THE SA TRUCK MARKET
Current Trends, Competitor Profile & Forecast

A Brief Overview

BUSINESS CONSULTANTS INTERNATIONAL

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NOTE FROM BUSINESS CONSULTANTS INTERNATIONAL (BCI)

- The report is an Information Memorandum and does not purport to be an in-depth analysis of the sector or its environment. An in-depth analysis and evaluation can be undertaken on request.

- Given time constraints, this valuation was undertaken without meeting the owners or directors of the different trucking companies. The mandate did not request such meetings.

- Therefore, this assessment is based on available data and a brief analysis of the South African trucking market.

MARKET DEFINITION

- The market for trucks includes:
  - All light commercial vehicles (LCVs)
  - Light buses and coaches (LBCs)
  - Commercial vehicles (CVs)
  - Buses and coaches (BCs)
  - Heavy commercial vehicles (HCVs)
  - Heavy buses and coaches (HBCs).
  - LCVs and LBCs weigh up to 3.5 tonnes and include pick-ups, vans and sports-utility vehicles.
  - CVs and BCs weigh 3.51 to 16 tonnes and also include the larger pick-ups, vans and SUVs.
  - HCVs and HBCs weigh over 16 tonnes.

- The market value is calculated in terms of manufacturer selling price (MSP), and excludes all taxes and levies.

- Any currency conversions used in the creation of this report have been calculated using constant 2004 annual average exchange rates.

- For the purposes of this report:
  - Europe comprises Belgium, Czech Republic, Denmark, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Russia, Spain, Sweden and UK.
  - Asia-Pacific comprises Australia, Taiwan, China, India, Japan, South Korea.
  - The global market refers to Europe, Asia-Pacific, Brazil, Canada, Mexico, South Africa and the US.

TRUCKING SCENARIO: HISTORIC PERSPECTIVE

The performance and structure of South Africa’s transportation system is largely explained by two phenomena: the legacy of apartheid and privatization. Apartheid had far-reaching impacts, even extending deep into the country’s transportation and energy system.

Some of the transportation and energy effects of apartheid include the following:

- Land use policies were based on race and ethnicity, in which black residential areas were moved to the outskirts of growing urban areas and beyond, creating long commuting distances for most of the black poor.
Energy investments in innovative coal-based synthetic fuel processes were greatly expanded following international sanctions during the 1970s and 1980s.

Import substitution economic policies promoted the domestic motor vehicle manufacturing industry.

Generous company car allowances and subsidized vehicle schemes nurtured a market for private cars to support the domestic auto industry.

Public transportation services designed to serve long-distance commuters with low levels of service inspired black entrepreneurs to create informal services by minibus jitneys — van-type vehicles — for the many unserved travel needs. These services tend to be provided with inefficient vehicles resulting in higher energy consumption and emissions.

Privatization is a second major phenomenon shaping South Africa’s transportation system and its energy and environmental performance. The country is steadily privatizing both its passenger and freight transportation systems, largely because of shrinking government funds and an inability to manage urban sprawl. The effects of privatization in the transportation sector have been positive in many ways — including expanded transit service and lower freight costs. But dwindling government subsidies and rapid growth in minibus jitney services have led to sharp ridership losses on the extensive rail and bus systems.

Overall, the combined effect of privatization and the apartheid legacy is inflated travel demand and growing use of motor vehicles and trucks. The challenge is to devise policies and strategies to redirect these behaviours and investments to create a more economical, environmental, and socially beneficial transportation system.

South Africa’s Transportation Picture
With a stronger economy and growing social demands, transportation is not among the government’s highest priorities. South Africa is increasingly looking for ways to harness market forces to improve efficiencies, and asking private businesses to inject additional resources. Private businesses have launched new transportation services, such as the minibus jitneys, and taken over many services previously operated by the government.

In 1990, the government transportation bureaucracy was transformed into Transnet, a public corporation wholly owned by the national government but with an independent board of directors. Transnet consists of seven subsidiary businesses: Spoornet (intercity passenger and freight rail), Portnet (harbours), Autonet (road transportation), Petronet (liquid petroleum transport), SAA (air transportation), Fast Forward (container shipments), and MetroRail (commuter rail services).

Road Infrastructure

Rural roads
These were built and maintained, but usually to serve white agricultural interests. By 1980, predominantly white areas were well served, while roads in predominantly black areas were barely adequate to meet demand. The problem was exacerbated in the 1980s. Accelerating black urbanization resulted in escalating travel demand, but local authorities in predominantly black areas did not have the resources to respond with new or improved roads.

Transportation funding began to diminish in the 1980s as funding for social services and police and military needs grew. In 1988, the government abandoned the dedicated highway trust fund and diverted revenues from the national fuel tax into the general budget. Road building and maintenance were now forced to compete with other needs. Expenditures on roads decreased for both white and black areas.

To offset these dwindling funds, a variety of new funding sources were developed in the 1980s and 1990s. Tolls were introduced in the 1980s on high-volume intercity roads and expanded in the 1990s.
Fuel that had been stockpiled during apartheid was sold and used to finance a one-time investment in rural road infrastructure in the mid-1990s. Also, a small portion of the fuel tax (equivalent to about 3 US cents per gallon) was re-dedicated in 1998 to design, construct, manage, and maintain intercity freeways. None of the funding generated from the dedicated fuel levy is directed at lower-volume local and provincial roads not serving major economic activities. These roads, comprising about 84,000 and 176,000 kilometres respectively, form the bulk of the South African road network. They are the responsibility of local authorities and the nine provinces.

The Department of Transport estimates that South Africa will need R170 billion for road infrastructure over the next 10 years. The government is increasingly looking to the private sector to make up for this funding shortfall.

**Freight Transportation**

*Until the late 1980s, most of South Africa's long distance freight moved by rail.*

The government-owned railway held a monopoly, protected by legislation that prohibited trucks from competing. The Transport Deregulation Act in 1988 deregulated freight transportation, allowing trucks to operate wherever they wanted. As expected, deregulation resulted in a flood of new trucking companies.

The increased supply of capacity led to increased competition, which led to a lowering of freight tariffs. The protected rail company had become inefficient over the years, like rail companies in the United States, Europe, and elsewhere. With deregulation and competition from trucks, rail suffered sharp losses in market share. Spoornet, the rail company, claims that it must lower tariffs for general (i.e., non-bulk) freight below cost to stay competitive.

There is considerable debate about whether the current state of affairs is healthy. While the largest trucking companies are well managed, profitable, and provide high levels of service, many of the newer companies are not.

At the extreme are small entrepreneurial companies, often with single vehicles. The small new companies are viable, because they have minimal overhead (office space and staff) and, in many cases, provide low-quality service with badly maintained vehicles. This sector is growing rapidly, and academics and researchers have expressed concerns that a situation similar to that of the minibus jitney industry is developing.

There is a concern that competition is excessive and destructive — a recurring concern in all countries that deregulate trucking. The slowing economy, combined with increased trucking capacity has further intensified competition, reducing tariffs still further for both trucks and rail. This has led some truck operators to overload their vehicles, neglect maintenance, require drivers to speed, and encourage drivers to work long hours.

A degree of consensus appears to be emerging among transportation officials that the growth in road freight transportation has been too fast and that some freight should be encouraged to return to rail.

Strategies under discussion for slowing truck growth include stricter enforcement of the country's traffic laws; full cost recovery from road freight operators, who are generally believed to pay less than their fair share of road use and related external environmental costs; and major improvements in rail services.

**South African Trucks: Competitive Landscape**

Given the strong economic growth of South Africa over the last decade, it is not surprising that the trucks market has followed suit. However, this growth cannot be sustained, as companies increasingly opt for re-equipping their existing fleets over purchasing entirely new vehicles.

Nevertheless, the leading companies such as Scania, Volvo Group, Iveco, and Delta Motor Corporation are likely to retain their market shares.
Market Segmentation
The LCV sector dominates the South African trucks market, accounting for 85.7% of trucks sold in 2004. The HCV sector accounts for a further 7.5% of the market.

South Africa Trucks Market Segmentation, %Volume by Category, 2004

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>LCV</td>
<td>85.7%</td>
</tr>
<tr>
<td>HCV</td>
<td>7.5%</td>
</tr>
<tr>
<td>CV</td>
<td>5.5%</td>
</tr>
<tr>
<td>HBC</td>
<td>0.5%</td>
</tr>
<tr>
<td>BC</td>
<td>0.5%</td>
</tr>
<tr>
<td>LBC</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

South Africa accounts for 0.4% of the global trucks market's value. The US was the largest trucks market, accounting for 57.5% of the global value.

South Africa Trucks Market Segmentation, %Value by Geography, 2004

<table>
<thead>
<tr>
<th>Geography</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>57.5%</td>
</tr>
<tr>
<td>Europe</td>
<td>16.0%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>13.7%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>12.3%</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Competitor Profiles

Scania remains the largest player in the South African market, although it is increasingly coming under pressure from young companies such as Isuzu. However Scania still holds a great deal of the market share, due to its trucks and buses being built to meet the demanding conditions of the sub-Saharan Africa climate as well as the needs of African haulage companies. For example, Scania's new flagship truck-tractor is created for long-haulage and heavy haulage applications, which are typically found in Africa.

All indications suggest that the South African truck market will continue to grow due to plenty of growth in the manufacturing sector.

This means that increasing numbers of trucks will be required for logistical use. Furthermore, ever increasing numbers of companies in the country are using "lean distribution", whereby regular deliveries are made, instead of stock being warehoused. This change in operation requires more trucks.

Furthermore, Ford Motor Company of South Africa reports that the growth in the Light Commercial Vehicle market, which includes half-ton pickups, is an indication of healthy growth in the country's small enterprise sector.

Brief overviews of the leading companies in the South African trucks market.

Ford Motor Company
- Ford Motor Company (Ford) is one of the largest producers of cars and trucks in the world. Its core businesses are automotive and financial services. The company's automotive vehicle brands include Ford, Mercury, Lincoln, Volvo, Jaguar, Land Rover and Aston Martin. The company operates primarily in the US, Canada, Mexico, South America and Asia Pacific. It is headquartered in Deaborn, Michigan and employs about 327,500 people.
The company recorded revenues of $170.8 billion during the fiscal year ended December 2004, an increase of 4.4% over 2003. The increase was primarily attributable to increased automobile sales in the South American market and the strong performance of Hertz during the year. The operating profit of the company during fiscal 2004 was $4.9 billion, an increase of 262.4% over fiscal 2003. The net profit was $3.5 billion during fiscal year 2004, an increase of 605.5% over 2003.

General Motors Corporation

General Motors Corporation (GM) is the world's largest automaker. The company employs about 324,000 people around the world and has manufacturing operations in 32 countries with vehicles sold in 200 countries. The group's principle automotive brands include Buick, Cadillac, Chevrolet, GMC, Holden, HUMMER, Opel, Pontiac, Saab, Saturn and Vauxhall. GM is headquartered in Detroit, Michigan.

For the fiscal year ended December 2004, GM generated revenues of $193.5 billion, an increase of 4.3% from the previous year. The company reported a net income of $2.8 billion for fiscal 2004, down 26.6% from the previous year.

Iveco N.V.

Iveco is a leading manufacturer of commercial vehicles and diesel engines and is a subsidiary of the Fiat Group. Iveco has manufacturing plants across the globe and subsidiaries that provide specialist products including finance and transport solutions. The company is headquartered in Turin, Italy.

For the fiscal year ended December 2004, the company generated revenues of $11.5 billion, 10.1% higher than the previous year. Net income was $135.4 million in 2004, compared to a net loss of $320.5 million in 2003.

Scania AB

Scania is a manufacturer of heavy-trucks and buses. It also produces industrial engines, and provides maintenance and finance services. The company operates in Europe, Latin America, Asia, Africa and Australia. It is headquartered in Sodertalje, Sweden.

The company recorded revenues of $8 billion during the fiscal year ended December 2004, an increase of 11.9% over 2003. The operating income of the company during fiscal 2004 was $864.3 million, an increase of 23.6% over fiscal 2003. The net income was $556.1 million during fiscal year 2004, an increase of 34.4% over 2003.

AB Volvo

AB Volvo (Volvo) is one of the world's leading suppliers of transport solutions. The company and its subsidiaries are engaged in the manufacture of trucks, buses, leisure boats, workboat engines and construction equipment. The company provides a range of financial services to the Volvo group of companies, its distributors and its end customers. Volvo also operates in the aerospace industry and manufactures industrial gas turbines. It is headquartered in Gotenborg, Sweden and employs about 81,100 people.

The company recorded revenues of $28.9 billion during the fiscal year ended December 2004, an increase of 15.3% over 2003. The increase was primarily attributable to favorable economic conditions and new products launched during the fiscal year. The operating profit of the company during fiscal 2004 was $2.04 billion, an increase of 467.1% over fiscal 2003. The net profit was $1.4 billion during fiscal year 2004, an increase of 3039.3% over 2003.

The company was able to increase its profitability through the successful elimination of production bottlenecks and tight control of deliveries from suppliers.

Isuzu Motors Limited

Isuzu Motors (Isuzu) is a manufacturer of commercial vehicles, light commercial vehicles and diesel engines. The company primarily operates in Japan, North America and Asia. It is headquartered in Tokyo, Japan and employs about 18,130 people.
The company recorded revenues of JPY1493.6 billion ($13.5 billion) during the fiscal year ended March 2005, an increase of 4.4% over 2004. The operating profit of the company during fiscal 2005 was JPY87.2 billion (approximately $0.8 billion), an increase of 3.2% over fiscal 2004. The net profit was JPY60 billion (approximately $0.5 billion) during fiscal year 2005, an increase of 9.7% over 2004.

**LATEST TRENDS: VEHICLE MANUFACTURING INDUSTRY**

Some key features are outlined.

**KEY FEATURES**: Latest industry vehicle sales, export and import statistics for 1995 through 2007:

- Third quarter, 2005 auto industry employment expanded by 173 jobs on top of auto assembly industry employment growth of 3 068 jobs during preceding 18 months.
- Robust sales trend and positive undertone continues in the domestic market.
- Sharp increase in new vehicle exports, since the middle of 2005, on the back of ambitious new vehicle export programmes.
- SA Automotive manufacturing industry capacity utilization levels currently at all time records.

THE SA market for commercial vehicles over 3500kg Gross Vehicle Mass recorded 2521 sales during September, a 29.5% increase over the same month last year. This is according to the latest figures released by the National Association of Automobile Manufacturers of SA (NAAMSA).

On a year-to-date basis, sales are also ahead of those recorded during the same period last year, increasing by 33.5% to 20140 units. If compared to September 2004, sales in the Medium Commercial Vehicle (MCV) segment increased by 29.5% to 1059 units.

**The Heavy Commercial Vehicle (HCV) segment recorded 524 sales during September, a significant 42% increase over the same month last year.** Sales in the Extra Heavy Commercial Vehicle (EHCM) segment increased by 23.4% in September 2004, to conclude the month on 813 units. The bus segment also recorded growth during September, increasing by 21.3% to 125 units.

Despite the slight reduction in monthly sales of MCVs, trading conditions for these trucks and buses have remained more than firm, alongside an economy in which fixed-investment spending growth clearly continues as a dominant factor within total domestic spending expansion.

**With the consistent growth in the SA truck market over the past five years,** it is important that industry players keep careful track of trends within the overall market as well as the four macro segments identified by NAAMSA within the market.

At the change of the millennium, MCVs constituted nearly 50% of the truck market, and were clearly the dominant segment.

As the overall market grew, these two- to five-ton payload vehicles lost some of their relative strength and dipped to around 40% market share. However, since early 2004 they have made a substantial comeback, driven by the addition of new models at the lower and upper end of the payload spectrum. MCVs currently make up around 45% of the truck sales market total.

**Heavy Commercial Vehicles**, principally the heavier 4x2 two-axled models, were experiencing a steady loss of overall market share through the turn of the millennium, and sank below the 20% penetration level during 2001.

This decline continued into 2004, reaching a low-point of 17% at the end of last year, but some early signs of reversal have been apparent this year, when the segment's penetration broke back through the
20% level heading in a positive direction. In stark contrast to the long-term decline in HCV market share, multi-axled Extra Heavy Vehicle sales rose strongly off a similar level around 20% in 2000, to nudge 40% early in 2004. Since then, the XHCV growth spurt has dissipated somewhat to currently lie just above 30%, but the change in application mix may well add renewed impetus to this macro segment as we approach the end of this year.

Bus sales have remained disappointingly weak, when viewed against overall market growth, and have struggled to exceed 10% of the total market, or break above an annual sales volume of 1000 units, while the rest of the market has raced ahead. Continuing uncertainty over the ultimate success of the government's unfolding policy to revitalise public transport, together with the impact of the closely related Taxi Recapitalisation Programme, have served to put this effective cap on bus sales.

Within the MCV macro segment, there has been a steady consolidation of freight carrier chassis/cabs as the most important application class, and it currently accounts for 75% of the total volume. Integral panel vans have lost some ground to sit at a present level of just above 20%, but it should be remembered that, in this sector, many freight carrier chassis are fitted with enclosed van bodywork and a substantial number of integral vans are converted, in the aftermarket, to midibus configuration.

The market has already witnessed the reporting of some new taxi-type vehicles in this category, and if this trend continues the future absolute sales volumes of MCV units could increase exponentially.

In the heavier HCV macro segment, freight carriers reign supreme at well over 90% penetration, with only tippers manifesting as a significant alternative at around 5%. The recent decline in demand for seven-ton tippers from the public sector, and the resultant run-out of the bonneted Japanese chassis that fed that demand, are clear signs of a shift in an important historical buying pattern in our market.

However, there has been significant recent growth in demand for tippers and truck mixers among the Extra Heavy units, reflecting a return of smaller fleet buyers to the new vehicle market.

The parallel growth in sales of multi-axled single and double-drive rigid freight carriers as used by the distribution trade has resulted in the traditional dominance of truck-tractors in the top mass macro segment being eroded, and their share, over the past half-decade, has diminished by a factor of nearly 10%, to currently lie just above the 70% level.

When a market experiences the type of growth currently evident in the South African truck arena, it is risky to assume that the sales pattern will remain constant and that business as usual will prevail. It is becoming more and more evident that dynamic change is indeed taking place in the South African trucking market, and it is very important that manufacturers, dealers and the structures supporting this market take cognisance of these changes, and plan their activities and investments accordingly.

**Market Forecasts**

In 2009, the South African trucks market is forecast to have a value of $3.2 billion, an increase of 72.0% since 2004. The compound annual growth rate (CAGR) of the market in the period 2004-2009 is predicted to be 11.5%.

**South Africa Trucks Market Value Forecast (USD)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1900m</td>
<td>45.0%</td>
</tr>
<tr>
<td>2005</td>
<td>2400m</td>
<td>29.1%</td>
</tr>
<tr>
<td>2006</td>
<td>2600m</td>
<td>7.7%</td>
</tr>
<tr>
<td>2007</td>
<td>2800m</td>
<td>8.5%</td>
</tr>
<tr>
<td>2008</td>
<td>3100m</td>
<td>8.9%</td>
</tr>
<tr>
<td>2009</td>
<td>3200m</td>
<td>4.7%</td>
</tr>
<tr>
<td></td>
<td>CAGR 11.5%</td>
<td></td>
</tr>
</tbody>
</table>
In 2009, the South African trucks market is forecast to have a volume of 139,667 vehicles, an increase of 63.4% since 2004.

The compound annual growth rate (CAGR) of the market volume in the period 2004-2009 is predicted to be 10.3%.

**South Africa Trucks Market Volume Forecast, Vehicles (%)**

- 2004 41.4%
- 2005 27.3%
- 2006 7.8%
- 2007 7.9%
- 2008 7.1%
- 2009 3.0%
- CAGR 10.3%

**Scenarios for the Future**

The list of South Africa's transportation-related challenges is long, but interconnected.

It includes past land use policies, increased urbanization, greater private motor vehicle usage, declining bus usage in the face of increasing subsidies, low quality public transit services, deteriorating traffic safety, limited road investments and increasing congestion.

Vastly different outcomes are possible depending on the path chosen; in-depth research must therefore be undertaken prior to any future strategies being designed for a specific transport/trucking company.

Essentially, all visions of the future must evolve and reflect assessments of economic growth, political commitment, technology adoption and travel and vehicle purchase behaviours. In addition, all scenarios must be premised on a real local currency GDP growth of +4% per annum.