Headwinds Report

Raw material impact on automotive and commercial vehicle suppliers

Cost & Capital

Executive Summary

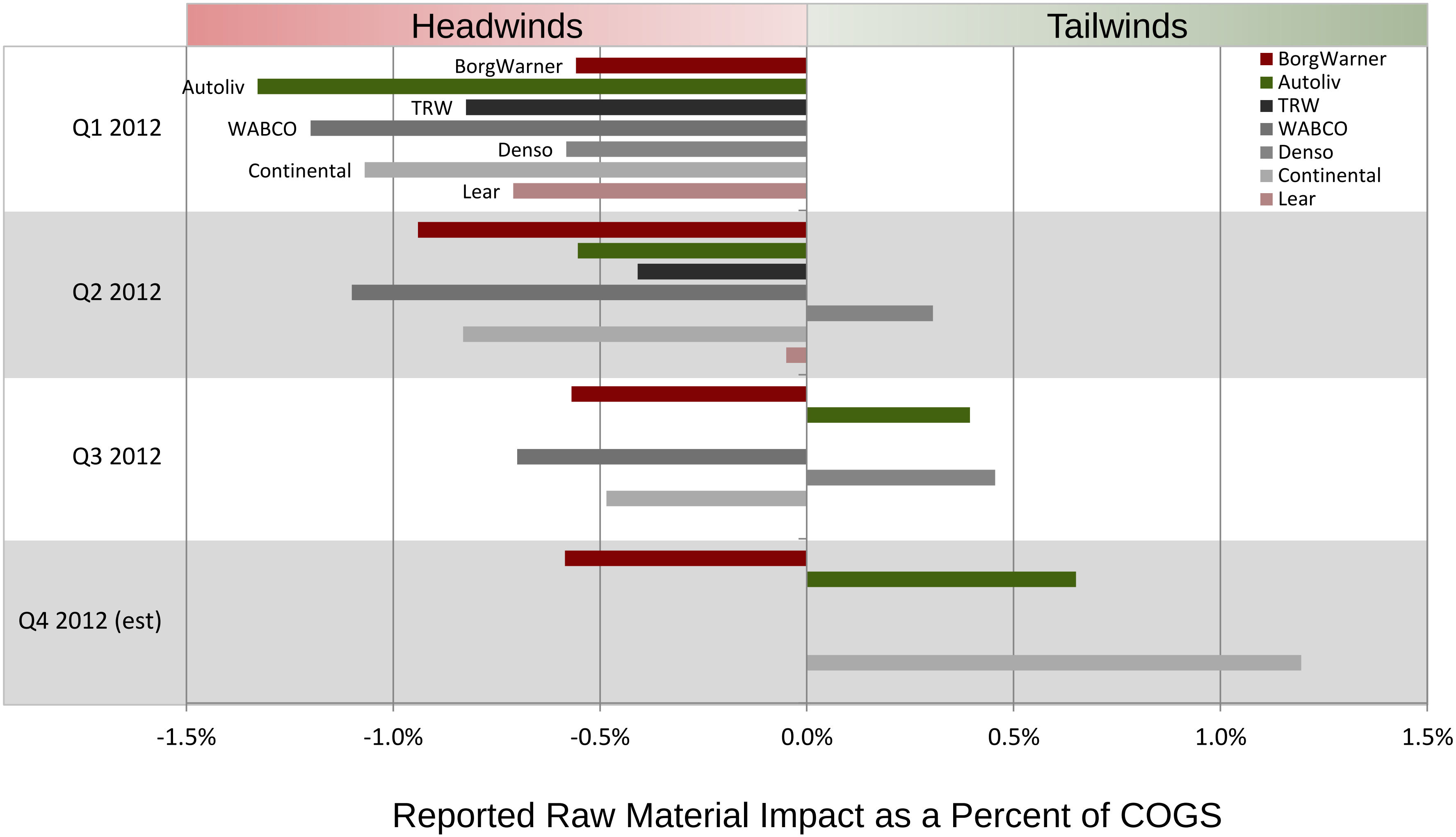
- ***Commodity Volatility* – Commodity prices have fluctuated throughout 2012 notable in steel, resin, fuel, rare earth minerals and copper but most are trending positively for Q4 2012 and 2013**

- ***Financial Impact* – The impact to the financial performance of each supplier varies based on the contract terms, risk exposure, commodity pass through agreements and tools used by the purchasing team to offset increases**

- ***Target Setting* – Raw material tailwinds for 2013 should be built into productivity targets but will affect European and US operations differently**

Headwinds / Tailwinds by Quarter

Headwinds were high early in the year but are now creating tailwinds.



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Cost Recovery and Indexing Quotes

Many automotive suppliers' management teams discussed cost recovery and indexing practices during calls with investors.

Supplier	CEO/ CFO Quote
Johnson Controls	In North America, we had to de-risk our business. For us, one of the **key tenets of that was getting commodity recovery mechanism in place with our customers**. And if we were unable to do that, we decided we were not going to bid for the renewal contracts.
LEAR CORPORATION	We use about 125 million pounds of copper at this production rate, and about 20% of that is our exposure. The balances are on an **indexing agreement with customers**.
MERITOR	**We executed aggressive material cost recovery initiatives with our customers** to mitigate the impact of rising global commodity costs.
GENTEX CORPORATION	We still have very aggressive purchasing cost reduction program that continues to be successful. However, more recently it is being **challenged to keep up for the pace of the annual customer price reductions**.
WABCO	Well, tailwind has already started. It actually is a good part of the commodity prices that we benefit from it when the economy slows down, because **we usually don't share the impact nor the benefit of it with customers**.
MAGNA	We're seeing some extra pricing pressure, but I don't think it's any worse than it was in the past couple of years, and **I think we're in better shape, quite frankly, to be able to offset** it so we're not in such a firefighting mode.
Visteon	Compared with the first and second quarters of the year, adjusted **EBITDA margins have increased, primarily driven by customer cost recoveries** and material cost efficiencies.

Raw Materials Quotes

Many automotive suppliers see the landscape improving and do not expect unmanageable raw material headwinds in 2013.

Supplier	CEO/ CFO Quote
Johnson Controls	Commodities, while they're going to be higher, should **not a big issue in 2013**.
TE connectivity	Considering where we stand from a hedging perspective, we expect a **small raw material tailwind** (copper, gold, silver) in 2013.
Continental	Expect raw materials to provide small benefit in H1 2013, **no further price increases are expected**. On OE side, they are all on indices - which will lead to some OE price reductions
Autoliv	We now expect a headwind of $6 million for commodities for the full year 2012 and that is $5 million **better than we expected earlier in July**.
SUPERIOR SUPERIOR INDUSTRIES INTERNATIONAL, INC.	The decline in average selling price resulted primarily from a 5 percent **decrease in the pass-through price of aluminum**.
BorgWarner	We still believe that the impact of higher raw material costs will be in the $25 million to $30 million in 2012. As we stated all year, **we will absorb and manage our inflationary costs including raw materials**.

Purchased Components Quotes

Several suppliers mentioned challenges related to purchased materials.

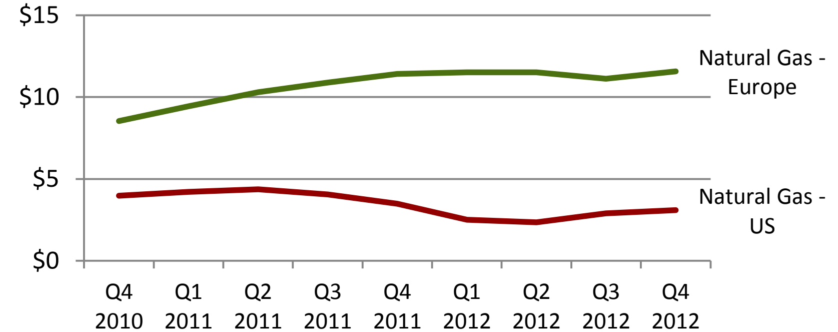
Supplier	CEO/ CFO Quote
AMERICAN AXLE & MANUFACTURING	Most of the material cost headwind this year, is in the area of **purchased metallic components**. And what we're dealing with is a supply and demand issue. And in some cases the supply of components we need to run at higher volume levels than what was originally anticipated for this time period is the capacity is not quite there.
FEDERAL MOGUL	We continue to gain **savings on purchased components** and materials sufficient to virtually **offset product mix and labor inflation**.
EATON Powering Business Worldwide	I don't think there are a lot of price increases out there at this point, and particularly with the uncertainty that's going on in the end markets. And so we're continuing to work really hard right now to continue to **find material substitution where necessary**.
TRW Automotive	Despite headlines relating to falling prices for certain commodities, other commodities such as **castings, for example, continue to escalate**. As you would expect, we'll continue to work hard to mitigate the negative impact of these rising costs.

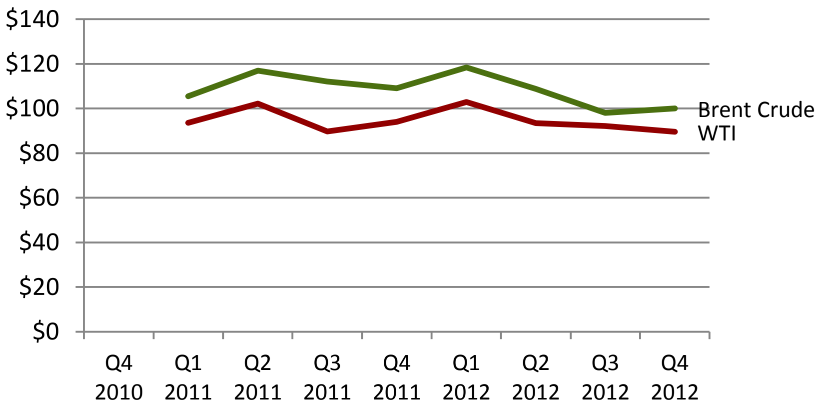
Raw Material Developments

US natural gas and crude price advantages will continue to lower resin costs.

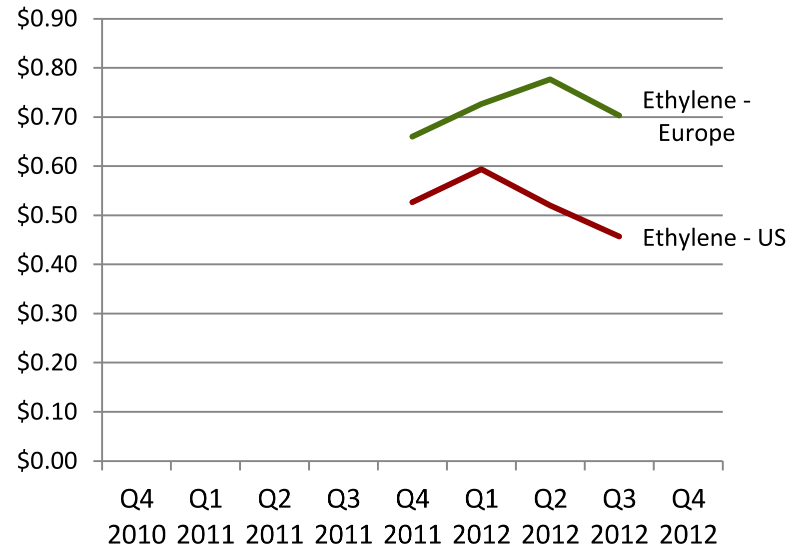
Oil and Natural Gas downstream products will have a cost advantage in the US compared to Europe and Asia while U.S. shale oil and gas development continues.

US Input Cost Advantage



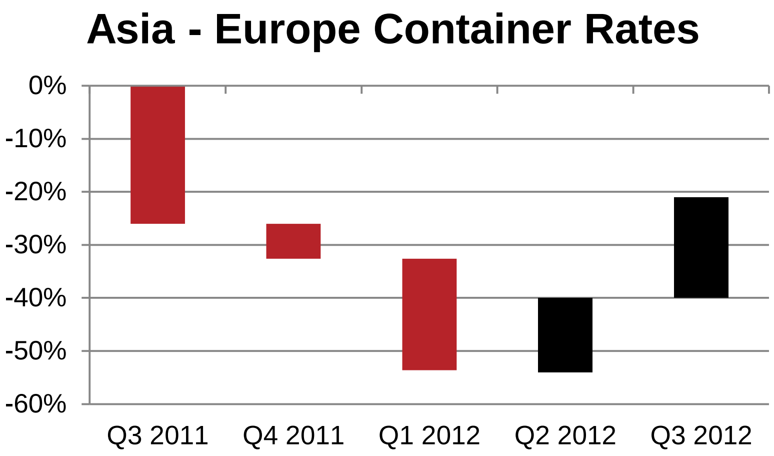


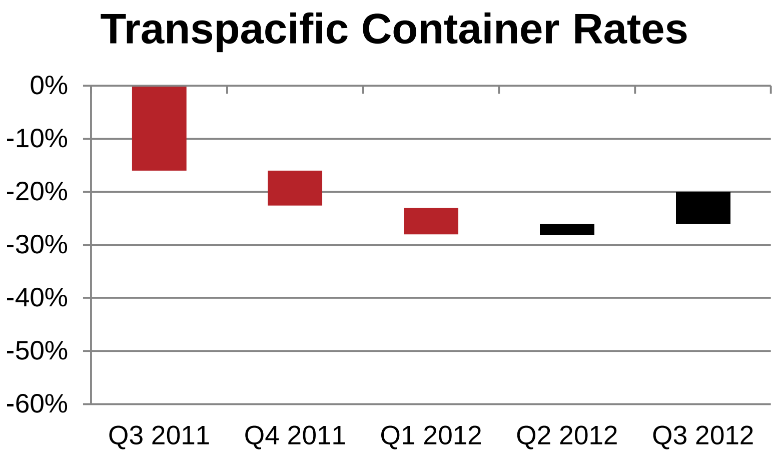
Ethylene Spot Price by Region

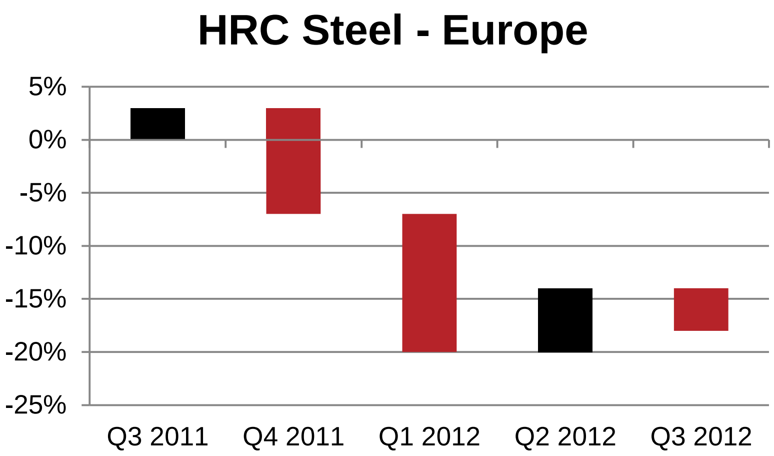


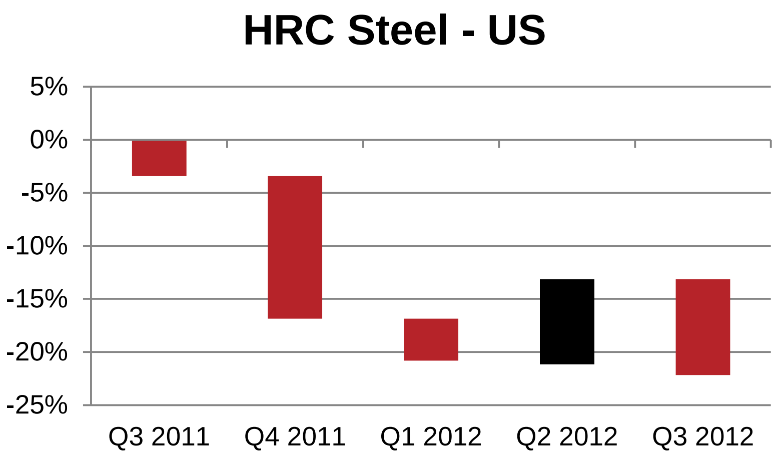
Demand Based Commodities

Low demand in Europe will depress demand driven inputs like steel and freight.









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Cost & Capital Partners Introduction

- **Cost & Capital Partners focuses on the two most critical levers for shareholder value today - Cost Efficiency and Capital Efficiency**
  - Cash should be treated as the valuable resource it is
  - Spend management preserves cash
  - Capital efficiency frees cash trapped in traditional operations
- **We deliver results – not just recommendations, each and every time**
  - We stand behind our recommendations and prefer to be involved in implementation
  - We conduct negotiations on behalf of our clients
  - We are passionate about our work and the results
  - We work with our clients to implement the changes required to improve the business

Previous project work

GM, Scotts, Kansas City Southern Lines, T.G.I. Friday's, Whirlpool, IR, Gestamp Automoción, Tennant, Masco, TE connectivity, MWV, Pentair, Carlson, Coda Automotive, Pactiv, Assa Abloy, TRW, Johnson Controls, Haldex, Hyster, Ecolab

Sourcing Toolbox

Cost & Capital deploys the following tools to engage direct and indirect suppliers.

Tactical ↑ … ↓ *Strategic*

Internal Analytics	Plan Development	Supplier Engagement
Benchmarking	Leverage Development	"Should-Cost" Buildup
Cost Analysis	Strategic Supplier Program	Contracting
Risk Assessment	Target Setting	Fact-Based Negotiations
Metrics and Reporting	Supplier Footprint	Supply Base Management
Market Analysis	Value Engineering	Risk Management
Value Stream Mapping	Supply Vision	Value Chain Optimization

Tools supported with supplier intelligence

Supplier Engagement

Four principles of effective supplier engagement

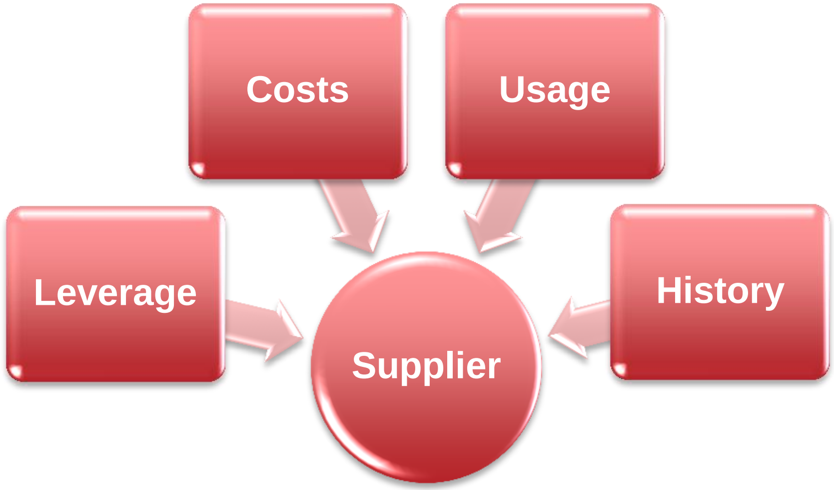
Maximizing supplier contracts requires detailed spend analysis and situational awareness to motivate the supply base and identify the best value.

Supplier Engagement Key Points

Maximizing contract value requires detailed understanding of the four engagement principles:

- **Leverage** – Understanding market dynamics and the state of competition can drive the tone and approach of the negotiations
- **Costs** – Assessing the supplier's marginal and total cost to deliver sets target pricing and identifies productivity targets
- **Usage** – Quantified usage data provides insight into volume incentives, features and offerings actually consumed
- **History –** Supplier contracts are often predicated on achieving quality, service and volume incentives and should be audited

Supplier Engagement Four-Principles



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