

CENTRAL EUROPE AUTOMOTIVE REPORT™

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The Source For Automotive Information On Central Europe™

September 1998

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Regional Market Highlights

Summary

- Volkswagen Targets Poland for Engine & Seat Production
- Zasada Sells STAR to MAN
- UT Automotive Opens Wire Harness Plant in Poland
- Major Bond Issue for Fiat in Poland
- Henkel/Daewoo JV in Poland
- Truck Maker Tatra Sold to SDC
- VW Back in Sarajevo
- Skoda Building \$40 Million Parts Center in Czech Republic
- VW Boosts Investment in Slovakia
- NABI Secures Bus Contracts in US

Poland

VW to Invest in New Engine & Seat Plants in Poland

Volkswagen AG announced in July that it is planning to build a car engine plant in Polkowice, Poland. VW's wholly owned

subsidiary Volkswagen Motor Polska will start producing diesel engines by mid 1999 in the Legnica Special Economic Zone.

VW also plans to produce car seats at another plant in the Legnica Special Economic Zone. The car seats will be manufactured by Sitech, a joint venture in which VW owns 49% of the shares and Karosseriewerke Dresden GmbH holds a 51% stake. Production is expected to start in March of 1999. Sitech will reportedly design and produce car seats for VW Group companies.

Zasada Selling Truck Making Unit To MAN

On July 17, 1998 the Sobieslaw Zasada Group's truck manufacturing unit STAR SA signed a letter of intent to cooperate with the German company MAN Nutzfahrzeuge AG. The cooperation will involve the production and sale of medium-capacity trucks.

The agreement calls for the modernization of STAR, based in Starachowice, Poland, by MAN's sister company MAN - Steyr Nutzfahrzeuge AG. In the first stage, MAN will help STAR with the modernization of already produced trucks, primarily involving the driver's cabin. The latest models will include MAN engines and components.

The cooperation will also result in the creation of a joint venture company in which MAN will hold a 51% stake and STAR will own the remainder.

According to Zasada officials, the company is restructuring its operations to improve profitability. Talks are underway with

Continued on Page 2

Profile

Dana's Perfect Circle Tightening Ring Around Aftermarket

Expanding Central European Network Country by Country

Perfect Circle is hustling to grab market share in Central Europe's automotive parts aftermarket. Owned by the Dana Corporation, the manufacturer of piston rings, pistons, and cylinder liners is

focused on expanding its sales network throughout Central and Eastern Europe, customizing its product offerings to each market, and bolstering its market share.

Mirek Staniszewski is leading the charge in Central Europe. Mr. Staniszewski is Eastern Europe Sales Manager for Perfect Circle Distribution Europe. Prior to

joining Perfect Circle, Mr. Staniszewski worked for BMW and Renault. He studied at the London School of Economics and is a former national and international rally driver and navigator. The CEAR interviewed him in Poznan, Poland in May.

CEAR: How are you expanding your presence in the Central European aftermarket?

Staniszewski: I'm working now on choosing the right partners. I've enlarged my network from 7 partners last year to 12.

Continued on Page 12



Mirek Staniszewski

In This Issue

Feature Country: Czech Republic

- Regional Special Report — Plastics: p. 5
- Slovenia's Auto Importers Shop for New Businesses: p. 6
- Intellectual Capital Index: p. 9
- Opinion — Hungary's Parts Production Will Rise: p. 10
- Building Supplier Quality — Supply Base Expectations: p. 11
- Engineering in Central Europe: p. 14
- Czech Tax & Hungarian Legal Updates: p. 15
- Czech Stock Statistics: p. 21
- Investment Opportunities: p. 17
- Delphi's New Drive-By-Wire Tech: p. 22
- Lucas Rolls Out Fast Fit Centers in Czech Republic: p. 24



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Ronald F. Suponic, Jr.
Publisher



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

Editorial Assistant
Barbora Grossmannova

Research Assistant
Katarina Trginova

Design
Big Sky Creative
Caroline Bond,
cetmdes@ibm.net



Web Site Design
Big Sky Creative
Ron St Clair
cetmdes@ibm.net

Reporters
Catalin Dimofte, Bucharest
Magda Sowinska, Warsaw
Pavol Varga, Bratislava
Bostjan Okorn, Ljubljana

Columnists
Ray Barker, Avon Rubber

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Market Research, Delivery Problem Inquiries to:

CENTRAL EUROPE AUTOMOTIVE REPORT™
Business and Circulation Office
4800 Baseline Rd., Suite E104-340
Boulder, CO 80303 USA
Tel: +1-440-843-9658 Fax: +1-206-374-5282
Email: info@cear.com

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Highlights Continued from Page 1

potential investors regarding Zasada's other vehicle manufacturing units.

In late May, Zasada shelved its controversial plan to produce cars in Starachowice with **Hyundai**. According to Zasada, the agreement was terminated because Hyundai withdrew from the project's co-financing arrangement and Zasada was unable to obtain permission from the Ministry of the Economy to extend the deadline for submitting required documents.

UT Automotive's New Polish Wire Harness Plant Open For Business

In June 1998, **UT Automotive** opened its new wire harness plant in Mielec, Poland. The 12,000 square meter facility, located in Mielec's Special Economic Zone, will employ 500 workers.

"With the new plant, Poland will become one of the major European wire harness production centers for **UT Automotive**," said Volker Heuzeroth, president of **UT Automotive Europe**.

The factory will supply electrical systems for **Opel** cars made in Gliwice, Poland and harnesses for **Ford's** new Focus model. The new factory cost \$5 million and, according to Luis Cabadaz from the company's European management, completing the project will require another \$5 million.

UT Automotive has been making wire harnesses in Poland since 1995, operating out of temporary facilities in Mielec. In 1997, the company's exports from Poland totaled \$20 million. By the year 2000, UT Automotive plans to expand capacity and achieve exports of \$100 million.

Fiat Poland Major Bond Issue

On July 9, 1998, **Fiat Polska** and **Fiat Bank Polska** announced the signing of an agreement with the **ING Bank Warsaw Branch, Bank Handlowy w Warszawie SA, and Citibank (Poland) SA**, for two separate short and medium-term bond issuance programs.

Under the five-year agreement, the commercial banks agreed to place on the Polish and international markets bonds valued up to a total of PZL 1 billion (\$290 million). The Fiat bond program is the largest ever realized in Poland. Its

goal is to finance Fiat's activities in Poland, including retail loans to customers of Fiat Auto Poland.

Investor Sought for Polish Bearing Factory

The Polish government has decided that the rolling bearing factory **FLT Krasnik** (Fabryka Lozysk Tocznych) is ready to seek an investor. The factory has a 26% share in the local market for ball bearings and is counted among the most modern factories of its kind in Central Europe. Customers include **Fiat** and **Daewoo**.

"The legal status of our land and buildings is clear, and we are not in debt," said Ryszard Mozgawa, the factory's director, encouraging prospective investors. In order to maintain its market position, the company needs about PZL 200 million (\$60 million) to replace old machinery and test new products.

FLT's sales in 1997 stood at PZL 202 million, and net profit was PZL 1.1 million (\$320,000).

Henkel Joint Ventures with Daewoo FSO

Henkel Polska SA and **Daewoo-FSO Sp. z o.o.** have established the joint-venture company **Henkel Teroson Automotive Polska Sp. z o.o.** with headquarters in Ciechanow, Poland. The new company will produce adhesives, sealing materials, and coatings for the automotive industry. Daewoo holds 49% of the new company's shares and Henkel owns the remaining 51%.

Polmo Starts Suspension Production For Opel Astra

Polmo-Kalisz has started production of complete front suspension systems for the **Opel Astra Classic**, following the purchase of a partially computerized line for suspension assembly from the Opel plant in Bochum, Germany. Polmo-Kalisz Director Tadeusz Nowak said that the factory will deliver 50,000 suspension systems per year, first to the Opel assembly plant in Warsaw,

More Market Highlights on Page 4



EDITORIAL CALENDAR

1998

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<u>Issue</u>	<u>Feature</u>	<u>Automotive Reviews</u>	<u>Special Reports</u>	<u>Close Date</u>
Jan 99	Poland	Body/Chassis	1998 Year in Review/ 1999 Forecast	Dec 10, 1998
Feb 99	Hungary	Central Europe's Executive of the Year	Vehicle Fleets	Jan 10, 1999
Mar 99	Czech Republic	Components & Systems	Auto Aftermarket	Feb 10, 1999
Apr 99	Slovak Republic	Marketing & Advertising	na	Mar 10, 1999
May 99	Romania/Bulgaria	Electronics	Auto Consultants	Apr 10, 1999
Jun 99	Poland/Slovenia	OEM Special: Who Supplies Who	na	May 10, 1999
Jul 99	Hungary	Powertrain	Exporting to Central Europe	Jun 10, 1999
Aug 98	Not Published			
Sep 98	Czech Republic	Plastics	Auto Engineering	Aug 10, 1998
Oct 98	Slovak Republic	Logistics	Human Resources	Sep 10, 1998
Nov 98	Romania/Bulgaria	Interiors	Real Estate	Oct 10, 1998
Dec 98	Poland/Slovenia	Financing	na	Nov 10, 1998

Regular Monthly Columns

Feature Country - featured country market overview and news, plus updates from around the region

Profile Interview - interviews with regional automotive executives

Product News - information on new products, components, and vehicles in the market

Opportunity Spotlight - regional companies offering investment, joint venture, or partnership opportunities

Quality Corner - information on improving supplier quality in the region

Legal Advisor - updates on legislation and legal matters pertaining to the automotive industry

Focus On Investment - investment analysis of regional automotive related companies

Accounting & Finance - updates on accounting, tax, and customs changes pertaining to the automotive industry

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Highlights Continued from Page 2

and then to the new factory in Gliwice.

Bridgestone's Investment Registered

Bridgestone Firestone Poland — a joint venture between **Bridgestone** and **Stomil Poznan**, Poland's third-largest tire producer — was officially registered in July. The company will start making tires for passenger cars and delivery vehicles in the year 2000. Bridgestone holds 71% of the new company's capital of \$63.2 million. The Polish partner's contribution to the venture is a factory. "In 2000, we will be making 5,000 tires per day, or 1.7 million per year," said Jozef Stopa, president of Stomil Poznan.

Inter Groclin Auto Entering Parallel Stock Exchange

Inter Groclin Auto of Wolsztyn, Poland, whose products include car seats, children's car seats, and seat covers intends to enter the **Warsaw Stock Exchange's** parallel market.

The company produces parts for **Fiat Auto Poland**, which accounted for 32.4% of revenue last year. According to company Chairman Wojciech Witkowski, production of seat coverings for the **Renault Twingo** is set to begin soon.

Inter Groclin intends to invest PZL 13.8 million (\$4 million) by the end of 1998. Last year's sales amounted to nearly PZL 47 million (\$13.6 million), while net profit stood at PZL 6.5 million (\$1.88 million). The company's automotive market share is estimated to be 3% of the Polish sector. Zbigniew Drzymala, Inter Groclin's president, is the company's main shareholder.

Best-known Brands in Poland: Fiat, Opel, and Mercedes

According to a survey of the automobile market carried out in April and May of 1998, the best-known makes in Poland are **Fiat**, **Opel**, and **Mercedes**. Forty-two percent of the people polled by the **Indicator Marketing Research Center** recognize the Fiat brand name, 37% - Opel, and 35% - Mercedes.

Polish Government Ready to Lower Customs Duties on Cars

The Polish government is prepared to

lower the customs duty on large cars produced outside the European Union in order to regain trade preferences for Polish goods sold in the United States. According to the daily **Gazeta Wyborcza**, a declaration to this effect was made in mid-July by Minister of the Economy Janusz Steinhoff. Currently, the customs duty on cars from outside the EU is 35%, while the tariff for EU cars is 20%.

Citibank Placing Stomil Olsztyn Commercial Paper

Citibank will place tire maker **Stomil Olsztyn's** commercial paper with a total value of PZL 100 million (\$29 million) on the Polish and international market.

Traffic Law Amendment Calls for New Vehicle Number Plates

In mid-1999, every car registered in Poland will receive new number plates pursuant to an amendment to the Traffic Law. The reflective plates, modeled after those existing in Western Europe, will be produced only by licensed manufacturers.

Three manufacturing licenses are planned to be issued. The high financial requirements, including ECU 1.5 million (\$1.66 million) of company capital, practically eliminates from the race to obtain a license the current 50 manufacturers of the old number plates.

Survey Says Drivers Want Gas Stations Close To Home

Gas-station owners will be interested in the results of a survey carried out in late 1997 by **BPS Consultants Poland** on a sample of 1,800 people (not only drivers). The survey, published in mid-June, found that 46% of respondents say the most important reason for choosing a particular station is its proximity to their home. Sixteen-percent said that confidence in the station operator was the most important factor. The price of fuel was deemed less important.

Among gas stations, **CPN** is still the most popular, though its share has decreased from 67% of those surveyed in 1996 to 52% in 1997. In 1997, second place went to **Statoil** (8%), followed by **Rafineria Gdanska** and private owners (7% each), and **Petrochemia Plock**, **Shell**, and **Esso** with 5% each.

Fiat Financing Company Opens In Poland

Fiat Bank Polska has begun operations in Poland, its main product being an installment loan for **Fiat Auto Poland** customers. The bank's founding capital is PZL 33.25 million (\$9.6 million), and the stock capital is PZL 25 million. The bank plans to provide loans for the purchase of 20,000 cars per year.

Autoparts Set to Sell Parts Worth \$72 Million in '98

Autoparts, distributor of spare parts for **Daewoo** cars, has spent \$1.5 million on modernization of its high-storage warehouse. According to Autoparts estimates, this year sales of spare parts will hit PZL 250 million (\$72 million).

New Car Sales Up 8.5% in Poland

During the first six months of 1998, new car sales in Poland totaled 283,758 units, up 8.51% compared to sales during the same period in 1997, according to figures released by **SAMAR**.

Fiat sold 85,109 cars, capturing a 29.99% market share. At this time last year, Fiat's market share was 34.62%. The drop in market share is partly due to **Daewoo's** strength in Poland. Daewoo's first half sales hit 77,699 units, giving the Korean company a market share of 27.38%. Daewoo's market share a year ago was 24.85%.

GM/Opel is the third best selling brand in Poland, with sales of 23,092 cars during the first half, and a market share of 8.14%.

Daewoo's Tico model was the most popular make with sales of 24,817 units, closely followed by Daewoo's Lanos model which saw first half sales reach 23,023 units. Fiat's Palio/Siena model is the third best selling model with sales of 21,880 units. And although its sales figures are down over 23% compared to last year, Fiat's 126 model saw sales hit 21,283 units, making it the fourth best selling brand.

Fiat Chooses The Baan Company As Supplier For Enterprise Software

In late July, the **Baan Company N.V.** announced an extended relationship with

Continued on Page 13

Auto Plastics

Regional Special Report

Plastic components produced by Central European manufacturers range from tiny plastic switches and knobs, to car light housings, to fuel tanks, to complete dashboards. The region is also home to many plastic injection mold and die makers and machinery producers.

Foreign producers of plastic automotive parts discovered the advantages of producing in Central Europe many years ago. **Loranger Manufacturing Corp.** came to Hungary back in 1990 to search for a site to produce components made from engineered plastics and metals for **Ford Hungaria**. Loranger opened a plant in 1993 in Szekesfehervar, Hungary and now supplies Ford with component parts for ignition coils and fuel pumps, and other metal and plastic components for other major multinational companies.

"[We have] good people and they're cost efficient at what they do," said George Loranger, the company's CEO. According to Loranger, his company is enjoying yearly sales growth rates of 20-30%.

Even small companies are getting in on the action. The US-based **Plastic Molding Technology (PMT)** has been in Slovakia since 1991. "Not too many companies our size did what we did back in 1991," said Todd Sholtis, PMT's Vice President for European Operations.

PMT chose Slovakia because of the country's tradition of plastic injection molding, the lower labor costs, and Slovakia's strategic location.

"You can ship anywhere in Europe now from Slovakia," said Sholtis.

Although robust, the plastic industry in Central Europe is not without problems. Local companies don't have

capital to invest in the new equipment that is necessary to process highly engineered materials. Many simply go out of business or must look for a joint venture partner.

In the mold and die industry, there's also a shortage of qualified workers. "We're short on technicians and training for technicians, like an apprenticeship program for mold makers and plastic molding technicians," said PMT's Sholtis.

Manufacturers also report that plastic injection accessories can be difficult to find in Central Europe.

Below are a few of the plastic parts and components producers in Central Europe:

Poland

Hanyang ZAS Elblag — Daewoo FSO joint venture that produces dashboard plates, headrests, heater covers, glove compartment door, interior air inlet housing, window winders, wheel rim covers, and air intake grating.

Koram ZZM Poland — Another Daewoo joint venture that produces injection molded plastic parts. Products include front and rear bumper covers, dashboards, front and rear door panels, and air intake gratings. Out of polyurethane foam, the company produces profiles for the front and rear seats for the Lanos, Polonez, and Lublin models.

Magneti Marelli Poland — Manufactures a range of plastic parts, including vehicle lights, instrument panels, rear view mirrors, and clocks. **Fiat** is the company's main customer. Magneti's factory has modern thermoplastic injection machinery (mono and 3-color), including 56

presses with tonnage ranging from 40 to 800 tons.

Czech Republic

Autopal — Lighting systems manufacturer owned by **Ford**. Among other products, makes plastic headlamps and other lights.

Kautex Textron Bohemia — US/German-owned producer of plastic components for vehicles, including fuel tanks and washer fluid reservoirs.

Peguform Bohemia — German-owned producer of plastic bumpers and dashboards. **Skoda** and **Audi** are customers.

Plastik HT — 31% German-owned producer of injection molded components for sale in the Czech Republic, Slovakia, Belgium, and Germany.

TRW Carr — US-owned producer of plastic injected components for the auto industry, 60% for export to Germany, Great Britain, Slovakia, Spain, and Brazil.

Hungary

Arge Kft — Plastic parts producer with German partner, customers include **Porsche**, **Mercedes**, and **Iveco**.

Loranger Ipari Kft — US-owned producer of components made from engineered plastics and metals.

Slovak Republic

Plastic Molding Technology — US company's Slovak subsidiary **PMT Slovakia** designs and produces plastic injection molds and dies. **Esoplast** joint venture specializes in insert and injection molding.

Sluzba V.D.I. — Slovak-owned producer of injected plastic parts ■

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Slovenian Vehicle Importers Conquering New Ground

Major Importer Eyes Tourism Business to Bolster Profits

More than a year ago, Herman Rigelnik explained why Slovenian companies in the vehicle industry should diversify into new branches.

“We must think about changes that are expected because of Slovenian entrance into the European Union,” said Rigelnik, the general director of the Slovenian car importer Autocommerce and the former president of the Slovenian Parliament. “The solidity of our company will be better if we stand on two or three legs, not just on one.”

Later, events have proved that he was not joking. Autocommerce is actively searching beyond the car business for new sources of profit. And other car dealers are following Autocommerce’s lead, seeking business sectors that are more hospitable than Slovenia’s fiercely competitive auto sales market.

Undoubtedly, Autocommerce’s foundation is its auto import business. In 1995, the company enriched its auto portfolio with the acquisition of Auto Makar, a company that represented Fiat, Lancia, and Alfa Romeo. Today, Autocommerce’s company Avto Triglav (the renamed Auto Makar) handles the distribution of Italian vehicles in Slovenia. Two other powerful companies round out Autocommerce’s auto empire: AC-Intercar (general representative for Mercedes-Benz) and AC-Mobil (general importer for Honda vehicles).

Autocommerce also has its hand in the tire distribution business. In the beginning of 1998, Autocommerce’s AC Zastopstva became a representative for the German tiremaker Continental. Continental had previously worked with the Slovenian tiremaker Sava, until Goodyear agreed last year to become a majority owner of Sava’s tire and engineered products business.

Looking Beyond the Auto Industry

Autocommerce’s first move outside the auto market was the purchase of a majority share of Elektrotehna Set at the end of 1996. With this move, Autocommerce entered the business of electrical consumer goods, such as washing machines, televisions, and stereos.

And in the beginning of May 1998, the company acquired Konim, a representative for various products, including medical and pharmaceutical products and air conditioners.

The company’s other target is tourism. “Tourism is interesting for us because of the profit we can get from it directly or indirectly,” said Rigelnik.

In the middle of 1997, Autocommerce succeeded in buying a controlling share of Kompas Magistrat, formerly a part of the big tourist company Kompas. Kompas was broken apart into more than 70 small companies, including Kompas Magistrat, Kompas Turizem, and Kompas Holidays, now the largest tourist company in Slovenia.

Both Kompas Turizem and Kompas Holidays were eyed by Autocommerce as acquisition targets, but those companies had their own plans. They had little enthusiasm for Autocommerce’s plans, especially Kompas Turizem, who was more interested in reuniting the Kompas companies.

Although Autocommerce’s attempt to take over Kompas Holidays has been unsuccessful, it has purchased an undisclosed amount of Kompas Holidays shares. “Yes, Autocommerce [owns] some of our shares, but not enough to prevent our decisions about mergers,” said Toma Visenjak, general manager of Kompas Holidays.

Undeterred, last November Autocommerce bought nearly half of the

shares of another Slovenian tourist company Emona Globtour. And in early July of this year, Autocommerce bought more than 50% of Globtour Praha.

A year ago, Autocommerce’s Rigelnik said that there is room for just one powerful tourist company in Slovenia. He was convinced that it would do business under the umbrella of Autocommerce. It seems, however, that the directors of Kompas Turizem and Kompas Holidays have a different idea. Or, perhaps, they are trying to achieve better price.

Other Importers Shopping Around

Autocommerce is not the only company in Slovenia’s auto import industry looking for new business opportunities. Last year, Avtotehna — a representative for Nissan, Opel, Mitsubishi, Iveco, Repro, Canon and various other brands — bought the vehicle remodeling company Riko Komunalna Oprema.

A1 — formerly known as Avtohisia Ljubljana — is another powerful auto company shopping around for opportunities. The company, which owns several car service and trade companies, has not released any details about its plans to enter new sectors. But the company’s director Franc Jakša said last year that their recipe is similar to Autocommerce’s — they are interested in sectors with different business cycles.

“Our profit is even better than the average profit in the Slovenian auto commerce [business] — it will be hard to achieve higher [profits],” said Jakša. “So, we would like to enter branches with different business cycles compared to the car [business].”

Car importer Avtohisia Claas may have the same goal. In June, the general importer and dealer for Peugeot purchased the Kompas rent-a-car company Kompas Hertz, a company facing serious financial troubles as a result of the bankruptcy of Komercialna banka Triglav. Having helped Kompas Hertz avert its own bankruptcy, Avtohisia is now a majority owner of the rental company.

Goran Novkovic (Ljubljana)

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SEP98

Polish Vehicle Market Segmentation (YTD June 1998)

Segment	YTD Sales (Units)		Market Share (%) % Change			Import Share		% Change
	1998	1997	1998	1997		1998	1997	
1. Segment A	64,991	78,491	22.90	30.02	-17.20	0.002	0.414	-99.69
2. Segment B	57,601	64,731	20.30	24.75	-11.01	29.796	36.046	-26.44
3. Segment C	125,416	86,137	44.20	32.94	45.60	23.888	22.595	53.93
4. Segment C/D	29,050	28,063	10.24	10.73	3.52	56.682	71.136	-17.52
5. Segment D/E	3,497	1,219	1.23	0.47	186.87	65.285	93.273	100.79
6. Segment F	81	101	0.03	0.04	-19.80	100.00	100.00	0.00
7. Segment S	711	943	0.25	0.36	-24.60	100.00	100.00	0.00
8. Segment MPV	1,917	1,495	0.68	0.57	28.23	100.00	100.00	0.00
9. Segment 4WD	494	325	0.17	0.12	52.00	100.00	100.00	0.00
Total Passenger Cars	283,758	261,505	100.00	100.00	8.51	27.209	33.614	-12.17
10. Light Comm. Segment	11,756	13,748	49.05	53.08	-14.85	26.40	19.70	14.08
11. Medium Comm. Segment	12,212	12,152	50.95	46.92	0.49	20.64	19.07	8.76
Total Commercial Vehicles	23,968	25,900	100.00	100.00	-7.67	23.46	19.40	11.63

Source: SAMAR s.c.

Tips For Success In Central Europe

What Makes a Success a Success?



Jeff Jones

In our July Web Forum (<http://www.cear.com>), Rene Samek from **CzechInvest** listed several factors that he thought have made wheel maker **Hayes Lemmerz** (formerly **Hayes Wheels**) a successful investor in the Czech Republic.

Rene considered the following factors to be important:

“1. Long tradition of wheel manufacturing in Ostrava, dating to the inter-war period. Prior to 1993, wheels were manufactured in Nova Hut. In 1993, Hayes set up a joint venture with Nova Hut and subsequently became the sole owner of the joint venture.

“2. Good availability of well-qualified labor due to the long industrial heritage in the Ostrava region generally. Relatively high unemployment in the Ostrava region (6-7% in June 1998) has kept wages in the region below the national average and production costs at a fraction of those in Western Europe.

“3. Strategic location of the plant in Central Europe and the Czech Republic’s well-developed transport infrastructure have allowed the company to supply car manufacturers in several European countries.

“4. Being a supplier to **Skoda** presents two big advantages. First, Skoda’s output has risen very quickly since 1992, which benefits every Skoda supplier. Second, being a supplier to Skoda is a very good ‘recommendation’ and a good springboard to supply other car manufacturers in the region, within or outside the **Volkswagen** group.”

To Rene’s list of important factors, I’ll add just a few additional traits that I’ve seen in other successful auto companies in Central Europe:

- 1) Patience and Persistence. Some of the overnight success stories in Central Europe have been 5-7 years in the making.
- 2) Excellent communication with workers. Setting goals together and keeping them informed about the company’s strategy and reasons for certain actions.
- 3) Always looking for opportunities to expand business, even if a new activity is slightly outside their traditional area of expertise.
- 4) Refusing to listen when the word “impossible” is uttered by others.

jones@cear.com

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Fastest Sales Climbers in Poland (YTD June 1998)

Passenger Cars			Light Commercial Vehicles			Medium Commercial Vehicles		
Make	Units	Change '98 v. '97	Make	Units	Change '98 v. '97	Make	Units	Change '98 v. '97
Daewoo Lanos	23,023	23023	Citroen Berlingo	1,301	1010	Mercedes Vito	1,523	582
Fiat Palio/Sienna	21,880	21799	Skoda Pick up	1,248	436	VW Transporter	1,045	493
Daewoo Tico	24,817	6316	Fiat CC van	1,695	242	VW LT	270	219
Daewoo Nubira	5,810	5810	Renault Kangoo Express	181	181	Kia Prego	194	194
Toyota Corolla	6,392	4906	Fiat Uno Van	633	68	Renault Master	279	169
Fiat Seicento	3,612	3612	Peugeot 306 XA	64	55	Mercedes Sprinter	388	117
Honda Civic	7,324	3111	FSO Polonez Cargo	190	28	Kia Ceres	331	104
Opel Astra	13,882	2846	Peugeot 106XA	15	11	Peugeot Boxer	369	92
Citroen Xsara	2,707	2707				LDV	145	68
Toyota Avensis	2,263	2263				Iveco Daily	430	34

Source: SAMAR, s.c.

Managing for Excellence

Facing the Intellectual Capital Challenge — Part III

Dr. Johan Roos, Professor of General Management and Strategy, International Institute for Management Development

Intellectual capital is one of the most important and sustainable sources of competitive advantage for today's modern companies — IC is simply the driver of future earnings. Most companies, however, don't even know how to measure their IC. Based on the recent articles on the fundamentals of IC, this month Dr. Roos will explain and illustrate how companies can develop and use an IC-index.

The IC approach I discussed in my last article mirrors how value is created in your unit or business. The categories of IC, for instance, human capital and relationship capital represent your usable stock of IC. At this stage you have a pretty good feeling for what IC is important in your particular business and situation and, therefore, what to measure even more carefully and systematically.

So far, so good, but we still have not identified a way to benchmark IC scores against the competition. And because IC is inherently business-specific, you can't compare one unit's scores with another, unless all units have come up with identical measures, which is unlikely simply because your starting point — the unique strategy and business context of business units.

The Next Step in IC Practices

This leads us to the next natural step in IC practices: developing a simple yet robust IC index. The purpose of such an index is to focus on IC growth or decline rather than the absolute score. Indices have an inherent characteristics that you can take advantage of in this attempt to quantify what is difficult to measure accurately, namely that is capture changes.

Changes, as such, are a universal currency, like money. Armed with an IC index, management can easily see the emerging effects of tradeoff decisions and quickly take corrective action to ensure that future earnings capabilities are not damaged. Companies are already moving this way. **Skandia** launched an IC-index in their most fast-growing business in 1997. Many others companies are rapidly applying a robust IC-index approach that I have been co-

developing with ICS of London (see *Business Intelligence's* May 1998 report on Knowledge Management).

The Making of an IC-Index

How do you create such an IC index? I suggest a three-step approach that will help you refine your IC thinking and system and provide you with a usable measure of changes in IC growth or decline.

First, critically review the IC indicators you have chosen. Some management teams have no problem coming up with a long list of indicators. Recently, I encountered a company working with 286 non-financial measures. Whether these indicators capture useful information is another question! Ask yourself: What is really important here? Can your key success factors be phrased in a more precise way? How are your indicators put together?

Ensure that *each* indicator has a "story" to tell. If indicator x increases...what does that mean? This is a simple yet challenging acid test of indicator quality. Just ensure that you can defend these indicators. What do they really mean? Is it always good if the value increases? I often encounter indicators based more on hunches than robust theory. If there is no story or if it is weak, drop the indicator.

Second, add what I call "flow indicators," which provide insight into the transformation of one IC category into another. The *flows* among IC stocks, e.g., from human capital to business process capital, and between IC stocks and revenue represent how well you *utilize* the stocks of IC you have identified as important.

Most organizations take a balance sheet approach to IC, like I outlined in my last article. This is also the nature of the well-known Balanced Scorecard Approach. This can be useful, but it provides only a snapshot view of the organization. Development projects may turn out to be useless, and investments in IT may not lead to the anticipated result.

A complementary "income statement" approach to IC requires indicators for

flows among categories — for example, to measure the flow from human capital to other forms of IC that are owned by the company. By adding flow indicators the quality of your "theory of the business" improves dramatically. It is common sense but not common practice to complement your thinking of IC stocks with how well you *utilize* them (read: IC flows)...

At this stage you are ready for the third step, to develop sub-indexes for each category of IC (like a human capital index), each IC flow (like human capital to business process capital index), as well as an aggregated IC-index. This involves assessing the relative importance of indicators for each form of IC and the relative importance of each form of IC within the aggregate IC index.

There are no rules for which IC indicators and categories should have which weight. You must determine what is appropriate for your industry, company, and strategy. Yet, my advice is to consult people (experts) on your business inside and outside your immediate organization on the relative importance of your IC categories and IC flows.

The Use of an IC-Index

What is the use of an IC index? First, an IC index is a way to consolidate the many measures of IC into a single, or a handful of measures. As a manager, you need a few good measures, not 286 indicators. The IC index approach will enable you to discuss the bigger picture, similar to how you typically just focus on a few financial efficiency measures, like ROA or ROS.

Second, an IC index also allows for systematic benchmarking of the future-oriented measures that we have called IC stocks and IC flows. By focusing on *changes* in IC you can see what happens when your attention and that of the organization gets oriented in one direction. Since human attention is truly limited, we all make conscious or unconscious trade-off decisions.

In one real example, top-management urged the organization to focus on customer satisfaction improvements. And this was indeed improved, as were the innovations made. Yet, after a while

Continued on Page 16

Opinion Makers

Wood & Co. Analyst Sees Rise in Parts Production in Hungary

Andras Nemeth, Analyst, Wood & Co., Budapest Office

Recent trends show that the focus of the Hungarian automotive industry will shift from car assembly to parts production.

When **GM** and **Suzuki** came to Hungary with their car assembly operations, the national markets of the Central & Eastern European (C&EE) countries were protected by high custom tariffs. Because of these trade barriers, OEMs found small-scale production profitable even in such a small country as Hungary (in 1997, new car sales figures in Hungary were around 75,000, while 478,000 were sold in Poland).

These trade barriers have been gradually abolished by trade agreements (CEFTA and EU) and OEMs responded by economizing their production. Furthermore, the over-capacity problems and globalization trends of the OEMs also facilitated the changes in the Hungarian automotive industry.

GM decided to centralize its C&EE car assembly in Poland and Suzuki will increase its production volume. Suzuki will most probably continue car

assembly in Hungary for the long term because the Hungarian plant is crucial for Suzuki's European presence. GM and Suzuki also teamed up for joint production of a small car model.

While the globalization of the automotive industry hurt car assembly operations in Hungary, the auto part and component industry will benefit from this trend. As OEMs start to offer the same models (with the same parts built into the car) in all markets regardless of their geographical location, suppliers can take advantage of the increased economies of scale.

In addition to this trend, suppliers face fierce competition as OEMs look to minimize their supplier base to maintain profitability. Demand for cars in Asia has dropped significantly and OEMs are faced with over-capacity problems. In this increasingly competitive environment, Hungarian parts producers can even better utilize their cost advantage over their Western competitors.

OEMs are also bringing parts production

to Hungary, as the limited potential of the domestic car market does not handicap parts production. **Audi** set up an engine plant in Hungary and aims to produce all engines it needs in Hungary. GM also announced that it will set up production of gearshifts in Hungary. The local presence of key component producers to OEMs also facilitates the development of the parts production industry of the country.

Looking at other segments of the vehicle industry, the Hungarian truck industry seems to have suffered a similar fate as that of the Hungarian automotive industry, while the Hungarian bus industry seems to be the only segment of the vehicle industry that will continue to produce the "end product".

All in all, I believe that the Hungarian vehicle division will specialize mainly in parts production in the long run. However, there might exist exceptions such as Audi who assembles its new sports coupe in Hungary, or **NABI** who seems to have a solid future in the US bus market.

To read more of Andras's comments on the Hungarian auto sector, check out the CEAR.COM Central Europe Automotive Forum at <http://www.cear.com>

New Czech Government: Good for Auto Sector Investment?

Will the investment climate in the Czech Republic auto sector be changed — for better or worse — by the recent elections?

"I expect the investment climate to change for the better. The interim Tosovsky government was far more pro privatization and FDI than the Klaus government in both words and actions. The Zeman government looks like it will continue the Tosovsky government's privatization activities.

"Publicly, they are also more positive on the benefits of FDI. In practice this may, at some point in the future, lead to improvements in the incentives package announced by the Tosovsky government

in April this year. CzechInvest is lobbying to reduce the USD 25mn qualification limit but it is simply too early to say if, or to what level, it will be changed, and when.

"I also expect the new government to devote more attention and resources to regional policy and to active employment policies. As Czech regional policy develops one can expect to see it becoming more beneficial to locate in certain areas. North Moravia and Central Moravia are prime areas for the auto sector: close to Polish plants in Silesia, plentiful skilled labor (particularly around Olomouc/Prerov), good track record in the sector by foreign firms, new industrial sites being developed (Karvina), [and] good motorway

connections to Austria and Germany.

"This, in conjunction with the recently-approved investment incentives scheme, will encourage more investors to choose the Czech Republic for their next European investment."

Rene Samek is the Deputy Director of Marketing and PR with CzechInvest, the Czech government agency for the promotion and facilitation of foreign direct investment. More comments from Rene can be found on the CEAR.COM Central Europe Automotive Forum at <http://www.cear.com>

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Supply Base Expectations

Building Supplier Quality: Lesson 5

With Ray Barker, Group Director, Business Excellence Strategy, Avon Rubber

In order to fulfil the expectations of their customers, the supply base expectations may be summarized in one word — partnership. The manner in which customer/supplier relationships should be developed are listed below:

12 Steps to World Class Total Quality

1. Basic quality systems requirements in place.
2. Management ownership of and commitment to comply with systems, without exception.
3. Management ownership of, understanding of, and commitment to never ending improvement.
4. Management leadership in improvement actions through disciplined problem solving techniques.
5. Awareness, education, and training for all in basic improvement tools and techniques.
6. Specialist training in “advanced” tools and techniques by line management and other specialists.
7. Advanced Quality Planning, optimization of product and process design, and manufacture with statistical controls in place — to create a preventative environment.
8. Management understanding of World Class Manufacturing Principles and Benchmarking (including mistake proofing and Quality Function Deployment).
9. Management leadership to World Class Manufacturing Principle by controlled pilot scheme to achieve superior Benchmark.

10. Awareness Education and Training for all in World Class Manufacturing Principles.
11. Employee led improvement actions.
12. Zero defects, Zero equipment downtime, Zero stocks and lead time for manufacturing, Zero lost personnel time, Maximized number of improvement idea proposals to sustain superior Benchmark in processes and products, through superior people.

Meeting the Expectations of the Global Automotive Industry — Summary

In order to meet the expectations of the global automotive industry, organizations must in many cases go through a transformation from the characteristics that are associated from mediocrity towards mastery.

This paradigm is particularly pertinent to “Managerial Learning” in order to support the development of core competencies within its organization which it must have in place in order to meet both the basic requirements and expectations of its customers.

Mediocrity is the result of Unconscious Incompetence (i.e. being satisfied with the status quo — “I don’t know what I don’t know”). Conscious Incompetence — “I know what I don’t know” — leads to awareness and the commencement of the transformation process to realize full potential.

Conscious Competence brings a commitment towards self-effectiveness and the ability to be able to respond to organizational needs, “I know what I know.” Mastery (of self, and ability to develop others) comes from unconscious competence — I automatically do what I know — and I can develop this competence in others.

Management theories have progressed from:

Theory X: Experts plan, operators do as they are told; to

Theory Y: Listen to your people, they are intelligent and earnest; to

Theory T: Training provides the tools for continual employee-driven improvement. No training, little improvement; to

Theory C: Competencies provide the behavioral characteristics for leadership towards superior performance. No competencies, no sustained World Class performance.

As Dr. Deming used to state regularly:

“Do you know that doing your best is not good enough? You have to know what to do — then do your best.”

Aspiring World Class suppliers to the Global Automotive Industry must both find out what the industry expectations are and develop competencies in how to achieve and sustain the expectations■

Quality in Action

VDO Instrument's quality system in the Czech Republic includes defining quality targets with employees and keeping the employee informed about the targets and current quality status.

Customer/Supplier Relationships

ELEMENT

Tenure
Type of Agreement
Number of Sources

Volume of Business
Prices/Costs
Quality
Order frequency, size
Order conveyance
Delivery
Receiving Information

Openness
Assembly/Use
Service/Aftermarket

ADVERSERIAL

Brief
Sporadic; purchase orders
Several per item for protection and price competition
Limited per supplier
High on average
Uncertain; rely on receiving inspection
Infrequent, to stores requirements
Mail
To dock/stockroom
Packing lists, invoices, count/inspection forms
Very little
Defined by customer
Little interest

PARTNERSHIP

Long-term, stable common business strategy
Exclusive life-time contracts, one year or more
1 or a few good ones per item or family of items

High; supplier may dedicate small plant to one customer
High; supplier may dedicate small plant to one customer
Quality at source; supplier used total quality approach
Frequent, to build requirements
Contracts plus Kanban, Electronic Data Interchange
To production line
No count inspection; payment on sale

Joint design, 2-way visits, on site audits
Supplier technical input and responsibility for fit and function
Dealer and ultimate customer training/awareness

Profile Continued from Page 1

I'm looking at importers and distributors [who operate on a] country level.

We're focusing more on a country by country [basis] and in some countries, like Poland, county by county, region by region. And then we try to create a network to prevent our products from colliding with [each other].

We're enlarging and extending our lines and references [according to] market needs. Currently, we're working on the piston and ring range extensions. It will be customized to each market. Obviously, references which are popular in East Africa aren't necessarily popular in the Slovak Republic or Estonia. Each of our markets has its needs and own special requirements.

CEAR: Are you only targeting the aftermarket in Central Europe?

Staniszewski: For all Eastern bloc countries, it's 100% aftermarket right now. That's what we're focused on. But we've also extended [our] original equipment range due to the purchase of the **Sealed Power** unit. That gives us **Mercedes, VW, BMW, Deutz, Caterpillar, and Ferrari** as OE customers. So, obviously, that gives us a very strong back up.

CEAR: What's the strategy behind your new ad campaign?

Staniszewski: The campaign is to promote a new image, a new graphic design. We've [kept] part of our logo, the "Doctor of Motors" [emblem], because it has been with us for more than 100 years, but we've [adopted] the corporate image of **Dana**. All the divisions have the same graphics with different colors. So we happen to have red which suits very much the [Polish] market. **Victor Reinz** has blue. **Wix-Filtron** has yellow. We're trying to promote this new design.

The main emphasis [for advertising] is Poland, Czech Republic, and Slovakia.

CEAR: You still receive supplies from France. Any plans to set up warehousing in Central Europe?

Staniszewski: At this moment, there are no plans to do that. What we're working on now is to provide good service to the customer and extend our range to have a whole complete package. This means besides pistons, rings, gaskets, and

valves, which we already have, to also have engine bearings. [We're] trying to combine everything into one distribution point to give the customer the chance to order a number of goods from one company.

CEAR: What do your distributor growth rates look like?

Staniszewski: In Poland, we're up 35% compared to sales last year. We've opened [some] new markets, [such as] Hungary, Romania, Bulgaria, Latvia, and Estonia, so those markets are already selling our product. We're 70% higher in sales in Lithuania compared to last year. I've got more distributors in the Czech Republic. In general, turnover is up about 40%.

CEAR: Do any of the markets in Central Europe require special treatment or approaches?

Staniszewski: Not at all. All the markets are currently price oriented. The car parks, in general, are fairly similar, with a small different emphasis in some countries. For instance, there are more **Renaults** in Slovenia and Slovakia, and more **VWs** and **Ladas** in Hungary. In general, the special price lists that I have for the fast movers, [such as] the **VW 1.6 diesel**, could be, with a few exceptions, accepted almost anywhere.

CEAR: What are some of the key aftermarket trends you see in Central Europe?

Staniszewski: There's definitely going to be a consolidation trend in this market. Importers and distributors will join in order to extend their customer base, to strengthen their financial power and purchasing power. And because of their bigger size they will ask for bigger credits.

In general, the [customer] awareness of the market is not as strong as in Western countries. The most valuable assets in the western markets are the [focus] on the customer, on the service, on maintaining the customer. It's not a success to sell once to a customer. The success starts growing when this customer comes back to us.

And in Poland, the trend is that, slowly, people are realizing [that] fighting each other with price dumping is not the right way. It's the customer. How happy he is. How well serviced he is. How many times he comes back. How well you can take care of him. So that's definitely one

of the trends.

Another trend I've observed is lowering stocks and speeding up deliveries in order to [reduce] stock costs. And more demands for CIP transportation. Goods must be delivered to the destination [at the expense of] the seller. In general, our policy was to have works prices — prices at the gate of the factory. With CIP, the market is becoming more demanding. So we have to provide them with better service.

We deliver [our goods] to main freight spots, usually in Germany, where our Eastern European customers can collect our goods without having to go to France and passing [through] another border. The customers are asking for it.

CEAR: Any other trends?

Staniszewski: The car park is definitely getting much younger. Now, the most popular cars are late 1980's and early 1990's [models]. Even up to 1993 and 1995 [models]. In Latvia and Lithuania the car park has drastically improved.

The **Lada** is still there, but percentage-wise most all of the **Ladas** are being driven in Russia and Ukraine. It's still a good seller, but it's dying. We got very well adapted to Lada needs and we've got very competitive prices for Lada. We managed to open up the Russian market and we sell references for Lada quite well.

The old car park suits us because that's where we can sell. Not too old, but older. In general, the whole car park has definitely gotten younger.

There's [also] a trend that all the main producers like us are going by themselves and [supplying the market directly]. That's a way of controlling the market, [staying on top of] what's going on.

CEAR: What is one of the most attractive aftermarket segments in Central & Eastern Europe?

Staniszewski: I will be trying to put an emphasis now on the growing section of the market — heavy duty vehicles. People's awareness of the HDV market is [increasing]. This market is definitely a much bigger market, much better, and much more profitable market for all of us. So, I would like to work on extending our network and getting more

Continued on Page 16

Fiat Auto. Fiat has chosen Baan's software as the enterprise resource planning (ERP) tool to address globalization issues at Fiat Auto. BaanERP will also be used to support the start of new operations such as in Russia, India, and South America, and to cover common processes in the global market, such as the World Material Flow application used today in Italy, Turkey, Poland, and South America.

Czech Republic

SDC Buys Czech Truck Maker Tatra

On July 22, 1998, the US company **SDC International, Inc.** announced the signing of two agreements that provide for SDC's acquisition of the Czech truck manufacturer, **Tatra, a.s.**

SDC has executed an agreement for the acquisition of 43.5% of the outstanding shares of Tatra from the Czech engineering giant **Skoda, a.s.** A second agreement with the Czech commercial bank **Komerční Banka**, provides for SDC's discounted acquisition of the bank's senior secured CZK 2.8 billion (\$90 million) loan to Tatra. SDC will pay \$30 million for the senior secured loan.

The closing of SDC's acquisition of Tatra stock and senior debt is scheduled for September 30th, pending appropriate due diligence reviews and financing matters.

According to Tatra's consolidated audit report certified by **Ernst & Young**, Tatra's revenues for 1997 were about \$290 million, with \$230 million in assets. Profits in 1997 were \$2 million and hit \$2 million for the first quarter of 1998. Tatra employs over 7,500 employees.

"The most exciting aspect of the acquisition is working with Tatra to help them take advantage of the company's vast earnings potential by managing and marketing improvements and by the injection of capital," said SDC Chairman Ronald A. Adams.

"Despite the 'handcuffs' caused by former state ownership and capital restrictions, Tatra, after serious losses in prior years, seems to have turned the corner."

SDC plans to increase earnings per share by infusing capital for raw material and component inventories. New marketing and sales programs, along with Tatra's first-ever leasing program will be introduced to modernize and revitalize the company. The Tatra labor union's recent approval to reduce the workforce by 20% will also provide a substantial increase in earnings.

If SDC fully converts the bank debts of Tatra into equity, Tatra would have a book value of about US \$100 million, of which SDC could have up to 84% of the outstanding shares.

SDC is a publicly owned company established to market, sell, and finance Eastern and Central European industrial products such as diesel generators, cogeneration equipment, on-road and off-road trucks, tractors, and other transport equipment.

Foundation Stone Laid For \$40 Million Skoda Parts Center

On July 16, 1998, **Skoda Auto** laid the foundation stone for a new central warehouse in Mlada Boleslav, Czech Republic. The parts center, costing CZK 1.3 billion (\$40 million), will supply spare parts to 320 authorized dealers in the Czech Republic and Slovakia, as well as to worldwide Skoda importers. The center will also supply spare parts for Czech dealers of the **Volkswagen Group** companies **VW**, **Audi**, and **Seat**.

"Extending production and sales of Skoda automobiles in the next year to 500,000 cars per year necessitates a substantial extension of customer services in Czechia as well as, increasingly, in markets abroad," said Detlef Wittig, Deputy Chairman of the Skoda board.

According to Skoda, its new parts center will be the largest and most modern spare parts warehouse in the Czech Republic, with a 40,000 sq. meter floor area and state-of-the-art computing and handling equipment.

Volkswagen Producing Again In Sarajevo

In July, **Volkswagen AG** signed an agreement with the Bosnian **UNIS Holding Co.** to form a joint-venture that will assemble Skoda cars in Sarajevo, the

capital of Bosnia-Herzegovina.

Volkswagen Sarajevo Co., is expected to start manufacturing Skoda's Felicia model in late July.

According to VW, it will hold a 58% stake in the joint venture, with UNIS Holding owning the remaining 42% of the shares. Using parts supplied by Skoda in the Czech Republic, several hundred Felicia models are expected to be assembled this year. VW Sarajevo then plans to gradually raise production to 5,000-10,000 cars and, after the year 2000, up to 35,000 cars annually. The company will employ up to 1,200 workers, with Bosnian workers already being trained at Skoda in the Czech Republic.

Parts for VW Group companies will also be manufactured in Sarajevo. VW will initiate the process of qualifying the Bosnian supplier industry for the production and delivery of components for VW Group companies.

From 1972 to 1992, **TAS (Tvrnica Automobila Sarajevo)**, the former Volkswagen-Unis joint venture, produced a total of 350,000 Volkswagen Golf, Caddy, and Jetta cars and manufactured rear axles and cable bundles for VW Group companies. Production was stopped in April 1992, after the armed conflict broke out in Bosnia.

The new cooperation agreement was signed by Dr. Jens Neumann, Member of the VW Group Board and Lothar Sander, member of the VW Brand Board, Tvrtko Nevjestic, Chairman of the Unis Supervisory Board, and Faruk Smailbegovic, Unis Managing Director.

Showa Aluminum Plant Construction Underway

Showa Aluminum Corporation, the Japanese producer of aluminum products, has started the second phase of construction at its car components plant near Prague. In June, a "Topping-Up" ceremony was attended by the Minister of Trade and Industry, Mr. Karel Kühnl and Japan's ambassador to the Czech Republic, Mr. Shunji Maruyama.

In 1997, Showa selected the Czech Republic as the site for its first European manufacturing facility dedicated to automotive parts. **Showa Aluminum**

Continued on Page 18

Auto Engineering Moving into Central Europe

The low labor rates in Central Europe catch the eye of many manufacturers. With labor rates in the region running from 1/5 to 1/10 of the rates in Western Europe, the labor cost savings for auto manufacturers and suppliers are obvious.

But more and more manufacturers in Central Europe are seeing the benefits of conducting sophisticated engineering activities in Central Europe, such as design and research & development functions.

"There's more cost savings [obtainable] from engineering design [work]," said one foreign component manufacturer based in Hungary. "I see more of that happening down the road." According to the manufacturer, the engineering skills he sees in Hungary are encouraging and can be developed. "It just takes time," he added.

Daewoo Uses Polish & Czech Engineering Skills

Daewoo Motor Polska is taking advantage of Poland's engineering base. The company uses a 300-engineer strong research and development center in Lublin, Poland. The center, established back in 1972, is focused primarily on improving the quality of the Lublin II vehicle and cooperates with the **Daewoo Worthing Technical Center** in the UK and a Daewoo research center in Munich, Germany, according to company spokesperson Beata Stopyra.

Daewoo is also harnessing Polish engineering skills for its new generation LD-100 delivery vehicles. In April of this year, the cornerstone for the company's new factory for the vehicle

was laid in Lublin.

Although the technical documentation for the LD-100 was prepared at the Worthing Technical Center, the team of engineers, designers, and managers included engineers from Poland, 20 of whom work permanently in England with English and Korean engineers. Another 100 Polish engineers will be involved in the project over the next two years, mainly working on prototypes, said Ms. Stopyra.

In the Czech Republic, **Daewoo Avia** engineers are involved in the development of the company's new truck models.

"We are responsible for the development [of the new AD 100 truck] project as a whole within Daewoo," said company spokesman Jiri Kyncl. "In addition, our engineers are responsible for the chassis, including the powertrain."

Some testing of the 18 AD 100 prototypes is taking place in the Czech Republic, including road testing and trial track testing. The cab of the AD 100, however, was developed at the Daewoo Worthing Technical Center.

VW Looks to Czech & Polish Engineers for Design

VW's **Skoda** unit is beefing up its engineering capabilities in the Czech Republic. In December of 1997, the company laid the foundation stone for a new \$6 million engineering center in Mlada Boleslav. The new center, expected to open in the Spring of 1999, will provide workplaces totaling 3,800 sq.m. for 160 engineers and designers who will work on current and new Skoda

models. In particular, new bodies and Skoda engines will be developed at the center.

Volkswagen reportedly will design seats in Poland through its **Sitech** joint venture with **Karosseriewerke Dresden GmbH**. Sitech is expected to start production in March 1999 in the Legnica Special Economic Zone. Seats designed and produced at the plant will be supplied to VW Group companies.

Czech Center Offers R&D & Testing

UVMV, based in the Czech Republic, provides research and development services and testing for automotive companies. "Our main business is passive safety testing and development," said UVMV director Vladimir Volak.

The center also has expertise in engine design, but this business has waned with the demise of its main customers **Liaz** and **Tatra**. "We're not too active here, but we're still equipped," said Volak. The center is currently cooperating with **Skoda** on the design of cylinder heads and blocks. Volak also added that the center hopes to work with **Daewoo Avia** on a project to make cylinder head changes for Avia trucks.

Delphi Considers Polish Design Center

Delphi Automotive Systems is considering setting up a technical center in Poland that would handle engineering work. "We're thinking about an engineering center in Krakow," said Delphi Poland's spokesperson Ella Morrison. "There is a possibility, but we're not sure yet. It's in our lawyers' hands."

If opened, the engineering center would primarily handle work for Delphi Chassis. In the past, Delphi has worked with the **Bosmal** technical center in Poland on several engineering projects ■

Czech Republic Used Vehicle Imports (1997)

Vehicle Category (ECE)	Import Total	Used Vehicle Imports	Used Vehicle %
Cars (M1)	207,485	129,926	62.62%
Vans & Trucks (N1+N2+N3)	17,763	2,540	14.30%
—Road Tractors	2,214	736	33.24%
Motorcycles & Mopeds (L)	15,630	8,095	51.79%
Buses (M2 & M3)	362	128	35.36%
Coupled Vehicles (O1+O2+O3+O4)	8,554	2,594	30.32%
TOTAL IMPORTS	249,794	143,283	57.36%

Source: SAP

Tax Changes in the Czech Republic

Jan Zurek, Partner, KPMG Prague

Protocol to the Double Taxation Treaty between Czechoslovakia and The Kingdom of Netherlands

The Ministry of Finance announced that on 1st April 1997 the Protocol amending the double tax treaty came into force. The Protocol will be applied to the tax years and periods beginning 1st January 1998. *The most significant amendment contained in the text of the protocol is the fact that a permanent establishment can be created based on the existence of a building site or a construction or installation project that lasts longer than twelve months.*

Announcement Regarding Double Taxation Treaties

The Ministry of Finance published a new list of double taxation treaties including the Czech Republic as a party (according to the situation as of January 1, 1998). As of January 1, 1998 the Czech Republic had a treaty network of 49 double taxation treaties.

Decree D-168 Regarding the Application of VAT to International Transportation

This detailed Decree explains the terms contained in Section 47 of the VAT ACT which deals with the VAT treatment of international transportation activities. This Decree replaces, as of the date of its issuance, the older decrees D-57 and D-58.

Decree D-171 Further Explanation of What is Subject to VAT

The Decree further describes what is subject to VAT. The term "taxable supply" and what should not be considered as taxable supplies is further defined following the amendment to the VAT Act which became effective January 1, 1998.

Decree D-174 Method of Annual Accounting of Prepayments in the Case of International Leasing of Labor Forces

The Decree stipulates the method of accounting for annual prepayments of tax due on income from dependent activities in the case of employees leased by non-residents to domestic employers (principal of economics employer) and whose personal income is determined

under the Income Tax Act and Decree D-151.

Decree D-172 The Applicable Exchange Rate for a Taxable Supply Originally Denominated in a Foreign Currency

The Decree stipulates that a payer is obliged to translate the amount of a taxable supply denominated in a foreign currency into Czech currency based on the exchange rate stipulated by the Czech National Bank as of the date of the tax liability.

The New Amendment to the Income Tax Act - Valid for 1998

An amendment to the Income Tax Act was enacted on May 22, 1998 by the Parliament and is effective as of January 1, 1998. The amendment which is still subject to approval of the Senate introduces the following changes:

Thin Capitalization Rules with Respect to Loans Granted from Abroad were Abolished

This change has long been expected. Interest derived from loans granted by non-related foreign parties (including Czech branches of foreign banks) is no

Continued on Page 20

Legal Advisor

Dr. Peter G. Nagy & Dr. Tamas I. Kovacs, associate attorneys, Hogan & Hartson L.L.P., Budapest Office

Executive Summary:

- New Companies Act is clearer, better arranged, and less complicated
- All existing companies must bring articles and business operation into compliance with new provisions
- Piercing of the corporate veil allowed in case of misuse of limited liability
- Minimum amount of the registered capital for limited liability companies and shareholding companies raised
- Corporate minority rights extended to all forms of business association
- New legal institution — the "pre-company"

that the new Companies Act took effect on June 16, 1998, replacing the old Companies Act of 1988. The new



Tamas Kovacs

Companies eliminates contradictions, attempts to fill legal hiatuses, and endeavors to boost Hungary's aspiration to join the European Union by adjusting the Hungarian legal system to that of the European Union.

The structure of the new Companies Act is clearer, better arranged, and less

complicated, while still upholding the original principles of corporate law — protection of creditors, investors, (corporate) minorities, and promotion of publicity.

Some of the most important general changes to the new Companies Act include:

—a new possibility for the performance of non-profit activities;

—the introduction of a new legal institution, the "pre-company", which may operate with certain restrictions from the conclusion of the articles of association until the registration of the company, but the business association comes into existence upon being registered; and

—the improvement of (corporate) minority rights by extending the protection of minority rights to all forms of business association and by allowing exclusion of members of business associations only upon a court resolution based on a lawsuit brought by the company upon such decision of the supreme organ of the company.

An important new feature of the new

Continued on Page 16

Undoubtedly, the most important news is

Excellence Continued from Page 9

certain ways of doing things deteriorated, and for various reasons some people left.

Thus, despite a healthy growth, showed by a rising IC index, clear trade-off decisions were made throughout the organization. By depicting the most important aspects of IC, in this case only the IC stocks, management could more quickly take corrective action.

Third, an IC index allows comparisons on both business unit and corporate levels. As previously stressed, changes in IC are a universal language. If it is of interest to benchmark IC development among units the IC index makes this possible. This benefit is mostly of interest to corporate managers.

Developed correctly, an IC index is an unprecedented tool that can help you to shed light on critical developments in your capability to generate revenue tomorrow. As many corporations have found, it is natural next step in the development of IC management theory and practice. The approach synthesizes concepts and practices from strategy, non-financial measurement finance, and management value added.

I am involved in developing a practical and useful CD-ROM tool for managers that want to develop an IC system in their unit, including the IC-index approach discussed in this article. Interested readers should look at www.anticipator.com in October ■

Profile Continued from Page 12

distribution points, especially for HDVs in all of my Eastern European countries.

CEAR: Why is the HDV market so strong?

Staniszewski: Definitely, new trucks are being purchased, but it's also the huge increase in transportation activity. The [growing] number of transportation firms, the amount of interest in world transport, and the general emphasis on improving the roads. And those trucks have to be repaired and looked after. They're working horses, so they have to be well [maintained]. They can't be [supplied] with cheap, low quality [parts]. OE [quality] is the priority.

CEAR: What's the competitive situation like in the Central European aftermarket?

Staniszewski: You really have to be aware and on guard 25 hours a day, 8 days a week. The competition is so strong everywhere, [in] every aspect of the market. Once you get a customer, you have to know how to get him to come back. That's our success. The [number] of happy customers and clients who come back.

CEAR: What's one way that your company ensures that obstacles and problems in the market are overcome?

Staniszewski: There's a lot of emphasis in our company on bringing absolutely everything to discussion. To talk as a team. To exchange different points of

view. To discuss problems, solve them, and act immediately to make things better. That's a key issue within the company.

CEAR: What problems have you encountered in this market?

Staniszewski: [We had a] main [German] distributor in Eastern Europe and his figures were improving, were enlarging. So, theoretically, we were seeing steady improvement. The real fact, [however], was that the figures were not improving because of higher sales but due to wider markets.

So the volume of sales in the market was just getting wider, [growing] into other countries. But by not working in each individual market to improve total volume, that allowed our competition to step in and grab a part of the market.

[The German company] was our main distributor in the Central European countries and we decided to split up. He's a distributor of automotive parts, not our distributor of Perfect Circle parts.

I was called into the market and given the responsibility for marketing and establishing a sales network. So now, I'm working hard to get back this share of the market that we deserve, that I think we should have. So it's a better balancing of the market. That's why the work is 25 hours a day ■

Legal Continued from Page 15

Companies Act is that it allows the piercing of the corporate veil in case of misuse of limited liability. Although changes to the regulation of the specific corporate forms cannot be discussed in this brief article, it is important to mention that the minimum amount of the registered capital for limited liability companies and shareholding companies will be raised by the new Companies Act by three times and by two times, respectively.

The new Companies Act requires all existing companies registered under the old Companies Act to bring their articles and business operation in compliance with all new provisions at the first time when they amend their corporate

documents and register the modifications with the Court of Registration.

There are no new corporate forms created by the new Companies Act. Hungarian corporate forms are (i) general partnership, (ii) limited partnership, (iii) union, (iv) joint enterprise, (v) limited liability company, and (vi) shareholding company ■

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Russian producer of acid electrolytes for storage batteries, liquid antifreeze, lubricants, distilled water, and other chemical products for automobiles seeks US supplier of packaging equipment and partner to establish a production joint venture.
Konstantin Moskalyuk I.S. Laboratoria, Ltd.
Tel: 7-3832-242341
Fax: 7-3832-242341
Russia

Kazakh creator of drafts and designs of automotive safety projects seeks partner to work jointly with on related engineering projects.
U.S. Embassy Commercial Service
Re: Yerden Izteleolov
Tel: 7-3272- 63-36-03
Fax: 7-327-581-1576
E-mail: OAlmaty@doc.gov
Kazakhstan

Manufacturer of driving shafts, steering shafts, steering gears, and spare parts seeks foreign investor
Wieslaw Kosieradzki
PIAST
Tel: 48-22-827-8700
Fax: 48-22-826-7341

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

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

Manufacturer of hydraulic cylinders, up to 32 bars pressure, 25-160 piston diameter, up to 4,000 mm length, seeks Slovak Republic commercial cooperation, offers production to order

Jorgen Varkonda
SNAZIR re:Rerosa s.r.o.
Tel: 421-7-5335-175
Fax: 421-7-5335-022
Slovak Republic

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

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

Manufacturer of pressed parts for cars, press units, electric carriages, and

machine tools seeks commercial or production cooperation
Jorgen Varkonda SNAZIR re: BAZ a.s.
Tel: 421-7-5335-175
Fax: 421-7-5335-022
Slovak Republic

Czech designer, manufacturer and tester of high performance vehicle electronics for timing switches, central locking, seat heating, air conditioning controls, timing relays, and acoustic signaling seeks partner in similar business who is capable of providing new technologies and products for joint production and access to European markets.
Josef Dusil CzechInvest re: EL4
Tel: 420-2-2406-2267
Fax: 420-2-2422-1804
Czech Republic

U.S. partner sought for Czech producer of crankshafts (various sizes up to 2500 mm lengths) for purpose of contract manufacturing. Company is supplier to producers of engines for trucks, tractors, ships, & stationary aggregates. 1996 turnover expected to be \$20 million.
Jan Vesely IESC
Tel: 420-2-2499-3170
Fax: 420-2-2499-3176
Czech Republic

Partner sought for producer of diesel injection equipment for development, production, & sale of single and multi-cylinder in-line injection pumps for all types of diesel engines, as well as for injection systems, testing, measuring, & adjustment equipment. 1995 turnover was \$40 million.
Jan Vesely IESC
Tel: 420-2-2499-3170
Fax: 420-2-2499-3176
Czech Republic

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

Supplier of seats for Suzuki cars & Spare parts for Ikarus seeks purchaser. Company undergoing privatization process.
Csaba Kilian re: 02/Aut/96 ITDH
Tel: 36-1-118-0051
Fax: 36-1-118-3732
Hungary

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

Russian bus company seeks American joint venture partner to manufacture new bus models. Business plan available in English
Victor Sergeyevich Kostromin General Director Pavlovo Bus Co.
Tel: 7-83171-6-81-14
Fax: 7-83171-6-03-18
Russia

Russian company seeks a joint venture partner to re-build car and truck tires and recycle tires and other rubber products into pellets.
Alexander Nikolayevich Kalin General Director Kstovo Tire Repair & Recycling Plant
Tel: 7-8312-38-12-75
Fax: 7-8312-38-12-75
Russia

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Czech, Ltd. will manufacture heat exchangers for personal cars at a 93,000-meter site in Kladno, Czech Republic.

Construction of the new plant started in April 1998 and completion is planned for October 1998. Machinery and other equipment will be installed from November 1998 to January 1999, with production scheduled to begin in January 1999.

In the plant's first phase, 170 employees will produce 40,000 condenser units each month for automotive air conditioners. The number of employees may rise to 200 at a later stage. Total investment will hit 2.5 billion Japanese yen (\$22 million).

Hayes Lemmerz Solidifying Czech Presence

Hayes Lemmerz is pouring \$26 million into a new wheel plant in Ostrava, Czech Republic. The company has operated a wheel manufacturing plant in the Czech Republic since 1993. Hayes's main customer is **Skoda Auto**, and later in 1998 the company will start supplying **Ford**. Hayes also plans to supply **Opel's** new Polish car assembly plant.

For its new investment, Hayes expects to receive investment incentives pursuant to the Czech Republic's recently introduced investment incentives scheme.

FIAMM Purchases Battery Maker Akuma

According to Czech press reports, the **Akuma** battery company will be purchased by the Italian battery maker **FIAMM**, one of Europe's largest producers of car batteries. Akuma, based in Mlada Boleslav, Czech Republic, manufactures car, truck, and motorcycle batteries.

Hungary

NABI Scores New Bus Contracts in US

North American Bus Industries (NABI) announced that it won two bus tenders in the US. The company will supply the City of Albany (**Capital District Transportation Authority**) with 23 low floor, stainless steel buses. The contract, valued at \$6 million, is the first sale of NABI's newly developed stainless steel bus model. The buses will be delivered in

1999.

The company also won a \$20 million tender for the City of Las Vegas. The city will purchase sixty low floor buses, and has the option to purchase another 15 buses. Delivery will probably take place in 1999.

"We have an approximately two year order book, and our target is to reach at least \$6 million in net income for this year," NABI Chief Financial Officer Peter Horvath told the **CEAR**.

Slovak Republic

Volkswagen Pumps Up The Volume In Slovakia — More Investment & New Component Plant

Volkswagen Bratislava announced that it is increasing its investment plan for 1998 to enable it to produce 1,000 vehicles a day in less than two years. This year, the company will invest DM 230 million (\$130 million) into its Slovak operations, instead of the originally planned DM 173.6 million (\$98 million), reported commercial director Jozef Uhrík.

VW Bratislava currently produces 500 cars a day. Since the beginning of 1998, the company has assembled more than 44,000 cars, over 144,000 transmissions, and some 3.2 million components. VW's staff will expand from today's force of 4,800 workers to 6,000 workers.

VW also announced that it will build a new car components plant in central Slovakia in cooperation with the company **ZTS TEES**. This will be the third VW plant in Slovakia, after VW Bratislava and **VW Elektrické systémy** in western Slovakia.

The new plant will be a pressing works and a tool production plant located in Martin, Slovak Republic. VW will invest some SK 200 million (\$5.8 million) into the new plant. The project is expected to start by the end of 1998.

According to commercial director Jozef Uhrík, VW Bratislava is the only production plant within the VW Group that produces cars, transmissions, and components at the same time. "We intended to include the transmissions and the components because of connecting Slovak sub-deliveries for the automotive industry," said Mr. Uhrík.

GM Buys DEM 7 Million Worth of Supplies From Slovakia

In 1998, Slovak producers will supply **GM** with parts and components valued at DEM 7 million (\$3.86 million), said Jaroslav Dolezal from **Opel C&S Ltd.** In 1997 the volume reached DEM 4.5 million, and in 1996 it was only DEM 2.5 million.

The value of supplies for the new Opel Astra will hit DEM 4 million, which includes vibration dampers from **Contitech Vegum** and rear brake cables from **Kuster-VS**.

Other Opel models use rubber bundles from Contitech Vegum, cables from Kuster, powder metallurgy products from **Miba Slovakia**, and clutch discs from **Sachs Trnava**.

Supplies provided by Czech producers to GM reached DEM 106 million (\$58 million) in 1997. This year, the figure is expected to rise to DEM 140 million. According to Dolezal, most of the Slovak supplies are made by Slovak subsidiaries of foreign companies, while the rest are made by small domestic businesses.

He said bigger investment plans in Slovakia are prevented by "more flexible tax policies in the neighboring countries, especially in Poland and Hungary".

Slovak Bus Transport Companies to Receive 139 Buses In 1998

Slovak bus transport companies (**Slovenska autobusova doprava - SAD**) are going to receive 139 new buses this year. Some 51 **Karosa** inter-city buses will be imported from the Czech Republic, and 88 buses will be manufactured by Slovak companies, reported officials from the **Ministry of Transport, Post and Telecommunications (MTPT)**.

The total price of the Czech buses amounts to SK 135 million (\$3.8 million), to be paid over the next four years at a discount interest rate of 8.8%. The buses will be imported by **SAD Banska Bystrica** during August or September. The Slovak buses will be purchased on a credit provided by MTPT, the **Slovak Guarantee and Development Bank, Post Bank, Transport Bank**, and the **Ministry of**

Continued on Page 20

Best Selling Brands in Poland (YTD June 1998) Ranking By Retail Volume

Passenger Cars

Make	Units Sold		Market Share	
	1998	1997	1998	1997
FIAT	85,109	90,522	29.99	34.62
DAEWOO	77,699	64,975	27.38	24.85
GM - OPEL	23,092	22,848	8.14	8.74
FORD	13,707	10,027	4.83	3.83
SKODA	13,371	11,453	4.71	4.38
RENAULT	12,648	13,872	4.46	5.30
VW	9,562	7,785	3.37	2.98
TOYOTA	9,561	4,454	3.37	1.70
HONDA	7,853	4,911	2.77	1.88
SEAT	6,657	8,106	2.35	3.10
Others	24,499	22,552	8.63	8.62
Total	283,758	261,505	100.00	100.00

Commercial Vehicles

Make	Units Sold		Market Share	
	1998	1997	1998	1997
DAEWOO M.	5,328	6,483	22.23	24.97
DAEWOO	3,419	6,432	14.26	24.78
CITROEN	3,177	2,447	13.26	9.43
FIAT	2,687	2,719	11.21	10.47
MERCEDES	1,911	1,212	7.97	4.67
VW	1,513	810	6.31	3.12
SKODA	1,248	812	5.21	3.13
FORD	1,016	1,539	4.24	5.93
PEUGEOT	1,011	959	4.22	3.69
RENAULT	602	651	2.51	2.51
Others	2,056	1,895	8.58	7.30
Total	23,968	25,959	100.00	100.00

Source: SAMAR, s.c.

Car Sales in Poland By Body Type (YTD June 1998)

Body version		Units		Market share	
		1998	1998	1998	1998
3 doors	hatchback	63,435	22.36		
4 doors	sedan	86,067	30.33		
5 doors	hatchback	112,879	39.78		
5 doors	wagon	16,575	5.84		
2 doors	coupe/cabrio	752	0.27		
5 doors	MPV	3,617	1.27		
3 doors	off-road	78	0.03		
5 doors	off-road	355	0.13		

Source: SAMAR, s.c.

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1997 Czech Republic Vehicle Sales*

Vehicle Category (ECE)	1997	1996	Change
Cars (M1)	303,091	291,977	+3.81
Vans/LCVs (N1)	22,130	21,550	+2.69
Trucks/CVs (N2+N3)	7,768	8,410	-7.63
Motorcycles & Mopeds (L)	16,900	15,759	+7.24
Buses (M2 & M3)	948	916	+3.49
Trailers & Semitrailers (O3 + O4)	2,932	2,777	+5.58
TOTAL	353,769	341,389	+3.63

*Figures include sales of domestic producers, sales of new imported vehicles, and sales of imported used vehicles.

Source: SAP

Finance.

Slovak bus producers' production capacities for 1998 are: Slovbus Inc., Nove Mesto nad Vahom (20 inter-city), Liaz Zvolen (70 inter-city), and Novop Inc., Lucenec (10 city).

According to the Ministry of Transport, the future for Slovak bus makers lies in cooperation with foreign companies or in specialization, such as in the production of small buses.

At present, 54 state-owned bus transport companies operate about 5,400 buses, with 85% of the buses being operated beyond their normal economic life span. According to the MTPPT, a complete renewal of the bus fleet is necessary within the next six years.

Isuzu Reportedly Negotiating With Slovak Government

Isuzu is rumored to be negotiating with the Slovak government about building a new assembly plant for off-road vehicles or LCVs in eastern Slovakia near Kosice. No other details were available at press time.

Romania

ARO of America Sells Assets to East European Imports

On June 12, 1998, **Worldwide Equipment Corp.** announced that its subsidiary, **ARO of America, Inc.**, has signed a letter of intent with **East European Imports, Inc.** ("EEI"). The agreement provides for ARO to sell all of its assets and certain liabilities to East European Imports in exchange for 40% of the outstanding stock of EEI.

EEI is the distributor of the Romanian ARO, a sports utility vehicle that is expected to have a base price of \$13,500 in the US. The sale consolidates the assembly and distribution operations of the ARO vehicle.

"The acquisition of the ARO assets combined with our network of approximately 160 dealers nationwide will expedite and help insure our goal of producing and selling over 1,000 vehicles per month in the near term," said John Perez, President of EEI.

Perez also announced that East European Imports, Inc. will change its name to **ARO Automotive Corporation.**

Romania's Roads Get Help From

European Investment Bank

The European Investment Bank is providing Romania with a major loan to help the country rebuild its road system. The loan, valued at ECU 225 million (\$249 million), will have a 20-year term, with a five-year grace period ■

Tax Continued from Page 15

longer subject to thin capitalization limits. The limits to tax deductibility do still apply to loans granted by related parties.

Input Price of Tangible Assets Increased to 40,000 CZK

The input price of tangible assets subject to depreciation was increased to 40,000 CZK (\$1,200), the same as that applicable to intangible assets. As a result of this change, a difference between what is a tangible asset for accounting and tax purposes arises. The accounting rules still specify that the limit for determining tangible assets is 20,000 CZK.

The above is based on the unofficial wording of the law which is pending official publication in the Collection of Laws.

Exhibitions, Conferences, and Shows in 1998 & 1999

1998		1999	
Sept. 3-10	Hanover, Germany Auto Show	Nov. 29-Dec. 4	Jeddah, Saudi Arabia Jeddah Motor Show
Sept. 14-16	Nagaya, Japan Int'l Symposium on ehicle Controls	Nov. 30-Dec. 2	Graz, Austria SAE Total Life Cycle Conference
Sept. 15-20	Nitra, Slovakia Autosalon Nitra	Dec. 2-5	Jakarta, Indonesia Indonesia Auto Show
Sept. 15-20	Frankfurt, Germany Automechanika	Dec.	Detroit, MI SAE Global Vehicle Development Conf.
Sept. 18-27	Bucharest, Romania Bucharest Motor Show	1999	
Sept. 27-Oct. 1	Paris, France FISITA World Congress	Jan. 9-18	Detroit, MI North American Int'l Auto Show
Sept. 29-Oct. 1	Detroit, MI Int'l Body Engineering Conference	Jan. 16-24	Brussels, Belgium Brussels Int'l Motor Show
Sept. 29-Oct. 4	Budapest, Hungary Autotechnika	Feb. 4-14	Amsterdam, The Netherlands Int'l Motor Show
Oct. 1-3	Brussels, Belgium Electric Vehicle Symposium	March 11-21	Geneva, Switzerland Geneva Int'l Motor Show
Oct. 1-11	Paris, France Int'l Road Transport Exhibition	March 26-Apr. 4	Belgrade, Yugoslavia Belgrade Motor Show
Oct. 1-11	Paris, France Int'l Paris Motor Show	April 8-16	Stockholm, Sweden Stockholm Motor Show
Oct. 6-8	Detroit, MI Global Powertrain Congress	April 11-17	Zagreb, Croatia Zagreb Motor Show
Oct. 8-12	Ho Chi Minh City, Vietnam Auto Vietnam 98	April 13-18	Riga, Latvia Riga Motor Show
Oct. 12-13	Warsaw, Poland IBC UK Automobiles in Eastern Europe Conference	April 19-25	Turin, Italy Turin Motor Show
Oct. 13-15	Amsterdam, The Netherlands InterAuto '98	April 28-May 6	Seoul, Korea Seoul Motor Show
Oct. 16-25	Sydney, Australia Int'l Motor Show	May 22-30	Barcelona, Spain Barcelona Int'l Motor Show
Oct. 16-25	Panama City, Panama Panama Auto Expo	May 27-June 1	Poznan, Poland Int'l Automotive Show
Oct. 23-Nov. 1	Birmingham, UK British Int'l Motor Show	June 2-9	Beijing, China Beijing Int'l Motor Show
Oct. 29-Nov. 1	Istanbul, Turkey Commercial Vehicles '98	June 5-10	Brno, Czech Republic Brno Motor Show
Oct. 29-Nov. 8	Sao Paulo, Brazil Brazil Automobile Trade Show	June 18-26	Sofia, Bulgaria Sofia Motor Show
Nov. 4-7	Bangkok, Thailand Asia Automotive '98	August 24-29	Moscow, Russia Moscow Motor Show
Nov. 4-8	St. Petersburg, Russia St. Petersburg Auto & Service Show	Sept. 30-Oct. 10	Bucharest Romania Bucharest Motor Show
Nov. 5-8	Istanbul, Turkey Auto Show	Oct. 21-30	London, England London Motor Show
Nov. 12-15	Cairo, Egypt Cairo Motor Show	Oct. 22-Nov. 3	Tokyo, Japan Tokyo Motor Show
Nov. 14-22	Suntec City, Singapore Singapore Motor Show	Nov. 9-11	Birmingham, UK Autotech '99
Nov. 17-21	Sofia, Bulgaria Bulgaria Specialized Trade Show	Nov. 20-28	Athens, Greece Athens Int'l Motor Show
Nov. 26-Dec. 6	Montevideo, Uruguay Montevideo Motor Show		
Nov. 27-Dec. 6	Essen, Germany Essen Motor Show		

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Publicly Traded Auto Sector Stocks in the Czech Republic

Price in Czech Crowns (CZK) as of 7/31/98

Company	Product	Share Price	Max. Price in Last Year	Min. Price in Last Year
Ateso	Brake components	322.30	516	241
CZ Strakonice	Gearboxes, chains, dies	65.10	93.03	52
Daewoo Avia	CVs, engines	210	598	190.51
Jihostroj	Hydraulic elements	77.51	210	37
Magneton	Alternators, relays, starters	51.00	75	25.86
Motokov	Vehicle importer/exporter	218	304.50	100.60
Motorpal	Diesel injection equipment	122.00	202	60
Praga	Transmissions, special CVs	36	218	36
Skoda Liaz	CVs, engines, axles	33.94	73	32.33
Tatra	Trucks and truck parts	71	85	59.70

Source: Prague Stock Exchange

\$US 1 = CZK 30.81 (8/1/98)

Czech Republic Car Density By Region

Region	1997 Population Per 1 Car	1996 Population Per 1 Car
Prague	2.26	2.40
Central Bohemia	2.77	3.00
Southern Bohemia	2.79	2.97
Western Bohemia	2.85	3.04
Northern Bohemia	3.19	3.42
Eastern Bohemia	3.09	3.32
Northern Moravia	3.80	4.08
Southern Moravia	3.35	3.60
Czech Republic Total	3.05	3.26

Source: Central Vehicle Register

Czech Republic Vehicle Park Highlights

- The **Skoda 120** is the most frequently registered car model with 463,306 registrations. The average year of production of the car is 1982.24 and the average age is 15.76 years.
- The **Skoda Octavia** with 19,106 registrations is the youngest car model. The average age of the model is 0.95 years.
- The **Avia 30** is the most registered truck with 22,494 units registered.
- The **Liaz 100.47** and the **Tatra 815** are the most registered road tractors, with 1,825 and 1,500 units registered, respectively.
- The **Karosa 734** is the most registered bus with 5,899 units registered.
- The **Jawa 20** is the most registered small motorcycle with 244,322 units registered.
- The **Jawa 250/559** is the most registered motorcycle with 25,635 units registered.

Source: Police Central Vehicle Registration Office

Delphi's New Drive-By-Wire Technology Eliminates Mechanical Components

New Product Review

High-tech vehicles of the 21st Century won't have to rely on mechanical components for braking, steering, throttle, and suspension controls. Instead, all of those systems can function electronically through a new drive-by-wire system developed by **Delphi Automotive Systems**.

With Delphi's "X-By-Wire" system, steering, braking, throttle and other vehicle functions are performed without the traditional steering column, steering shaft, rack & pinion gear, brake booster, master cylinder, hydraulic lines, throttle cable and linkages.

Instead, each system is connected by wires that form a pathway to communicate information from sensors positioned throughout the vehicle to an electronic control module. This control module then provides input to a system's actuator that performs the mechanical function of the system.

This approach significantly reduces the amount of mechanical components required in the vehicle and enhances vehicle performance.

Delphi's "X-By-Wire" is being developed by the company's **Saginaw Steering, Chassis, Energy & Engine Management**, and **Delco Electronics** divisions. The systems which make up

"X-By-Wire" include:

Brake-By-Wire. The technology behind Delphi's Galileo braking system and the world's first production brake-by-wire system. Galileo is a family of intelligent brake control systems that provide brake power assist, ABS, traction control, vehicle stability enhancement control, regenerative brake blending control, automated braking, and tunable pedal feel in a single, modular system.

Throttle-By-Wire. This consists of a pedal module containing sensors that relay driver acceleration intent information to engine electronic controls, while also supplying force feedback to the driver. The engine management system then determines and positions the air valve in the appropriate position through the use of a motor. It also synchronizes air, fuel, and dilution control to improve engine performance and emissions.

Damper-By-Wire. This system features four electronically controllable dampers (shocks or struts), a steering sensor, and four ride motion sensors. The sensor information is passed to the electronic control module that analyzes the vehicle's dynamic conditions and determines the optimum damping level to command from the dampers. These adjustments are rapid for real-time

control of vehicle ride and handling.

Roll-By-Wire. This system provides real-time roll stiffness control at the front and rear of the vehicle. Actuators are added to stabilizer bars to allow active or semi-active control of roll stiffness. This system allows for reduced head toss and improved wheel articulation in addition to reduced roll angle.

Front Steer-By-Wire. This system eliminates the mechanical connection between the driver and the front wheels of the vehicle. With Front Steer-By-Wire, the traditional steering column, steering shaft, and steering gear are replaced by two actuators positioned in the vehicle's front corners. These actuators receive input from the control module and turn the front wheels accordingly.

Rear Steer-By-Wire. The technology behind Delphi's Four Wheel Steering system, this electrical rear steering system uses sensors to position the back wheels based on front wheel position and vehicle speed. It provides a tighter turning radius, increases vehicle stability and enhances trailering.

Traxxar. A vehicle stability enhancement system that uses an extra set of sensors integrated with ABS and Traction Control to apply individual wheel brake intervention to assist the driver in reducing the difference between the driver's requested direction and the actual vehicle direction ■

Czech Republic Vehicle Park (as of 12/31/97)

Vehicle Category	Park	Avg Age of Production	Avg Age
Cars	3,382,409	1983.85	14.15
Trucks	246,453	1987.31	10.69
Road Tractors	17,430	1989.06	8.94
Special Vehicles	89,939	1983.38	14.62
Motorcycles	916,671	1969.30	28.70
Buses	20,741	1986.65	11.35
Trailers for CVs	69,786	1987.77	10.23
Trailers for Cars	472,814	1984.88	13.04
Trailers for Agric. Tractors	116,163	1974.36	23.64
Semitrailers	26,934	1987.91	10.09
Agricultural Tractors	156,907	1976.80	21.20
TOTAL	5,559,503	1981.34	16.56

Source: Police Central Vehicle Registration Office

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Lucas Rolls Out Fast Fit Network In Czech Republic

Company Spotlight

Company: Lucas Autobrzdý

Location: Jablonec nad Nisou, Czech Republic

Contact: Francois Augnet, Aftermarket Operations Manager

Business: Brake System Component Manufacturing & Sales

Lucas Autobrzdý, a joint venture between **Lucas Varity** and the Czech company **Ateso**, isn't sitting still and waiting for opportunity to come knocking. The company is actively exploring new ways to do business in Central Europe.

Lucas Autobrzdý manufactures and sells brake system components to OEMs such as **Skoda**, as well as to other automotive customers in Europe. The company's aftermarket division sells brakes for all makes of cars, and is also the distributor of **Kayaba** shock absorbers in the Czech and Slovak Republics.

New Fast Fit Center Network

Lucas Autobrzdý saw an opportunity for fast-fit centers in Central Europe and is now executing its strategy. In May 1998, Lucas opened its first fast-fit center in the city of Most in the Czech Republic. Three additional centers will be opened in Brno in the near future.

Lucas is working with tire distributors in the Czech Republic and converting them into fast fit centers that will initially specialize in brakes and shock absorbers, with other products to be added in the future.

"This is a soft franchise concept," explained Francois Augnet, Lucas Autobrzdý's Aftermarket Operations Manager. "There's no royalty fee to pay to Lucas for being a part of the network." Franchisees are supplied with

Lucas parts and components and know-how.

"We're starting in the Czech Republic as a laboratory," said Augnet. In the Czech Republic, the centers will operate under the name **Rychloservis**. Lucas's strategy is for the centers to become specialists in car under body service.

"This is something which is requested by the motoring public," said Augnet. "We have a very, very strong response from forward thinking garages."

According to Augnet and confirmed by a motorist survey Lucas conducted in the Czech Republic in August 1997, "the customer requirements here are no different to that of Western customers. They want the job done quickly, close to home, and at hours that are convenient to them."

To satisfy the needs of their franchisee customers, Lucas uses a mobile training unit to bring new partners up to speed.

"We're not requesting that the Rychloservis operators come to us," said Augnet. "We're going to them." Lucas has a van that is equipped with a training video, a work bench, and other materials to help train the Rychloservis garage owners and their staff.

"We're [working with] people who have a limited staff, 2 to 3 people, so we don't expect them to close their shop while they're converted into a Lucas Rychloservis," he said. "So we're actually going to them and doing the training on the spot."

By the end of 1998, Lucas expects to have a network of 22 fast-fit centers in the Czech Republic, with this number growing to 40 by the end of 1999. In the

future, the company plans to expand its network into other Central European countries.

Lucas is cooperating with the Czech tire maker Barum Continental, a joint venture between Barum Holdings and Continental Tires, who is also establishing a network of fast fit centers in the Czech Republic. Lucas is providing "know-how" to nominated Barum tire workshops and supplies them with Lucas braking products. To date, Barum has 31 brake repair workshops and plans to open another three by the end of the year.

State of the Art On-line Ordering System

Lucas Autobrzdý has developed an intranet system that will allow existing customers to place orders, find out the status of their orders, and find out their account histories.

The customer will have access to such detailed information as whether the products they've ordered are in the warehouse or on a delivery truck. The system is integrated with Lucas's mainframe system and should be completely operational by November 1998.

"This is certainly the first such system in the Czech Republic," said Augnet. "This is also the first [system] in Lucas Varity."

Augnet noted that in the Czech Republic, customers are adapting very easily to the new system. "People are welcoming the initiative," he said. "They want to know where their parts are, like any customer, so the demand was there plus the will to accept new initiatives and technological developments."

The new system also helps Lucas keep its staff numbers and overhead stable while absorbing the expansion of its business throughout the region ■

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Light Commercial Vehicle Sales in Hungary

Brand	I-VI 1997	Market Share %	I-VI 1998	Market Share %	Change %
ALEKO	0	0.00%		00.00%	
CITROEN	388	6.02%	480	4.47%	23.7%
DACIA	2	0.03%	1	0.01%	-50.0%
DAEWOO	0	0.00%	431	4.02%	
DAIHATSU	2	0.03%	0	0.00%	-100.0%
FIAT	419	6.50%	981	9.14%	134.1%
FORD	522	8.09%	968	9.02%	85.4%
GAZ	285	4.42%	215	2.00%	-24.6%
HYUNDAI	164	2.54%	267	2.49%	62.8%
KIA	90	1.40%	345	3.22%	283.3%
LAND-ROVER	10	0.16%	35	0.33%	250.0%
MAZDA	744	11.53%	757	7.06%	1.7%
MERCEDES	275	4.26%	525	4.89%	90.9%
MITSUBISHI	277	4.29%	682	6.36%	146.2%
NISSAN	421	6.53%	865	8.06%	105.5%
OPEL	526	8.16%	522	4.87%	-0.8%
PIAGGIO	3	0.05%	0	0.00%	-100.0%
PEUGEOT	469	7.27%	688	6.41%	46.7%
RENAULT	132	2.05%	347	3.23%	162.9%
SEAT	189	2.93%	180	1.68%	-4.8%
SKODA	165	2.56%	373	3.48%	126.1%
SUBARU	4	0.06%	3	0.03%	-25.0%
SUZUKI	n/a		n/a		
TATA	4	0.06%	16	0.15%	300.0%
TAVRIA	0	0.00%	0	0.00%	
TOYOTA	702	10.88%	1,098	10.23%	56.4%
VOLKSWAGEN	657	10.19%	950	8.85%	44.6%
Total	6,450	100%	10,729	100%	66.3%

Source: MGE

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Best Selling Models in Poland (YTD June 1998)

Passenger Cars			Light Commercial Vehicles			Medium Commercial Vehicles		
Make	Units	% Change '98 v '97	Make	Units	% Change '98 v '97	Make	Units	% Change '98 v '97
Daewoo Tico	24,817	34.14	Polonez Truck	3,229	-48.50	Daewoo Lublin	4,878	-3.69
Daewoo Lanos	23,023	-	Fiat CC Van	1,695	16.66	Mercedes Vito	1,523	61.85
Fiat Palio/Sienna	21,880	-	Citroen C15	1,624	-15.94	VW Transporter	1,045	89.31
PF 126	21,283	-23.89	Citroen Berlingo	1,301	347.08	Ford Transit	756	-36.89
FSO - Polonez	16,577	-44.24	Skoda Pick up	1,248	53.69	FSC - Zuk	450	-68.27
Fiat Cinquecento	15,278	-51.80	Fiat Uno Van	633	12.04	Iveco Daily	430	8.59
Opel Astra	13,882	25.79	Peugeot Partner	499	-25.41	Mercedes Sprinter	388	43.17
Skoda Felicia	11,332	-1.06	GM - Opel Combo	480	-13.04	Peugeot Boxer	369	33.21
Fiat Punto	10,021	2.64	Ford Courier Van	228	-20.28	Fiat Ducato	359	-46.50
Fiat Uno	8,586	-37.42	VW Caddy	198	-4.35	Kia Ceres	331	45.81

Source: SAMAR, s.c.

CEAR™ Extra Data For Electronic Edition

New Car Registrations Growth in Europe (YTD June)

	<u>Country</u>	<u>1998</u>	<u>1997</u>	<u>% Change</u>
1	Germany	1,939,768	1,856,707	4.47
2	Italy	1,380,100	1,296,802	6.42
3	U.K.	1,136,892	1,054,715	7.79
4	France	865,119	784,518	10.27
5	Spain	590,708	511,054	15.59
6	Netherlands	312,032	289,439	7.81
7	Poland	283,758	261,505	8.51
8	Belgium	263,765	233,253	13.08
9	Austria	164,029	159,795	2.65
10	Switzerland	158,288	155,859	1.56
11	Sweden	127,875	114,447	11.73
12	Portugal	127,175	112,056	13.49
13	Ireland	103,767	89,034	16.55
14	Greece	99,104	87,249	13.59
15	Denmark	88,887	92,435	-3.84
16	Finland	68,575	59,293	15.65
17	Norway	62,725	65,399	-4.09
18	Luxembourg	21,280	19,092	11.46

Source: SAMAR, s.c.

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Car Sales in Poland By Power Range (YTD June 1998)

Power range	Units 1998	Market share 1998
Petrol Engines		
Up to 50 HP	75,840	26.73
Above 50 HP up to 75 HP	85,257	30.05
Above 75 HP up to 100 HP	75,730	26.69
Above 100 HP up to 120 HP	33,503	11.81
Above 120 HP up to 150 HP	8,130	2.87
Above 150 HP	2,376	0.84
Diesel Engines		
Up to 70 HP	950	0.33
Above 70 HP	1,972	0.69

Source: SAMAR, s.c.