipers, aluminium frames	TRW, Continental, Bosch
Elektrometal	Czechowice-Dziedzice/Slaskie	Oil level gauges for combustion engines, guides, metal components, wire harnesses	Fiat, Isuzu, Bosch, TRW, Valeo, Visteon, Limet, Agromet, Agromet
Elektropoli – Galwanotechnika	Bielsko-Biala/ Slaskie	Car body elements, suspension elements, steering systems, wipers, motor fittings, brake disc casings and brake drums, car seat elements, fuel tanks, fenders, oil sumps, drive shafts	Fiat, Opel, Suzuki, MAN, SCANIA, Volvo, Magneti-Marelli, Valeo, TRW, Delphi, Manuli Auto, Delfo, Polmo, CGR, Cornaglia, Polmotors, Pro-Cars , Postep, CF Gomma, SFA, Kirchoff, Brembo
Geyer Hosaja	Mielec/ Podkarpackie	Tires, car mats, rubber compounds, traffic safety	Fiat, Renault, Honda, Goodyear Dunlop, Visscher Caravelle
FŁT- Kraśnik	Krasnik/ Podkarpackie	Rolling bearings	Aftermarket, various tier 1 and tier 2 companies
Inter Groclin	Wolsztyn/ Wielkopolska	Car seat upholstery manufacture, especially natural leather upholstery	Johnson Controls, Lear, Faurecia, Sieges d'Automobile, Rekaro, Audi, Volvo, VW, Mercedes

Polish Automotive Market 2007: Passenger Cars, Supplier and Aftermarket

Enterprise	City / Voivodship	Production	Supplies to, among others
Marbo	Miedzychod/ Wielkopolska	Foam forms	VW, Johnson Controls
Pak's	Jawiszowice/ Malopolska	Hydraulic components	Fiat
Poldec	Radom/ Mazowieckie	Gear boxes, alternators, starters	Valeo, Schneider Electric, CGR Polska, Faurecia, Bosch, Tbmeca, CF Gomma, Trelleborg, Mitec, Applifil, Mikroстыk
Polkork	Poznan/ Wielkopolska	Car gasket	Fiat, FSO, Russian manufacturers
Motgum	Jozefow/ Mazowieckie	Windsreen wiper	FSO-Deawoo, Fiat, bus and truck producer
Polmo	Szczecin/ Zachodniopomorskie	Shafts, steering gears and steering shafts production	FSO, Andoria-Mot, MAN Star Trucks & Busses, Autosan, Jelcz, MagnaSteyr Powertrain, Elges, Opel, Fiat, IFA
Zaklady Sprzetu Motoryzacyjnego Polmo	Brodnica/ Kujawsko-Pomorskie	Exhaust systems, air filters, catalyst	Wasiak, Schmitz, MAN, Kubota, Magneti Marelli, Polmotors, Fiat, Intrall, Andoria, Ursus Warszawa, PRONAR Narew, MAN-Starachowice, Zasada Group Jelcz, aftermarket
Postep	Zabrze/Slaskie	Services: production of great number of metal parts	Faurecia, Fiat, GKN, Magneti Marelli, Johnson Controls, Visteon, TRW, Scania

Enterprise	City / Voivodship	Production	Supplies to, among others
Pro-Cars	Tychy/Slaskie	Small and medium pressed steel and aluminium parts, such as engine supports and chassis, as well as aluminium and steel heat shields for exhaust systems	Fiat, Isuzu, Tenneco Automotiv, Inergy Automotic, Delphi, Valeo, Mitsuba, Delfo, Ergom Goup, Opel, BMW
Prokom	Szczecin/ Zachodniopomorskie	all kinds of hoses, vehicle electronics parts	OEM and OES, IAM
Srubex	Lancut/ Podkarpackie	Fasteners	Fiat, FSO, Andoria, IFS, Max Mothes, Böllhoff, ASS, Borshap B.V, Fabory
Stomil	Sanok/ Podkarpackie	Car-body sealing systems, products for anti-vibration systems (AVS), products for electric systems, brake systems, tires	Fiat, General Motors, Ford Motor, Volvo Cars, Suzuki, Volkswagen Group, Volvo Trucks, Delphi, Faurecia, Fuji, ACI, ThyssenKrupp Automotive, Benteler, Tenneco Automotive, Pilkington, Dura Automotive
Teknia Zem	Rzeszow/ Podkarpackie	Key switches, rotating switches and push-push switches, combination switches, windscreen washer pumps, electrofans, air filters, fuel filters, carbon canisters, brake fluid tanks, surge tanks, rear door contact strips, wire harnesses, other plastic parts.	Fiat, MAN-Star, Jelcz, Autosan, Bosch, Denso, Delphi, Valeo, Inergy
Termot	Warszawa/ Mazowieckie	Thermostats for engines	Mostly aftermarket
Tomex Brakes	Budzyn/ Lubelskie	Brake blocks and shoes for cars and truck brake blocks	Aftermarket

Enterprise	City / Voivodship	Production	Supplies to, among others
Tongheung Polska	Grojec/ Mazowieckie	Seats, seat frames, headrests, trim covers	FSO, KM&I
Zaklad Elektroniki Motor-yzacyjnej	Elk/ Warmisko-Mazurskie	Wiring harnesses, cables,	Behr, Valeo, Delphi, Denso, Volex, FSO, Ford

Table 15: Major Polish Component Suppliers and Service Providers

Source: Globis

An interesting story tells Inter Groclin Auto S.A., a tier 2 supplier engaged in the manufacturing of car seat upholstery (especially natural leather upholstery). Inter Groclin moved eastwards into the Ukraine. It currently is setting up its second plant there – based on the simple reason of cheaper labour cost in the Ukraine. This gives an outlook, though still in the far distance, of the FDI-flow in the automotive industry which holds true also for Poland.

An interesting company is also Stomil Sanok S.A., an industrial conglomerate also engaged in the automotive industry, offering a wide field of products like car-body sealing systems, anti-vibration systems, electrical systems and brake systems. It shows that in Poland industrial heavy weights might develop and eventually close the gap to other European suppliers who are in the business for a long time.

There is a large number of foreign component suppliers in Poland already. In fact, only few internationally acting suppliers are not in Poland yet. Some of them are planning to expand their operations, using Poland as a production base for the EU. Currently, however, the inflow of FDI in supplier businesses is somewhat reduced. The number of larger projects in the automotive sector declined by half in 2007. This is surely due to the competition especially from Czech and Slovakia, less so from Rumania and Hungary. Both countries have a skilled workforce and comparable cost of labour. Table 16 lists a non-representative list of major foreign component manufacturers with larger engagement in Poland.

Company	Region (city, voivodship)	Products
AutoLiv	Jelcz-Laskowice/Dolnoslaskie	Safety systems
Andoria - Most	Andrychow/ Malopolskie	Engines, generation sets, Gazela – small truck
Bitron	Sosnowiec/Slaskie	Air brakes, door switches, electronic timers, push-buttons
Delphi Poland	Krakow/Malopolska	Canisters and exhaust gas, recirculation valves, Electrical/electronic architecture, Heat exchangers, Hydraulic power steering systems
Eaton Trucks Components	Tczew/ Pomorskie	Clutches
Faurecia	Dolnoslaskie/ Mazowieckie/ Lubuskie	Cockpits, door panels, internal cars components
Hutchison	Lodzkie/Slaskie	Rubber accessories, ties
Magneti Marelli	Bielsko-Biala/ Slaskie	Lightning systems
Metzeler Automotive Profile Systems	Dzierzoniow/ Dolnoslaskie	Seals, rubber systems
SEWS Cabind Poland	Zywiec/ Slaskie	Electric cables
Takata	Krzyszow/ Dolnoslaskie	Airbag systems
Teksid Aluminium	Bielko-Biala/ Slaskie	Aluminium castings
Tenneco	Poznan/ Wielkopolska	Ride control, emission control
TRW Braking Systems	Gliwice/ Slaskie	Safety systems

Company	Region (city, voivodship)	Products
Valeo	Zielonki/ Mazowieckie	Car moduls
Visteon	Swarzedz/ Wielkopolska	Climate systems, car electronics, lightening

Table 16: Major Foreign Component Suppliers in Poland

Source: Globis

The main automotive clusters in Poland are in the South-West in Slaskie, with the plants of Opel and Fiat, in Malopolskie with the plant of Fiat-GM-Powertrain, in the Mid-West in Wielkopolskie, with the plant of VW in Poznan and around Warsaw, where FSO is located. Especially the Southern clusters stay in fierce competition with Czech and Slovakia, not just in terms of the investment itself but also in terms of qualified labour, with bus lines to the factories for commuting cross-border workers.

3.2 Polish Aftermarket

3.2.1 Market Segments Aftermarket (OE, IAM, Fakes)

Poles mostly use parts from the independent aftermarket for routine service and minor repairs after end of guarantee, to about 70% (see Figure 24). Original parts are used at a level below 20%. The level of faked spare parts used in Poland is slightly over the European average, which is estimated to be 10% of all spare parts used. Poland, in the past, has been one of the originating countries of faked parts. By then it was more profitable to sell abroad, while nowadays Poland itself is a “good” market for faked parts as well. Most faked parts are coming from China, Turkey and the Middle East.

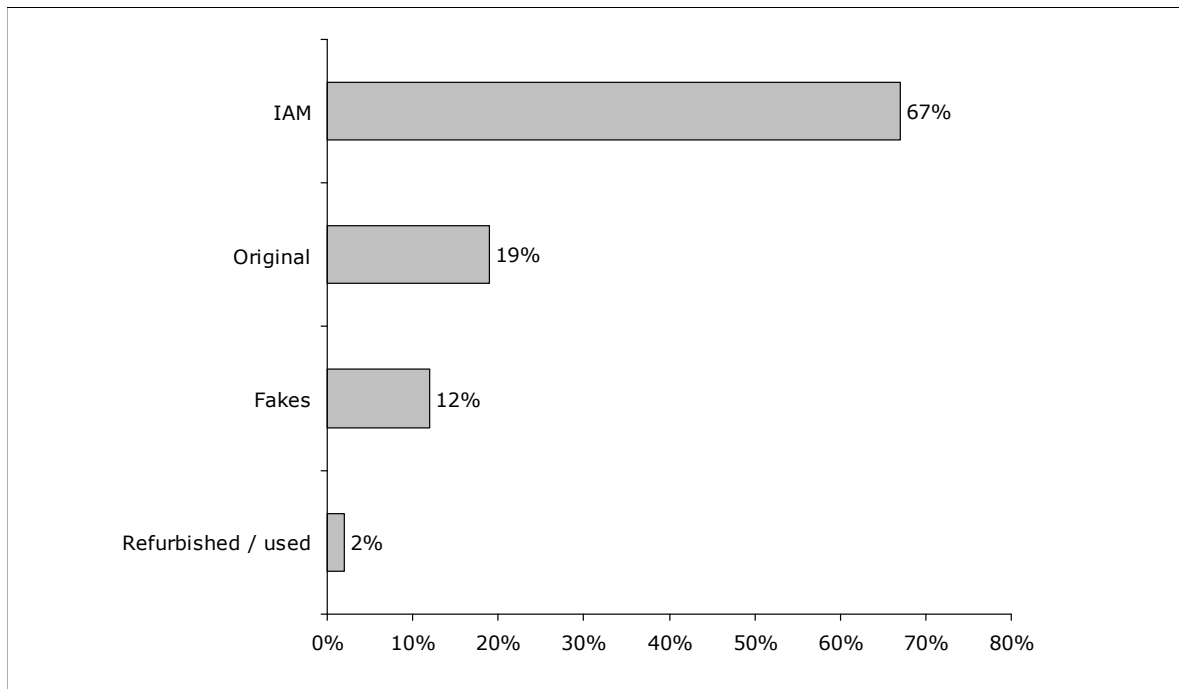


Figure 24: Share of OE-, IAM-, Fake-, Used-Parts for Routine Service, 2007

Source: Globis

The simple reason for Poles preferring IAM-parts is price, often accompanied with clear ideas about the quality of the parts (see Figure 25).

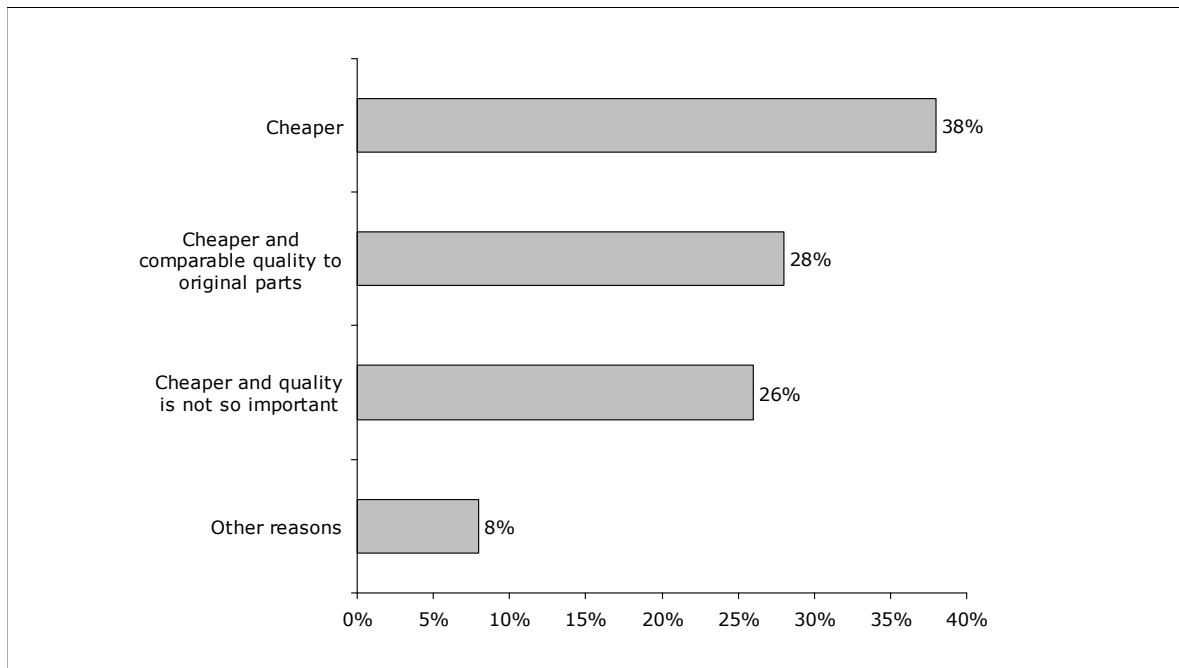


Figure 25: Reason for Poles' Preference of IAM-Parts, Single-Choice, 2007

Source: TNS OBOP

About 88% of Poles are of the opinion, that prices for original parts are either too high or very high and therefore in most cases not justified by any superior quality. Only 10% say, that the price is appropriate.

Poles, who visit authorized OEM dealers for service, have a stronger tendency for original parts. Only about 30% of customers chose for cheaper IAM parts after the end of guarantee service. During guarantee service, it is about 9% of customers.

3.2.2 Market Size Aftermarket

The spare parts market is mainly determined by the major characteristics of the car parc, e.g. its size as well as age, brand and model distribution. Of course, the personal income situation in respective households is also decisive. Apart from these generic derivatives for the market, there are country-specific factors which influence the parts market:

- Availability and usage of OE, IAM and faked parts
- Quality of cars, spare parts, fuel and lubricants used
- Regulations, like mandatory routine inspection
- Service center system and servicing habits
- External conditions like road conditions, climate, driving habits

The usage of OE, IAM, faked or used parts affects directly the value of the market. Indirectly, the quality of the respective part leads to either a faster wear out and a sooner need for replacement or vice versa. Faked parts as well as IAM parts are sold at a discount of 20 to 40% of the original price. The price for used and refurbished parts strongly depends on the actual quality of part. The share of respective parts segments is given in chapter 3.2.1.

The quality of cars, parts, fuel and lubricants today is not worse than in Western Europe. The principal life cycle of components and parts is comparable.

The availability of spare parts (original or IAM) for whatever model is sufficient, with the normal exception of parts for outdated models or even brands. The supply system for spare parts is sophisticated, which large importers and distribu-

tors on top, followed by regional distributors or spare part shops, which then sell to consumers or distribute to service stations which sell to consumers. See chapter 3.2.3 for details.

The routine-inspection-system in Poland provides for cars to be checked annually, after an initial period of three years for new cars. These regulations lead to some market expansion since regular inspection force car owners to act sooner if parts have to be replaced.

There are over 20.000 service stations in Poland. Many of them are organized in chains with more or less stringent quality standards. To get car service is not a problem. There are not many small private, non-registered repair shops left in Poland. The sector has become well organized over the last years. Still, many Poles try to fix car problems by themselves first. There is more common knowledge about cars in Poland than in many other countries. Most of the over 1 mio. used cars imported into Poland in 2007 were imported through private individuals. These people need to have more than a basic understanding how a car functions. This mentality leads to buy spare parts from shops rather than together with service or to use used parts, which effectively reduces the new parts market to some extent.

External conditions in Poland only have a minor impact on the parts market. The road system is still comparatively well developed, although there are still many problems in the country side and there has not been much investment into the road-network in recent years. Climate is moderate. Polish driving habits are no better or worse than in other countries.

Based on our market model, the total spare part market in Poland in 2007 was around 2,6 bn. EUR. Based on today's pricing, this market will grow to 3,0 bn. (see Figure 26) EUR in 2010, driven by an increase in the car parc and a further increase in the professionalism of the car service market. The growth of the after-market outperforms the growth in the car parc. These numbers include the market for tyres but neither form of lubricants.

Polish Automotive Market 2007: Passenger Cars, Supplier and Aftermarket

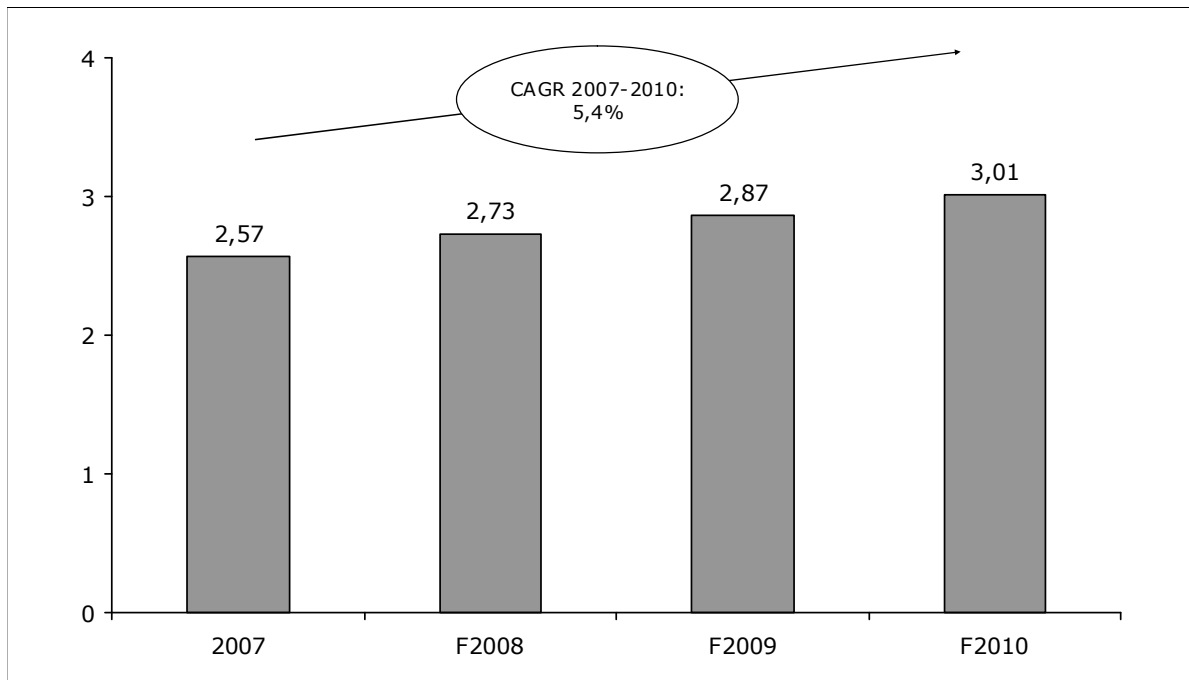


Figure 26: Size of Polish Aftermarket, in bn. EUR, 2007-2010

Source: Globis

The top markets are, in order of size, tyres, batteries, brake shoes and shock-absorbers followed by oil- and air-filters. Figure 27 gives an overview.

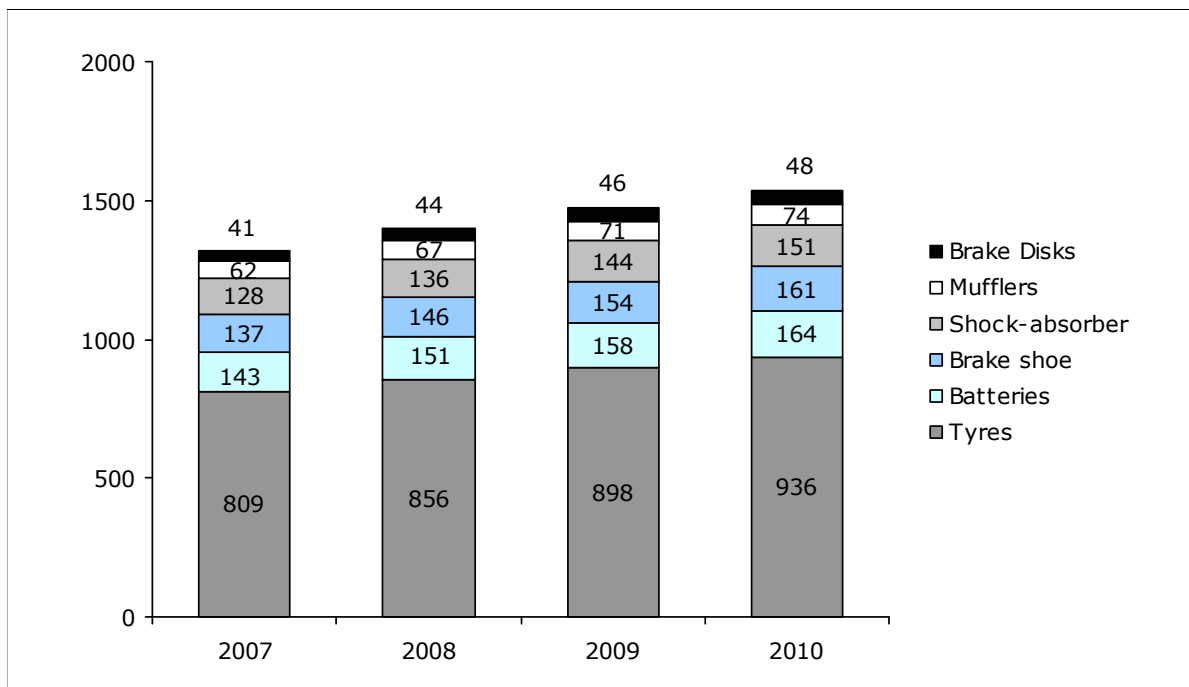


Figure 27: Aftermarket for Important Spare Parts, mio. EUR, 2007-2010

Source: Globis

3.2.3 Distribution System for Spare Parts

Car spare part distribution in Poland follows a common structure found in other countries as well. However, there is a large organized independent sector, with independent parts importers and distributors owning networks of service chains. Figure 28 gives an overview of the main distribution channels and the approximate number of players on the respective level.

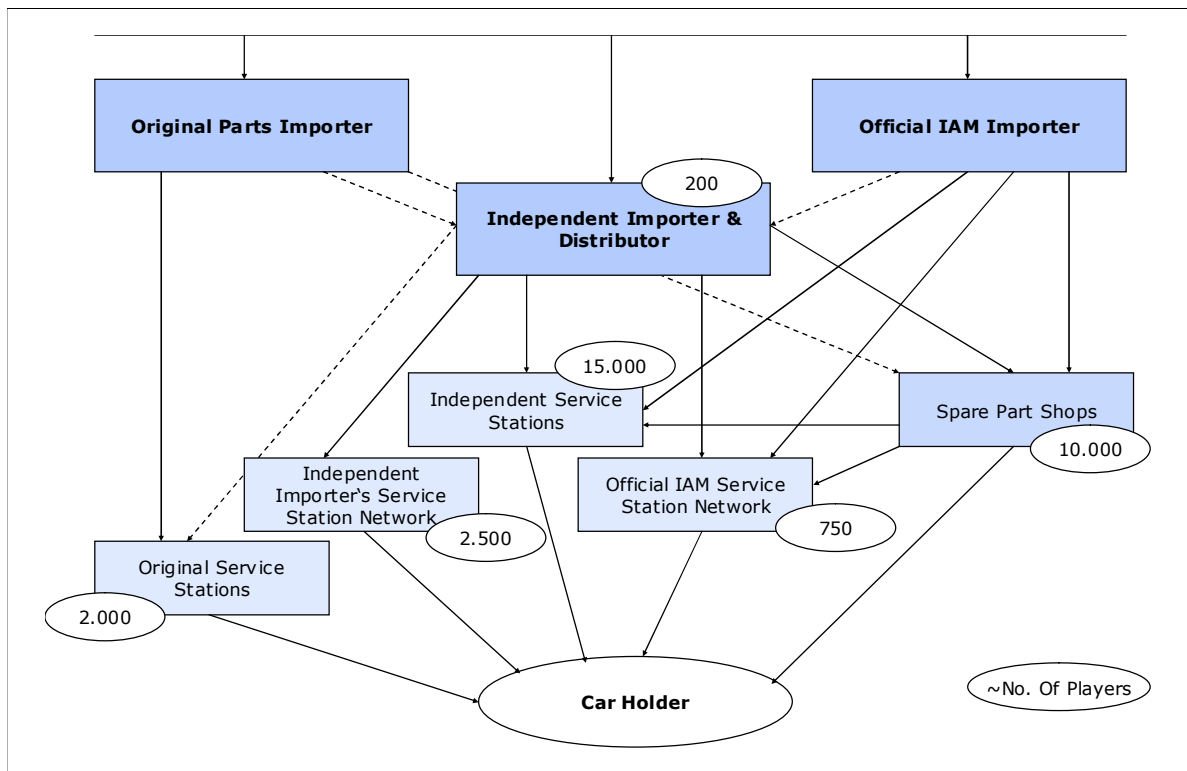


Figure 28: Main Distribution Channels for Spare Part Distribution to Car Holders, 2007

Source: Globis

It is a common bet, that there will be further consolidation on the importers level as well as further consolidation on the service station and spare part shop level. Consolidation will likely take place not through players falling out of the market but through takeover or mergers.

The most important channel for car holders to buy parts are service stations (see Figure 29). Many car holders do not care, what spare part is used for their car maintenance and repair. Service stations often do opt for cheaper parts, which ef-

fectively means: the cheaper the part, the more leeway there is for increasing service pricing.

Service stations buy their parts through parts distributors – very often the few bigger ones active in Poland. If parts are not time-critical and quality is not too important, many workshop owners buy through the internet, on portals like allegro.pl. In case of very urgent need for parts, spare part shops are used.

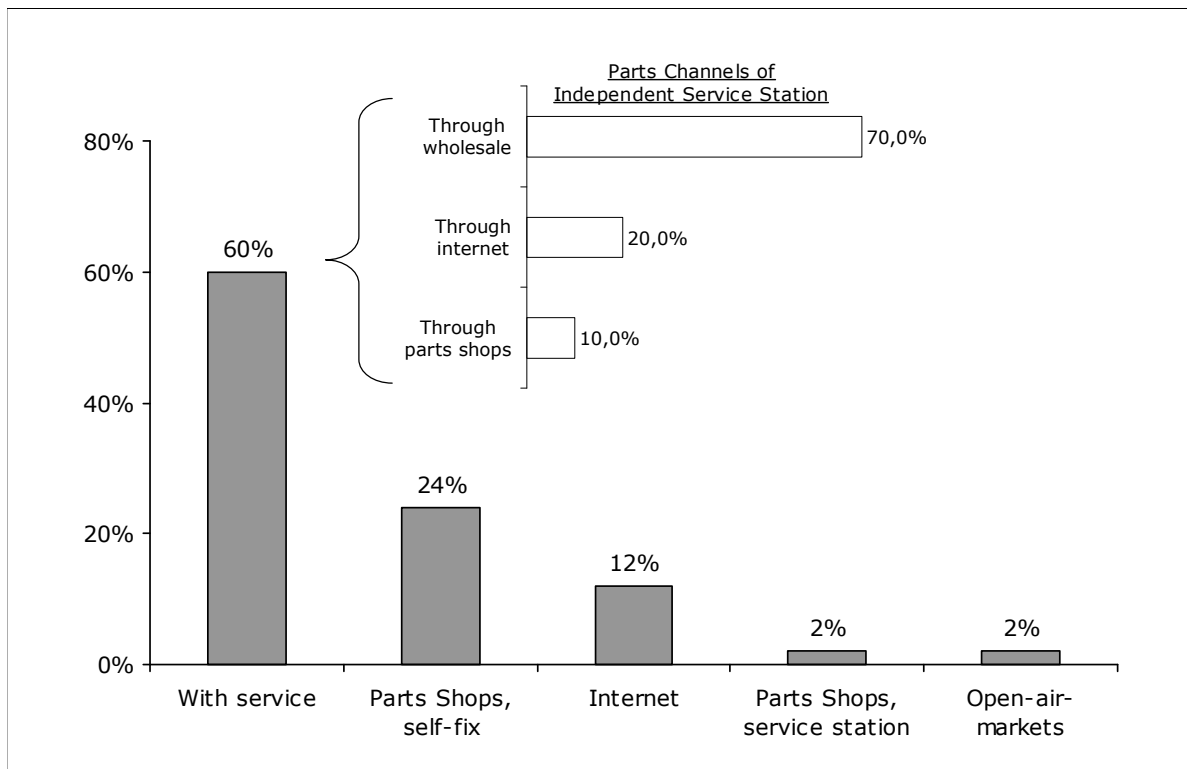


Figure 29: Shares of Spare Parts Sales Channels for Non-OE, 2007

Source: Globis

Many car holders fix their car on their own. For this they buy spare parts from the numerous spare part shops in the country. We estimate about 24% of non-original spares are being bought through shops. Rarely, spares are bought in a shop and then brought to the service station to have them build in. The internet is also an important place to buy spares. The older the car is, the more likely the internet is used to buy parts. Open air markets account for 1% to 2% of non-original spare parts.

3.2.3.1 Parts Importers and Distributors

Spare parts are mostly imported through major wholesale distributors into Poland. The Polish market is still scattered, with 10 large and several smaller distributors sharing the volume still relatively even. There are also the local offices of large suppliers who import directly.

For parts manufacturers, the wholesale distributors are a main channel to sell products in Poland. Table 17 gives an overview of the largest distributor.

Parts distributor	Number of Sales Outlets / Partners	Turnover 2006 (mio. PLN)
Inter Cars S.A.	Poland: 91 Czech, Slovakia, Ukraine, Lithuania: 29	1.012
AD Polska	Poland: 17 sales agents	572
Fota	Poland: 100	438
JC Auto	Poland: 22 + 27 partner Czech, Hungary, Croatia, Belgium, Italy: 5	270
Group Auto Union Polska	Poland: 60	204
Moto-Profil	Poland: 650 sales partners	190
Hart	Poland: 15	186
Inter-Team Co. Ltd.	Poland: 18	156
Polcar	Poland: 20	130
Moto Hurt Ropczyce	Poland: 5	125
Auto Art SA	Poland: 30	-

Table 17: Largest Independent Importers and Distributors of Spare Parts

Source: Globis

Inter Cars S.A. is the market leader. In 2007 Inter Cars and JC Auto, the leader in Japanese and Korean parts distribution, merged into Inter Cars S.A., forming an “industry giant”. The logic of this merger was surely to receive benefits of market leadership in different segments (coverage of parts for certain car models). However, one main bet in the market is, that Poland’s parts distribution market is too scattered, with over 10 big players and several smaller ones, and consolidation is only a matter of time. So it was better for both partners to make a move before it is too late and receive the chance to dominate the market in most segments. Inter Cars is part of ATR International, a German-based network of parts distributors present all over Europe.

AD Polska is second in terms of sales volume. AD Polska is part of Autodistribution International from Belgium, a network of 18 national parts distribution partners.

Fota has its own spare parts brand called “Kager” which is also sold internationally in Czech, Russia, Hungary and France.

Group Auto Union Polska (Gau Polska) is the common acting platform of 10 regional parts distributors in Poland. Recognizing that survival on a local level will not be possible, they formed the group but still kept their legal independence. The group members are Autopartner – Gdańsk, Autorak - Koprzywnica, Auto Zatoka – Wrocław, BHMD – Warszawa, DABO – Lublin, EDPOL – Częstochowa, Inter Parts – Olsztyn, Motorol – Kraków, Rodon – Leszno, Skabagis - Bielsko Biała. Gau Polska is member of the international network GROUP AUTO UNION International which is represented in 20 countries.

Moto-Profil is fifth in the market. The company is a member of Temot International Group, a German-based network of automotive spare part distributors.

Hart was the first distribution company in Poland to market parts under its own name. Nowadays, most distributors offer parts under their own name or a separately introduced brand like Fota did with its brand Kager.

Main importers of garage equipment are for example

- WSOP

- Best Products
- S-A-M
- Inter-Auto-Technika
- Italcom.

Of course, some of the largest parts manufacturers like Bosch have set up their own import- and distribution-system in Poland, either in addition to the large importers or – less often – as an exclusive channel.

3.2.3.2 Spare Part Shops

Spare part shops are a main distribution channel for parts to service stations as well as to the car owner. There are over 10.000 spare part shops with different specialisations in the Polish market. About 500 of them are part of a wholesale parts distributor. However, almost all of these shops are buying parts from the large wholesalers, complemented by parts they buy directly from suppliers like Bosch with their own offices in Poland. Buying directly abroad is mostly not a feasible way since because of missing purchasing volume prices and the administrative burden is not adequate. The advantage of the shops is, of course, its proximity to the customer (garage or car owner). They have both a logistics and financing function.

Spare part shops are an integral part of any strategy to enter the Polish parts market. To sell directly will be difficult, to sell via distributors, one's product might get lost in the vast product catalogue most distributors are offering. The best way is a mixture of good marketing or sales promotion and good logistics through distributors.

3.2.3.3 Service Stations

In Poland there are currently about 21.500 officially registered service stations for cars. This results into 660 cars per service station, which is at EU average. There is not much room for substantial growth of car service business left, only for some consolidation.

About 2.000 service stations are authorized stations of car makers (of which about 70% are also dealing with cars). About 2.500 service stations are organized through the major spare parts distributors.

Parts distributors in Poland were looking for an opportunity to bind service stations. The idea, developed by parts distribution market leader Inter Cars, was to create a marketing network of independent service stations. Members commit to certain quality standards and plan common marketing activities under a common brand name (sponsored by the parts distributor) – thereby promoting the brand as well. Members receive discounts on the organizers portfolio but commit to a certain degree of exclusiveness of the distributor. Q-Service was the first of such “chains”, initiated by Inter Cars S.A.. It was later supplemented by a international network called AutoCrew. Nowadays many other parts distributors have their own chains. Table 18 gives an overview.

Network	Number of Stations	Initiator / Logo-Owner
Q-Service, Q-Service Truck	407	Inter Cars S.A.
AutoCrew	59 (in Poland and Czech)	Inter Cars S.A.
Perfect Service	500	JC Auto S.A.
Leader Service	700 (including truck garages)	Fota S.A.
AD Siec Serwisow	139	AD Polska
Eurowarsztat (int.: EuroGarage or TopTruck)	53	Group Auto Union Polska
O.K. Serwis	250	Inter-Team Co. Ltd.
Moto-Complex	63	Auto Art S.A.

Table 18: Service Station Networks of Largest Independent Parts Distributors, 2007

Source: Globis

Apart from service chains initiated by spare parts importers, there is quite a number of other chains. Most of the chains are initiated by tier 1 suppliers, who

want to ensure adequate service as well as to sell to the aftermarket directly. There are few chains which are truly independent (an overview over major service chains gives Table 19).

As in most countries, Bosch's service network is the most extensive. Auto Majster, a 200 station chains is part of Bosch's network, bringing it to over 300 stations all over Poland.

However, there are still 15.000 garages left which are neither bound to parts distributors nor OEMs, suppliers or foreign networks. These independent garages mostly still buy through the distributors. To a minor extent they buy through the distribution companies of suppliers or through spare part shops (who in turn buy through the parts distributors).

Name	No. of Stations	Description
Bosch Service	316	Initiated by Bosch, world's leading automotive supplier; Auto Majster with 200 stations is part of this network
Original Sachs Service	250	Initiated by ZF Trading, a leading German tier 1 supplier
Auto Majster	200	Privately owned, but part of Bosch's service network
Hella Services	120	Initiated by Hella, a specialized tier 1 supplier from Germany
Centrum Hamulcowe Ate	70	Initiated by Continental Automotive Systems; focus on quick repairs
Valeo Expert	36	Initiated by Valeo, a leading French tier 1 supplier
Motrio	33	Stations are part of Renault's dealer and service system but act as independent service stations providing services for all kind of brands
Nissens	24	Initiated by Nissens, a leading cooling solutions provider from Denmark

Name	No. of Stations	Description
Norauto	17	Part of Norauto-Group, France, with almost 1.000 stations worldwide; Midas is also part of Norauto Poland
Shell autoserv	13	Owned by Shell; focus on quick repairs
Feu Vert	7	Only quick repairs
Midas	3	Part of Midas-Group which belongs to Norauto from France; present only in Warsaw

Table 19: Major Service Chains not Bound by Parts Distributors, 2007

Source: Globis

Even with a rather good supply of service stations, Poles have a strong tendency to fix car problems on their own. With many private individuals importing cars, there exists a widespread knowledge about car maintenance and repair. This leads to about 35% of all repair and maintenance cases to be fixed by the owner himself (see Figure 30).

Compared to other countries, this is a high share. Parts used in the course of self-fixing have to be bought through parts shops or through other supply channels like the internet.

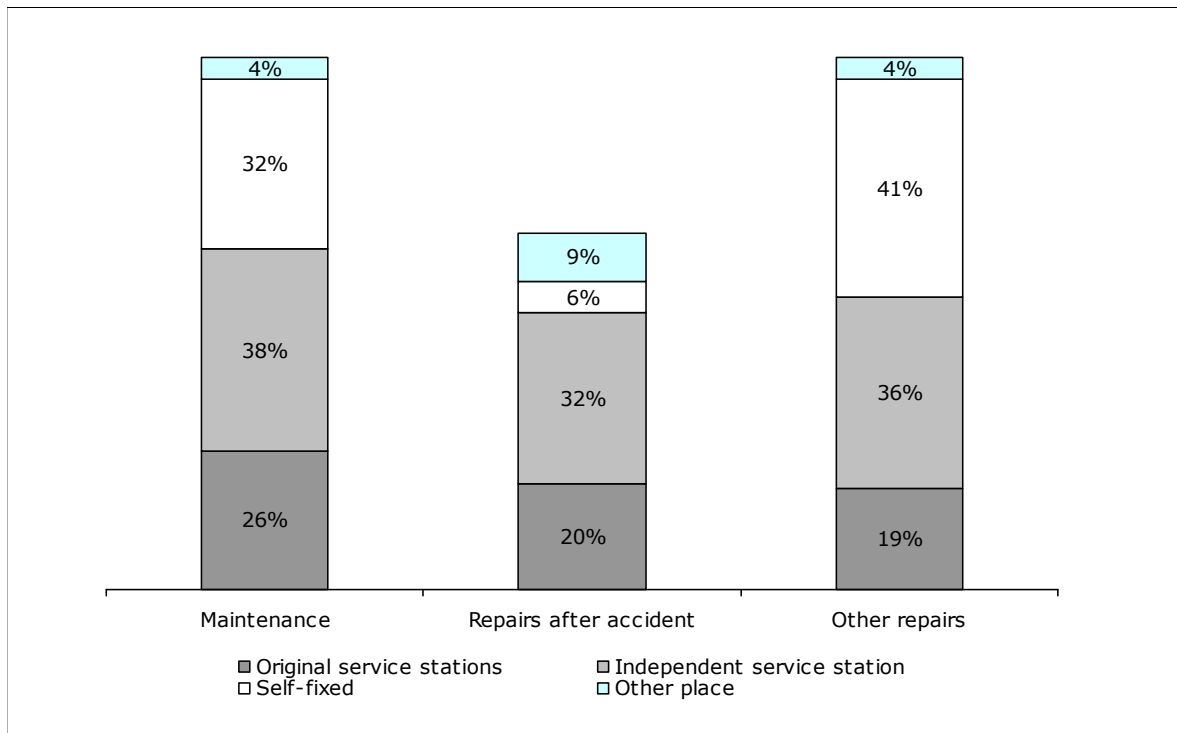


Figure 30: Share of Service-Channels Used for Car Repair and Maintenance, 2007

Source: TNS OBOP

3.2.3.4 Other Supply Channels

There are also other supply channels for customer to get spare parts. With open border, some Poles simply drive into Germany and buy spare parts through shops on the other side of the border or at places where they get good prices.

The internet as a supply channel is also getting more and more important. Either Poles buy directly from shops or even the distributors in Poland or they order from abroad, mostly other EU-countries because of simple import procedures.

A channel which lost its importance significantly are open-air-markets – either as a “vertical marketplace”, on which one could buy anything from car parts to fresh vegetables or as a specialized form focusing only on cars. In the early days after the opening up to the West, these markets were an important source of spare parts. Nowadays, they lost their importance for parts distribution.

4 Opportunities and Risks

Poland as a member country of the EU bears no major political, administrative or financial risk, although the Polish administration for most investors is very slow moving and complicated. Opportunities and risks arise mainly from the situation of the respective industry. Poland's automotive sector is one of the drivers of the economy. Government will continue to provide for preferential conditions. Protective measures to block out foreign players are unlikely, since this would mean the loss of the majority of investments in the industry.

Poland is an attractive market for the automotive industry. Today, it is the largest new car market in CEE and the third largest new car market in CEE and CIS together. In terms of car parc it is the second largest market in CEE and CIS together, only surpassed by Russia.

Opportunities for OEM arise especially through the growth of the new car market. This growth is highly likely, with increasing wealth of consumers and used car imports decreasing. There are also chances, that the Polish government will issue provisions drastically reducing the import of older used cars. If so, the price gap between new cars and younger imported used cars will narrow and new car sales will benefit. These provisions could take the form of an eco-tax like in Romania or Hungary. Short-term over the next 3 years, we expect a growth of about 7%. Longer-term sales numbers could reach the numbers of pre-2000 again, which were more than twice today's sales numbers. An economic downturn, on the other hand, could postpone substantial growth in the new car market. A challenge will be to find new dealers or existing dealers willing to expand. Dealers still have the hard times since 2000 in mind, when some went bankrupt and many had to take up additional business to survive.

Opportunities in the aftermarket exist as well. While for importers and distributors a takeover of an existing company seems to be the only viable option, for parts manufacturer the market is highly attractive mid-term. Today, many used cars imported are fixed by their owners in the case of minor repairs and mainte-

nance – with parts of the lowest value possible. With Poles wanting to have higher value cars, this mentality is likely to reduce and higher quality parts and professional services will gain ground. There is no widespread Polish industry producing for the Polish aftermarket, so that local competition is limited. The main challenge for aftermarket participants will be to find the best sales channels possible. Since at importer / distributor level the industry is highly fragmented, some sales channels can be found. Access to or preferred presentation in sales channels with a higher reach is more difficult. With a great variety of service stations still independent, for larger manufacturers there are still chances to bind some stations as exclusive sales channels.

For companies wanting to manufacture in Poland, wages are still attractive compared to other Western European countries. For companies from outside the EU, Poland is still a very good entry point into the EU. SEZ are still available until 2017, providing some tax relief. However, wages are increasing, partly due to strong unions especially in the automotive sector. In the Southern parts of Poland, close to Czech and Slovakia, there is growing competition about qualified labour. Manufacturers on both sides of the border are having difficulties to find qualified staff. This further increases labour cost.

5 Appendices

5.1 Major Polish Cities

	Cities over 100.000 inhabitants	Voivodship	Population
1	Warszawa	Mazowieckie	1.702.139
2	Łódź	Lodzkie	760.251
3	Kraków	Małopolskie	756.267
4	Wrocław	Dolnoslaskie	634.630
5	Poznań	Wielkopolskie	564.951
6	Gdańsk	Pomorskie	456.658
7	Szczecin	Zachodniopomorskie	409.068
8	Bydgoszcz	Kujawsko-Pomorskie	363.468
9	Lublin	Lubelskie	353.483
10	Katowice	Slaskie	314.500
11	Białystok	Podlaskie	294.830
12	Gdynia	Pomorskie	251.844
13	Częstochowa	Slaskie	245.030
14	Radom	Mazowieckie	225.810
15	Sosnowiec	Slaskie	224.244
16	Toruń	Kujawsko-Pomorskie	207.190
17	Kielce	Swietokrzyskie	207.188

Polish Automotive Market 2007: Passenger Cars, Supplier and Aftermarket

	Cities over 100.000 inhabitants	Voivodship	Population
18	Gliwice	Slaskie	198.499
19	Zabrze	Slaskie	190.110
20	Bytom	Slaskie	186.540
21	Bielsko-Biala	Slaskie	176.453
22	Olsztyn	Warmisko-Mazurskie	174.941
23	Rzeszów	Podkarpackie	165.578
24	Ruda Śląska	Slaskie	145.471
25	Rybnik	Slaskie	141.388
26	Tychy	Slaskie	130.492
27	Dąbrowa Górnicza	Slaskie	129.559
28	Opole	Opolskie	127.602
29	Płock	Mazowieckie	127.224
30	Elbląg	Warmisko-Mazurskie	126.985
31	Gorzow Wielkopolski	Lubuskie	125.504
32	Walbrzych	Dolnoslaskie	124.988
33	Wloclawek	Kujawsko-Pomorskie	119.256
34	Zielona Gora	Lubuskie	118.115
35	Tarnow	Podkarpackie	116.967
36	Chorzow	Slaskie	113.978
37	Kalisz	Wielkopolskie	108.477
38	Koszalin	Zachodniopomorskie	107.693

	Cities over 100.000 inhabitants	Voivodship	Population
39	Legnica	Dolnoslaskie	105.186

Table 20: Main Polish Cities over 100.000 Inhabitants

Source: GUS

5.2 Regulations and Fees for Car Imports from Non-EU

Upon import of cars into Poland from non-EU-countries, the following fees and regulations apply:

- Customs duty at 10% of car value
- 22% VAT
- 3,1% excise duty (13,6% for motor capacity > 2.000 ccm)
- 500 PLN “recycling fee”
- Homologation certificate, to prove compliance with relevant local norms

Some countries like Moldavia, Turkey and Switzerland have preference-agreements with the European Union. In these cases the import duty is waived completely.

5.3 Sales of Foreign Brands in Poland, 2004-2006

	Brand	Units Sold 2004	Units Sold 2005	Units Sold 2006
1	Alfa Romeo	965	501	715
2	Andoria	21	0	0
3	Audi	2.907	2.514	2.754
4	BMW	1.240	1.612	1.983
5	Cadillac	0	0	40
6	Chevrolet	3.614	5.893	4.346
7	Chrysler	965	934	728
8	Citroen	11.369	13.132	12.028
9	Corvette	0	0	1
10	Dacia	9	2.405	1.354
12	Dodge	0	0	265
13	Fiat	53.214	24.508	24.283
14	Ford	27.648	18.660	17.712
15	FSO	3.223	1.899	439
16	Honda	10.275	9.762	9.911
17	Hyundai	3.459	3.129	2.491
18	Intrall	450	362	245
20	Jaguar	72	102	253
21	Jeep	449	346	494

Polish Automotive Market 2007: Passenger Cars, Supplier and Aftermarket

	Brand	Units Sold 2004	Units Sold 2005	Units Sold 2006
22	Kia	2.776	4.134	4.111
23	Lada	252	281	228
24	Lancia	186	68	118
25	Land Rover	172	334	615
26	Lexus	192	286	614
28	Maybach	0	1	3
29	Mazda	327	28	0
30	Mercedes	2.939	2.405	2.944
32	MINI	152	151	174
33	Mitsubishi	2.561	2.118	1.749
34	Nissan	6.615	6.975	7.198
35	Opel	30.943	22.648	24.942
36	Peugeot	20.443	15.144	14.934
37	Porsche	133	258	269
38	Renault	29.855	16.238	15.450
39	Rover	3	0	0
40	Saab	136	261	428
41	SEAT	6.251	6.244	4.693
42	Skoda	39.693	27.649	28.783
43	Smart	191	253	125
44	Ssangyong	0	69	341

	Brand	Units Sold 2004	Units Sold 2005	Units Sold 2006
45	Subaru	467	947	1.226
46	Suzuki	2.681	2.743	4.019
47	Toyota	33.521	25.700	27.883
48	Volkswagen	15.522	12.424	15.135
49	Volvo	2.202	2.404	2.666

Table 21: Sales of Foreign Brands, in Units, 2004-2006

Sources: Samar

6 Abbreviations

ACEA	European Automobile Manufacturers' Association
Bn.	Billion
CAGR	Compounded Annual Growth Rate
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
EU	European Union
F	Forecast
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GUS	Główny Urząd Statystyczny (Central Statistical Office)
IAM	Independent Aftermarket
Mio.	Million
No.	Number
OE	Original Equipment
OEM	Original Equipment Manufacturer
PLN	Polish Sloty
SEZ	Special Economic Zone
sq. km.	square kilometre
SUV	Sport Utility Vehicle
USD	US-Dollar
VAT	Value Added Tax
WTO	World Trade Organisation

Globis is a market research and consulting company based in Berlin, Germany. We cover mature and developing automotive markets world-wide. Our services include:

- Market intelligence (reports, data, profiles).
- Mystery Shopping (sales and service)
- Vehicle stock audits
- Network development services
- Entry strategies

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