“Focus on the Future”
Automotive Research Conferences

*Inside China:*
*Understanding China’s Current and Future Automotive Industry*

Presented by:
Steven Syzdek
Vice President & General Manager
Stoneridge Asia Pacific

November 10, 2010
Understanding China’s Current & Future Automotive Industry

- Stoneridge Overview
- Supplier Strategies & Perspectives
- Issues Faced
- Challenges & Trends
- Near-Term Future for Suppliers
- Summary
MORE than a million people visited the Expo site yesterday, pushing the total number of Expo Shanghai visitors to over 64 million and breaking the records for daily attendance and the total number of visitors to a single World Expo.

In Shanghai, the attendance reached 1.03 million at 9pm.

Waiting times had been estimated at over 12 hours. The waiting time was over 7 hours at the Saudi Arabia, Japan and Germany pavilions in the morning.

The attendance soared to 800,000 within 50 minutes from 700,000 and had reached 900,000 by 2:30pm.
Stoneridge Overview

- A leading independent designer and manufacturer of highly engineered electrical and electronic components, modules and systems principally for the automotive, medium and heavy-duty truck, agricultural and off-highway vehicle markets
- Publicly Traded on the NYSE (SRI)
- Headquarters: Warren, Ohio, USA
- 2009 Revenue: $475 Million
- Employees: 5,200

“Trusted Supplier with over 80 years in Business”

Major Customers
Comprehensive Product Portfolio

- Basic elements of every vehicle’s system architecture
- Leading supplier of emission-reduction components and systems in North America
2009 Stoneridge Key Facts

By Operating Group

Actuator & Temperature, Pressure & Speed Sensors 19%
Switch & Position Sensors 17%
Electronic Instrumentation & Information Display Products 23%
Vehicle Electrical Power & Distribution Systems 41%

Electronics
- Commercial Vehicle
- Agriculture
- Military
- Material Handling

Control Devices
- Passenger Car
- Light Vehicle

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2009 Stoneridge Key Facts

By Market

- Auto & Light Truck: 33%
- Medium & Heavy Truck: 51%
- Agricultural / Other: 16%

By Geography

- North America: 78%
- Europe: 17%
- South America: 3%
- Other: 2%
Strategic Rationale to Enter China

- Create an IPO (International Purchasing Office) to source & have the ability to conduct supplier audits, tooling qualifications…

- Establish a sales, business development and engineering presence…

- Support global customers in China & Asia Pacific…
  - Eliminate exports
  - Build relationships in-region

- Expand into one of the fastest growing transportation segments in the world…
Stoneridge Footprint in China

- **AUG 2004**: Established Representative Office in Shanghai
- **OCT 2005**: WOFE Legal Incorporation in Suzhou
- **JAN 2006**: Factory Completion
- **APR 2006**: Production Commenced
- **MAR 2010**: Established Sales and Electronics Design Center in Shanghai

- Oil Pressure
- Fluid Level Sensor
- ABS Wheel Speed Sensor
- Temperature Sensor
- Seat Track Position Sensor
- Ball Switch
- Ignition Switch
- Dimmer Switch
- Tailgate Release Switch
- Wiring
China Operations Suzhou Facility

- Facility 25,000 square feet
- Climate controlled
- Epoxy & ESD floors
- $800,000 facility infrastructure & lease improvements
- 100 employees
- $ 0.29 / SQF / month lease rate
Shanghai Electronics Design Center & Sales Office

- Final site chosen after multiple considerations around the greater Shanghai area
- 6,340 SQF with seating up to 30 staff
- 3 months from lease possession to occupation
- $125,000 renovation & fit-out
- $2.05 / SQF / month
Supplier Issues in China

- TS Certification & Quality Audits
- Logistics
- Selling to the OEs
  - Supplier Requirements
- Payment Terms
- Human Resources
- Unions
TS Certification & Customer Qualifications

On-site Audit Approvals

- TS-certification is critical link to establish credibility and system compliance

- No small task, time consuming, costly and takes significant coordination and support from North America

- Between June 2006 & October 2010, more than 17 on-site audits have been conducted:
  - Changan Ford Mazda Chongqing
  - Changan Ford Mazda Nanjing
  - Delphi Korea (Hyundai)
  - Dongfong Cummins & all their JV’s
  - GM China
  - Mazda China
  - Mazda Japan
  - Shanghai GM
  - Wanxiang
  - World Group

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Scenario: There is an important customer issue outside of China and one of your China team members needs to travel….

- **Travel for a Chinese National takes time and planning:**
  - Minimum 7 business days to obtain USA visa. 3 to 4 business days to Europe
  - Travel to Japan, Korea etc. require letters of invitation from host company > not always easy to obtain
  - Membership in the American Chamber of Commerce Corporate Visa Program (CVP) for frequent traveler's is a must

- **Internal travel in China is difficult**
  - Hard to conduct more than 2 meetings per day
    - Expect trains, planes, buses and taxi’s before reaching your final destination
  - Visiting team members need to moderate their expectations
Travel Logistics Example: Customer Locations in China

- Dongfeng Cummins Engine (Xiangfan)
- Foton Cummins Engine (Beijing)
- Xi’an Cummins Engine (Xi’an)
- Changan Ford Mazda Nanjing (Nanjing)
- John Deere Ningbo
- Dongfeng Cummins Engine (Xiangfan)
- Changan Ford Mazda Chongqing (Chongqing)
- CNHTC (Jinan)
- FAW VW (Changchun)
- CNHTC (Jinan)
- Chery (Wuhu)
- Shanghai GM (Shanghai)
- SAIC (Shanghai)
- Shanghai VW (Shanghai)

Distances from Shanghai:
- Beijing: 926 miles
- Changchun: 1,453 miles
- Chengdu: 1,500 miles
- Chongqing: 1,336 miles
- Suzhou: 75 miles
- Tianjin: 857 miles

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OEMs Supplier Requirements

- OE’s rely heavily on system suppliers as Tier 1s
  - If you are selling a single component, you may be better served to find out who the system integrator is…

- Becoming harder to get into supply base
  - Must find your entry point and build content

- Local sourcing is necessary to compete in China’s hypercompetitive market
  - Components, tooling, test equipment, process equipment...

- Customers continue to demand local R&D / D&D and full testing capabilities

- Traditional models of seeking a commitment first > then investing will not work…Corporate conundrum: "build it and they will come"

- Program lead-times, forecasting, response time is very different
Inside Look at Typical Payment Terms

- Western companies like; Net 30, Net 45, MNS2…maybe Net 60?

- Domestic Chinese Customers use…

**ChangAn Ford**: 60 days net
  - Occasionally pay via Bank Notes
  - The ratio between cash and Bank Notes is negotiable pending the priority of the parts supplied

**Shanghai Volkswagen**: 30 days net, 50% cash 50% Bank Notes
  - Bank note maturity may vary from 90 days to 180 days

**Shanghai General Motors**: 25th of the following month after complete invoices and goods (services) received. Occasionally with Bank Notes

**Cummins China**: 60 to 90 days net, 50% cash 50% Bank Notes

**Chery**: 90 days net, 40% cash 60% Bank Notes (180-day maturity maximum)

**Dongfeng**: 120 days net after the part is installed; 100% Bank Notes with maximum maturity of 180 days
## Bank Notes

<table>
<thead>
<tr>
<th>出票人全称</th>
<th>周公有洋机房有限公司</th>
</tr>
</thead>
<tbody>
<tr>
<td>出票人账号</td>
<td>33080300000896</td>
</tr>
<tr>
<td>付款行全称</td>
<td>财务印鉴章</td>
</tr>
<tr>
<td>出票金额</td>
<td>人民币 100,000,000元</td>
</tr>
<tr>
<td>汇票到期日</td>
<td>2023年12月31日</td>
</tr>
<tr>
<td>承兑协议编号</td>
<td>3404034093</td>
</tr>
<tr>
<td>本汇票已经承兑，到期由银行付款。</td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>全称</th>
<th>无锡市华业机电有限机厂</th>
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<tr>
<td>账号</td>
<td>0280280917801</td>
</tr>
<tr>
<td>开户银行</td>
<td>中行华亿支行</td>
</tr>
<tr>
<td>行号</td>
<td>104280000993</td>
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<tr>
<td>地址</td>
<td>江苏省江阴市大河路119号</td>
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备注：3739

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Bank Note Process Example

- Supplier sells a part to a Chinese Company

- Chinese Company – after 45 / 60 / 90 days, pays the Supplier 50% cash and presents a Bank Note for the remaining balance with a 90-180 day maturity, guaranteed from a Chinese bank

- Supplier Options:
  - Supplier can then cash in the bank note for a discounted percentage before the 90 days maturity
  - Discount is approximately 7% to 10% off the face value of the Note
  or

- After maturity, redeem the bank note for cash for full value
Human Resource Issues

- Difficulty in hiring
  - Lack of experienced employees
  - Experienced employees have their pick of opportunities
  - “Brand Recognition” is a factor

- Retention & turnover rates

- Increasing labor costs

- Unions
Western Learning Tools;
- Who? (available resources)
- What? (confirm outcome)
- Why? (confirm context)
- When? (timeline)
- How? (methodology)

Chinese Learning Tools;
- Listen – wait for instructions and directions
- Look and model successful behavior
- Learn – Humble approach to new tasks

3 most important words of advice:

**Coaching….Coaching….Coaching**

- Pulling employees
- Asking questions
Human Resource Issues: Employee Turnover

<table>
<thead>
<tr>
<th>Year</th>
<th>Regular Employee</th>
<th>Monthly Rate</th>
<th>SIP Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y2006</td>
<td>19</td>
<td>5.26%</td>
<td>12.38%</td>
</tr>
<tr>
<td>Y2007</td>
<td>55</td>
<td>3.33%</td>
<td>19.81%</td>
</tr>
<tr>
<td>Y2008</td>
<td>77</td>
<td>3.14%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Y2009</td>
<td>75</td>
<td>4.00%</td>
<td>43.04%</td>
</tr>
<tr>
<td>Y2010</td>
<td>87</td>
<td>3.45%</td>
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## Human Resource Issues: Increasing Labor Costs

### 2011 Salary Guideline

<table>
<thead>
<tr>
<th>Province/City</th>
<th>Average</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>11%</td>
<td>4%</td>
<td>16%</td>
<td>August 4, 2010</td>
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<tr>
<td>Jiangsu</td>
<td>10~12%</td>
<td>4~6%</td>
<td>No limit</td>
<td>September 1, 2010</td>
</tr>
<tr>
<td>Suzhou</td>
<td>12%</td>
<td>6%</td>
<td>No limit</td>
<td>September 6, 2010</td>
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</tbody>
</table>
Chinese Labor Unions - Key Facts

- New labor law enacted in 2008

- Forcing companies to establish an All-China Federation Trade Union (ACFTU)
  - Initial focus on large multinationals
  - Now making their way to smaller enterprises

- ACFTU is the sole national trade union federation in China
  - Largest trade union in the world with 134 million members
Labor Union Notice

会议通知

会议时间：2010年10月13日（星期三）下午2:30
会议地点：委管镇政府三楼中间会议室
会议主题：非公企业工会推进会议
会议参加：未建会企业负责人
会议内容：
1. 传达学习园区工会、管委会关于工会工作的有关要求；
2. 企业工会组建工作进度安排；
3. 工会工作经验交流。

备注：请各企业将参会人员回执于2010年10月11日将传真至
委管镇工会，传真号码：62659105。

Meeting Notice

Time: Oct 13, 2010 14:30
Place: Loufeng Government
Attendee: Enterprise who did not establish Labor Union
Subject: Labor Union Steering Meeting
1. To learn the requirement about labor union from SIP Labor union committee and SIP administration Centre;
2. Enterprise Labor Union establishment status;
3. Labor Union experience share.

Attachment:
Meeting Registration Form
Labor Union Notice

Application of Labor Union Establishment

To: Labor Union of Losfnt Town Government:

Stoneridge was established on the date of ___ Month ___ Date ___ Year, there are ___ employees now, include ___ female employee. For better safeguard the legitimate rights and interests and mobilize employees to work positive and creative as well as stimulate enterprise development, according to <Labor Union Law> and <China Labor Union Constitution>, Stoneridge hopes to establish labor union as soon as possible.

In order to establish Labor Union successfully, we have established Labor Union Preparation team composed of ___ ___. ___ ___. 5 employees, ___ is the team leader, ___ is the deputy team leader.

Hopes to get your approval.
Attachment: Member list of Labor Union Preparation Team

Member list of Labor Union Preparation Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Gender</th>
<th>Birth</th>
<th>Education</th>
<th>Current Position</th>
<th>Contact No. &amp; E-mail</th>
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Company address: ____________________________  Post Code: __________

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Chinese unions to increase role at foreign and private companies  
September 10, 2010

The All China Federation of Trade Unions (ACFTU) will try to increase its with private and foreign companies in China

At the end of 2009, 79% of foreign-invested companies in China had union branches. The ACFTU plans to increase that ratio to 90% by 2012*

The union push is coming at a time when global corporations are already facing rising labor and commodity costs in China, which is struggling to contain inflation

What do Unions really mean for us?
Impact on Suppliers

- The cost will be 2% of monthly gross salary including expats

- Non-compliance will hamper business license audit
  - *ie. you will not pass*

- Union representatives will reside on-site if the workforce is >200
  - Company obligated to provide office, phone, meals

- Composition: 3~7 committeemen in labor union
What is the Future for Suppliers?

Rising labor costs and the continuing controversy over the value of the RMB have triggered an intense discussion among companies operating in China. Increasingly, executives are asking whether China is still the right place for sourcing and manufacturing. Should they stay? Or should they move operations to less costly locations such as India or Vietnam?

AmCham Shanghai’s Sourcing & Procurement Committee is pleased to invite you to an event entitled: Stay or Go? The Future of Sourcing and Manufacturing in China, on Thursday, October 21 at the Ritz-Carlton Pudong.
What is the Future for Suppliers?

- Aftermarket is an untapped emerging market
- Chinese suppliers are gaining ground: Technology, Quality
- Continued consolidation of OE’s and supply base
- Excess capacity
- Global platforms and system commonality
- Government’s push to companies to move inwards
- Organized labor gaining influence
- Rising cost business (wages, taxes, exchange rates)
- Stiffening emissions regulations
- Warranty sharing will become more prevalent
Automotive Supplier Perspective; Lessons Learned

Perception

- China is one huge harmonic market
- Sunset technology is “good enough” for China
- Relationships can resolve all problems
- “Given the size of the market, we should make money”

Reality

- Volumes are fragmented, and the market differs region-by-region
- In many instances, newest technology is key to winning in the marketplace
- Relationship helps, competitiveness is key
- Cash flow is difficult, margins are thin and the competition is intense
Summary

- Still significant opportunities in China…need to proceed with caution and patience
  - Suppliers that make a commitment, have the technology that OE’s need, will grow as the market expands

- Pay attention to cultural differences…perception and realities
  - Critical you get to China and see for yourself
  - Shanghai and Beijing are only a glimpse into China

- Buy-in and support from corporate and senior management to commit to China
  - Should be part of a balanced global portfolio of business…*customer and geographic diversification*
Summary

- Critical to develop your local team to succeed
  - Capitalize on their strengths, their networks and market knowledge
  - Empowerment and accountability

- Engineering, product development, localized purchasing and test capability is a must to demonstrate competency

- Be Fast, Focused & Flexible
Useful Contact Information

**Original Equipment Suppliers Association (OESA)**
China Strategy Council
Margaret Baxter - Vice President, Policy and International Affairs OESA
1301 W. Long Lake Rd. Suite 225
Troy, MI 48098
Phone: 248/952-6401 x 223
www.oesa.org

**US-China Chamber of Commerce**
Mai Hoang - Executive Director
55 West Monroe Street, Suite 630
Chicago, IL 60603
Phone: 312-368-9029
www.usccc.org

**American Chamber of Commerce (AMCHAM)**
Shanghai Centre, Suite 568
376 Nanjing Road West
Shanghai, China 200040
Phone: (8621) 6279-7119
www.amcham-shanghai.org

steven.syzdek@stoneridge.com

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- 1969 locker sign

- Exemplifies:
  - Perseverance + Hard Work = Winning Results