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AUTOMOTIVE INDUSTRY TO RAMP UP PRODUCTION OF FUEL EFFICIENT CARS AND TO FIND ALTERNATIVE FUEL SOURCES

AUTO EXECS GROWING MORE CONFIDENT, KPMG SURVEY FINDS

Automotive industry executives have identified finding alternative fuel sources as the number one trend facing the industry and are focused on producing low cost cars and hybrids, according to an annual global survey by KPMG. The survey, based on interviews with 113 senior executives worldwide also shows that auto execs are growing more confident about the nearer term prospects of global profitability despite being hampered by overcapacity issues and an uncertain global economy.

Fuel efficiency becoming a key issue

Auto execs said quality (86 percent) and fuel efficiency (84 percent) are the two key factors for consumers in making a purchase in the next five years. Other top consumer criteria are safety (70 percent) and affordability (69 percent). They also feel that car buyers will want vehicles using alternative fuel sources, which has jumped considerably in importance from KPMG's survey a year ago (65 percent versus 53 percent).

According to Peter Kiss, Partner, Energy and Utilities Advisory Services at KPMG in Hungary, commenting on the global KPMG automotive survey the need for finding alternative fuels to power our vehicles is now on the table as human-induced climate change resulting from greenhouse gas emissions becoming the part of the nations' economic thinking. "In five years time I see a significant increase in the size of hybrid-electric and fuel cell-powered cars market," says Kiss. "Hydrogen fast becoming an affordable alternative to traditional fossil fuels, and may one day become the primary source of power in homes and businesses as well."

"The industry knows where it is and knows where it needs to be," said Daron Gifford, National Automotive Leader for KPMG LLP. "It needs to produce quality vehicles that are fuel efficient, especially in this economic cycle, and it needs to invest heavily in developing alternative sources of power. We found the execs in our survey more optimistic than past years, and that's largely because the landscape before them is clearer on the direction they need to go."

In terms of global market share and units sold, 81 percent of auto execs expect major increases in low cost/introduction cars and an equal percentage expect increases in hybrids in the next five years. This was followed by cars, at 67 percent, and crossovers at 58 percent. Categories of vehicles expected to fall are SUVs and large pick-ups, with 47 percent projecting a decrease in SUVs and 50 percent projecting a decrease in large pickups.

Asked to rate the importance of automotive product innovations over the next five years, 79 percent cited hybrid systems and 78 percent fuel cell technology, with safety innovations trailing at 67 percent.

The auto industry projected alternative fuel/hybrid vehicles sales to be in the 500,000 to 600,000 range by the end of 2007. Thirty-two percent of execs in the KPMG survey felt that we will see an equal number sold in 2008, while 25 percent saw a modest increase to 600,000 to 700,000 vehicles. Sixteen percent expect sales in the 700,000 to 800,000 range, with 27 percent expecting sales to top 800,000. The execs surveyed last year under projected sales of alternative/hybrid vehicles for 2007; only 17 percent expected sales to top 500,000.

Global production and capacity issues

“The auto execs expect heavy investment in new models/products and new technologies in the next two years as well as building capacity in Asia,” said KPMG’s Gifford.

Investment in China has been so strong that the number of cars sold in China could equal that of the United States in the next five years, the execs said. In addition, they feel that China will sell a significant number of cars in the U.S. in 6-10 years. What also may result, however, are problems with overcapacity, with 45 percent of the execs saying that overcapacity in China will become an issue in the next five years.

Furthermore, in looking at market share of North American brands over the next five years, though the majority of executives, 54 percent, still expect it to decrease, 22 percent felt that market share would increase. This is a much more optimistic response than in the KPMG survey last year when 62 percent foresaw a decrease and only 14 percent expected an increase. By comparison, however, 38 percent of execs foresee a market share increase for European brands, versus 17 percent who believe it will decline, and 48 percent expect an increase in market share for Japanese brands, with only 19 percent seeing a decline.

More confidence on industry profitability

The KPMG survey found 26 percent of execs saying global profits will rise in the next five years and 14 percent anticipating a decline. This is more optimistic than two years ago when only 16 percent expected a rise in profits and 28 percent saw a decline. In both years, however, 37 percent and 35 percent, respectively, felt that profitability would remain unpredictable.

According to KPMG’s Daron Gifford the industry has seen the bottom of the market, while increased competition is fueling higher levels of optimism.

”The industry is focused on the future: investing in new technologies and production efficiencies, with a continued focus on product quality. Future cost savings are likely to come from manufacturing and technology innovations (67 percent), low cost country sourcing (65 percent),” he said

Note to editors

In the KPMG survey, the executives interviewed represented vehicle manufacturers and suppliers in Canada, United States, England, France, Germany, Sweden, India, China, South Korea, Japan and Australia. KPMG has released an annual survey of automotive executives expressing their views on the state of the industry since 1999.

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