HOW TO GET STARTED IN GERMANY

LEGAL FRAMEWORK & BUSINESS OPPORTUNITIES

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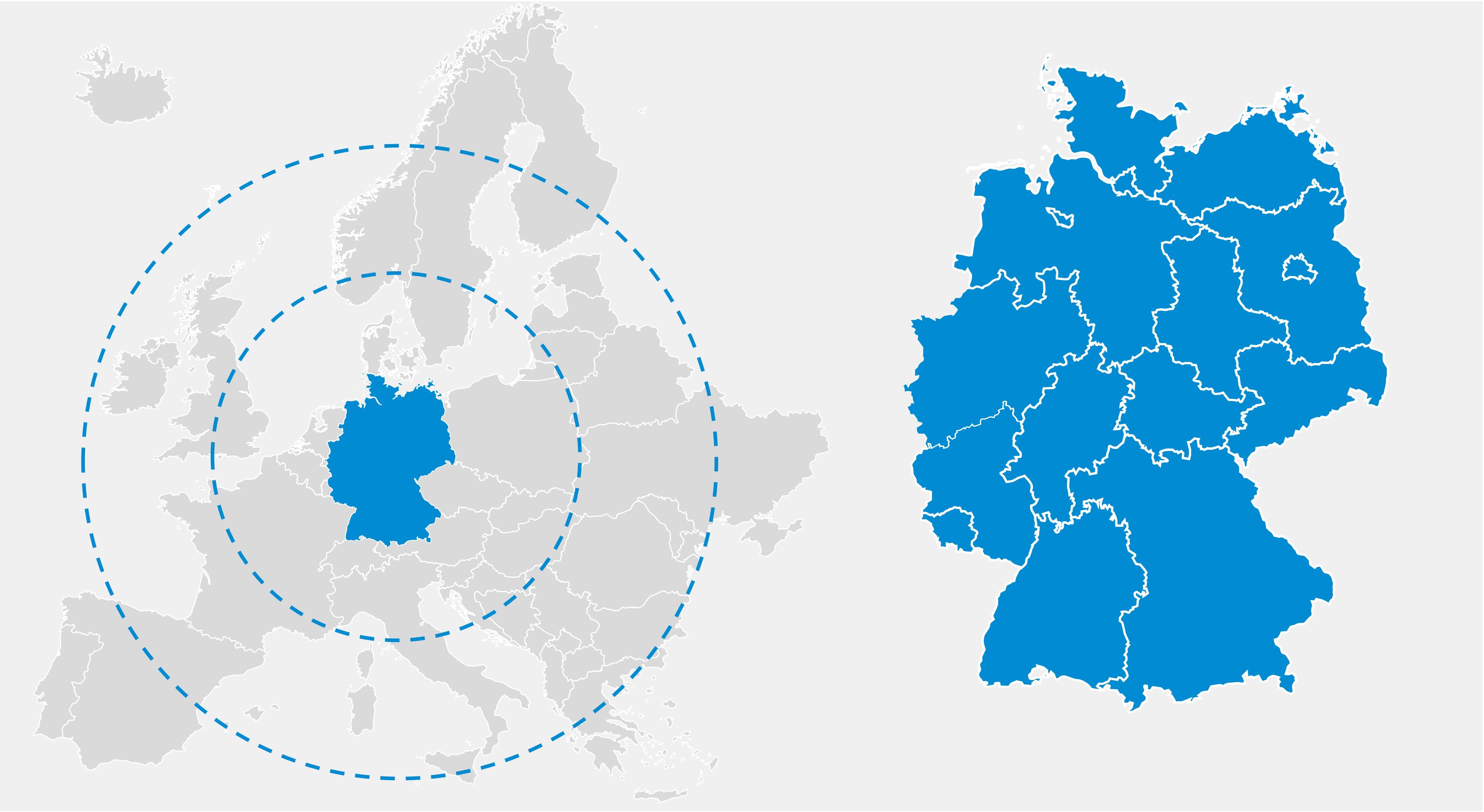
Investor Consulting GTAI
www.gtai.com

What we do

GTAI supports Japanese companies at every stage on their way to Germany.



What we do

GTAI's investor consulting services are free of charge and cover both industry and business related topics.

Incorporation

Japanese companies can set up a German market presence in different ways.

JAPANESE COMPANY

BRANCH OFFICE

- Registration of German branch sufficient
- No new legal entity necessary

SUBSIDIARY

- Establishment of a new legal entity
- Various legal forms available (e.g. GmbH)

GERMAN MARKET PRESENCE

Incorporation

In practice most foreign companies chose a subsidiary structure for their German market presence.

GERMAN MARKET PRESENCE

BRANCH OFFICE

+ No share capital required (financing still needed!)

– Head office company liable
Mix of legal systems

SUBSIDIARY (GmbH)

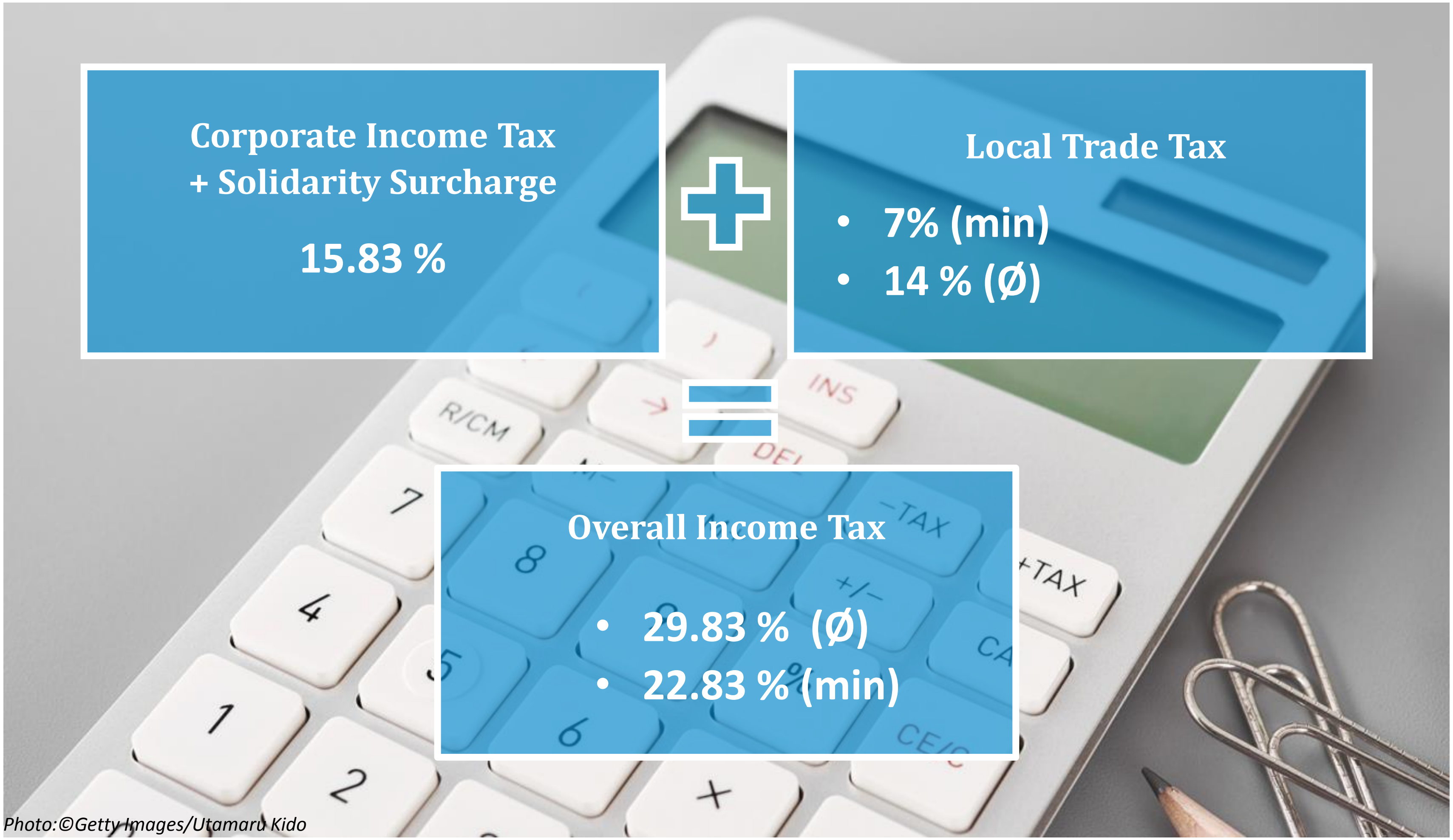
– Statutory min. share capital 25 K EUR

+ Separate limited liability
Respected company form

Photo: istockphoto/ shironosov

Corporate Taxation

Any profitable permanent establishment in Germany is subject to corporate income taxation.



Corporate Income Tax
+ Solidarity Surcharge

15.83 %

\+

Local Trade Tax

- 7% (min)
- 14 % (Ø)

=

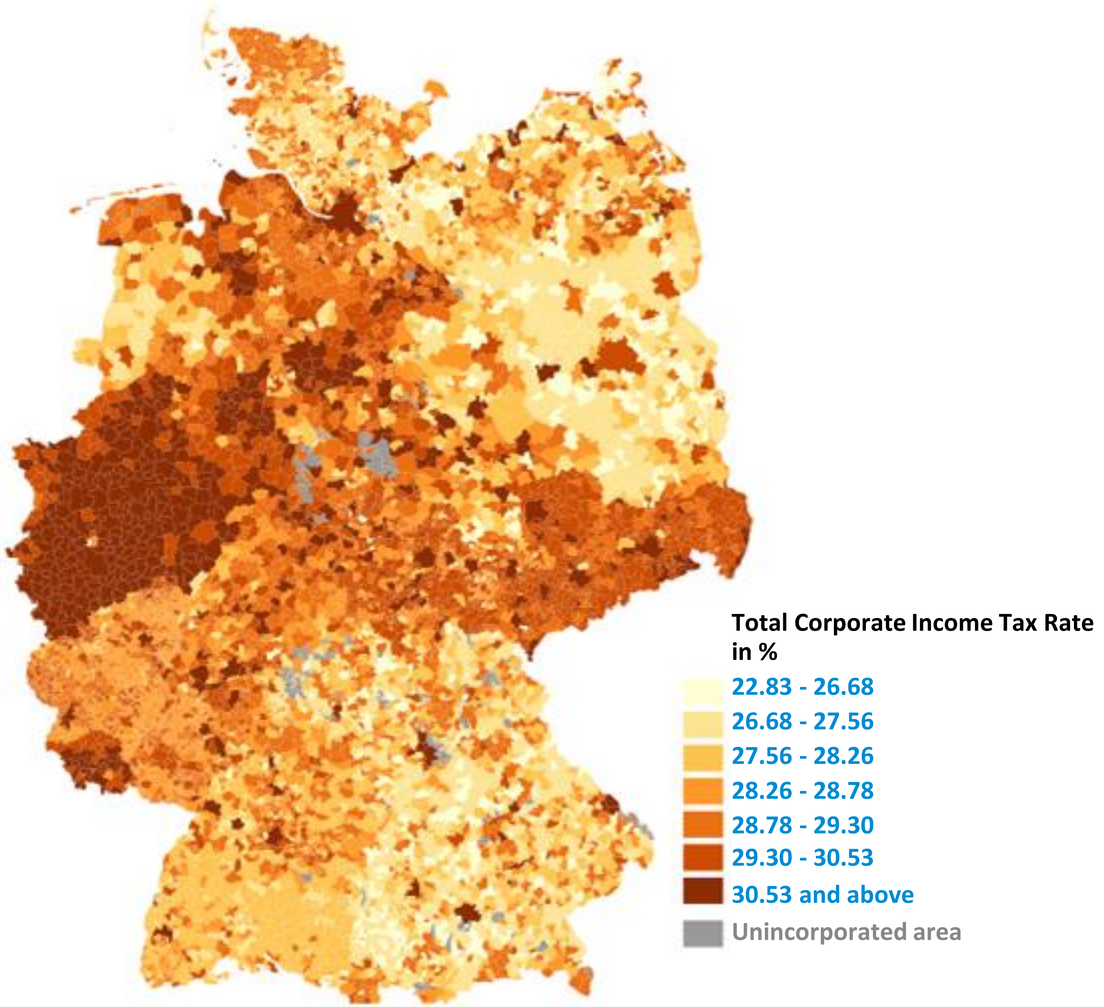
Overall Income Tax

- 29.83 % (Ø)
- 22.83 % (min)

Photo:©Getty Images/Utamaru Kido

Corporate Taxation

[Interactive map tool for tax rates](https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/Steuern/Steuerhaushalt/Karte/Hebesaetze.html)provided by the German Federal Statistics Office



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https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/Steuern/Steuerhaushalt/Karte/Hebesaetze.html

Entry & Residence

German residence law provides good possibilities for Japanese companies to post employees to Germany.

Visa Exemption

for short term (business) visits

Residence Permit

- Long term stays
- Gainful occupation

Employment

- Limited 1-3 yrs.
- Simplified proc. e.g. executives

Japanese citizens can apply for a residence permit directly at the competent local immigration office in Germany.

Entry & Residence

Additionally the new ICT Card offers possibilities for temporary intra-corporate transfers of qualified employees to Germany.

<u>ICT Card Application</u>

- Temporary transfer of a non-EU manager or specialist for the time of 90 days up to three years.
- From a non EU entity to a host entity in Germany (same company / company group).
- Simplified approval from FEA required (working conditions + salary).

Investment Grants

Companies based in Germany can benefit from favorable financial in-centives - Investment Grants in the form of non-repayable cash grants.

Manufacturing industries & certain services

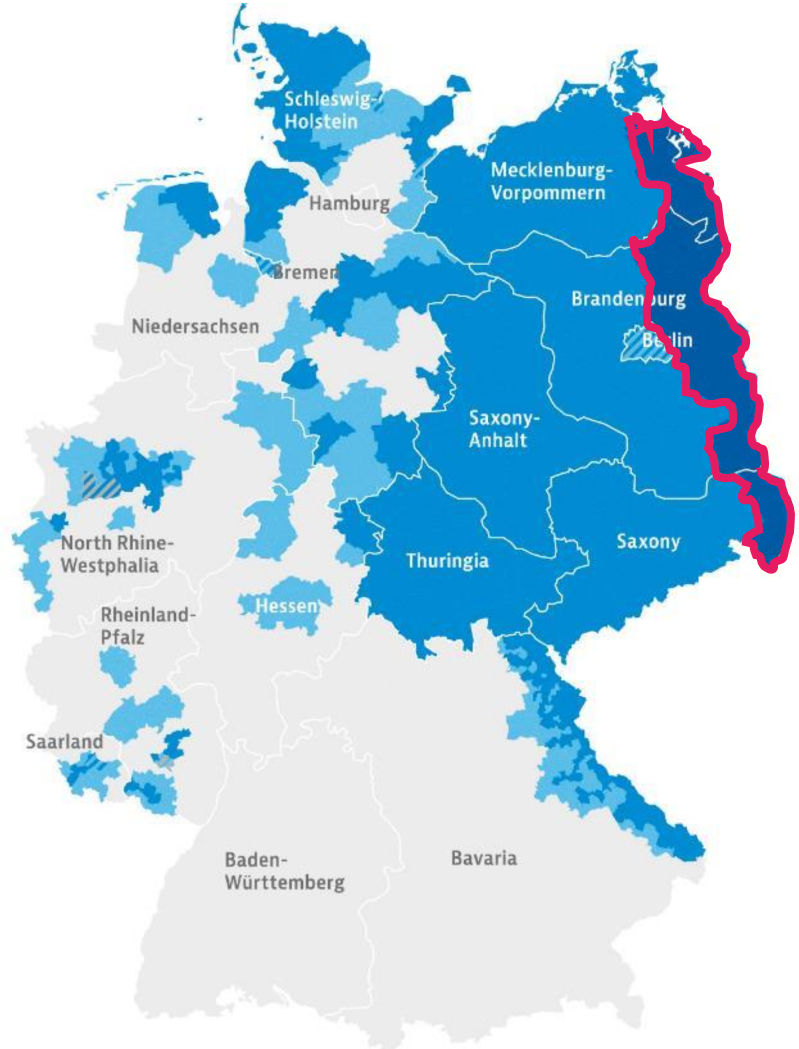
Long-term quality jobs

Eligible Investment?

Interregional Effects

Capital expenditures or personell costs

01.07.2014-31.12.2020	Small enterprises	Medium enterprises	Large enterprises
Border area to Poland	max. 40%	max. 30%	max. 20%
C Region	max. 30%	max. 20%	max. 10%
D Region	max. 20%	max. 10%	Max 200k EU



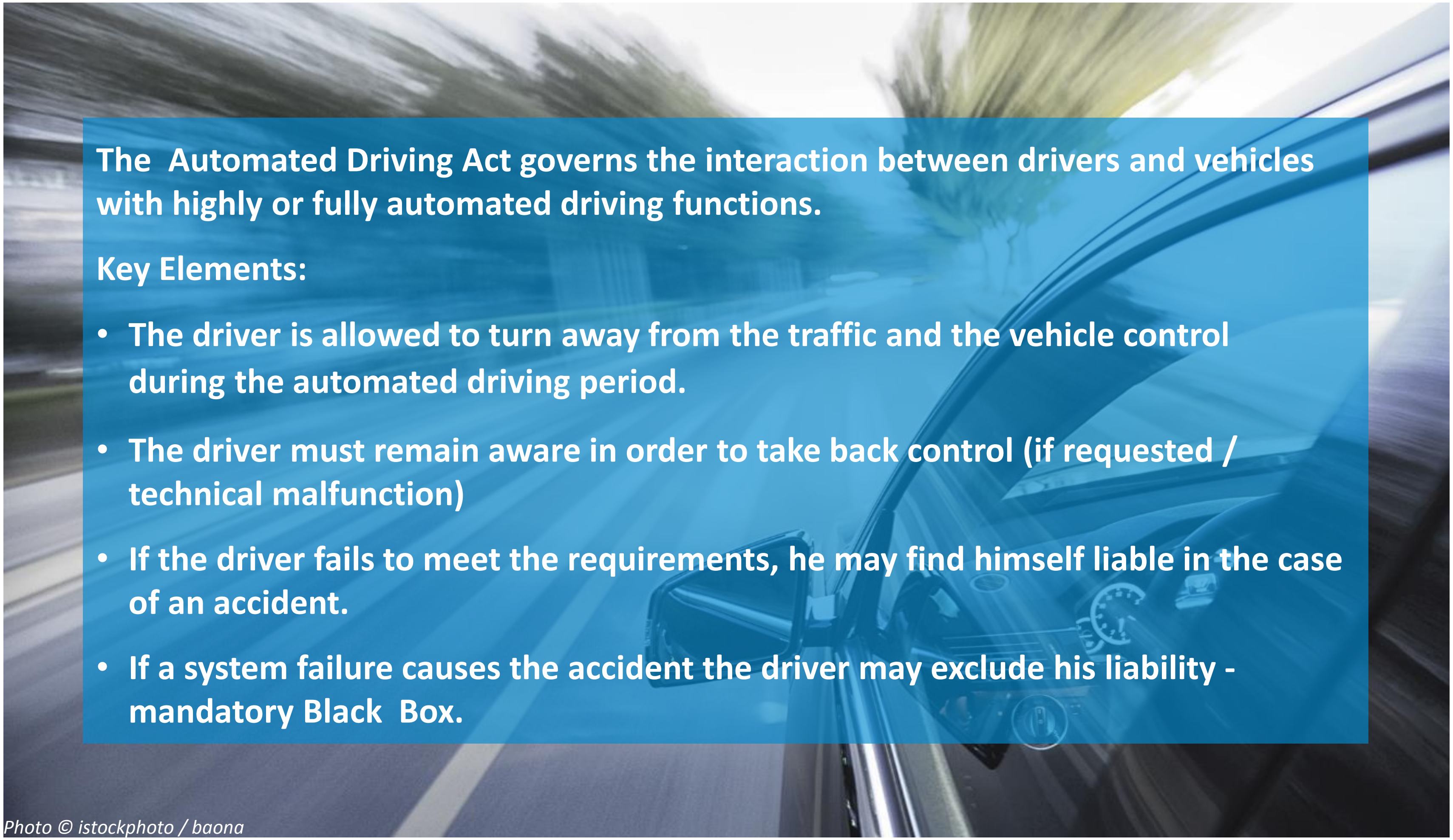
R&D Incentives

The German Government's High-Tech Strategy 2025 identifies mobility as one key action field and offers generous grants for R&D projects.

Photo © istockphoto / baona

Legal Framework – Automated Driving

In June 2017 Germany, as the first country in Europe, adopted a legal framework permitting automated driving on German roads.



The Automated Driving Act governs the interaction between drivers and vehicles with highly or fully automated driving functions.

Key Elements:

- **The driver is allowed to turn away from the traffic and the vehicle control during the automated driving period.**
- **The driver must remain aware in order to take back control (if requested / technical malfunction)**
- **If the driver fails to meet the requirements, he may find himself liable in the case of an accident.**
- **If a system failure causes the accident the driver may exclude his liability - mandatory Black Box.**

Photo © istockphoto / baona

Strongest Industries in Germany

Automotive is the strongest and the most export driven industry in Germany (by industry

Automotive Industry	**EUR 423 bn**

Mechanical Engineering Industry	EUR 226 bn

Chemical Industry	EUR 195 bn

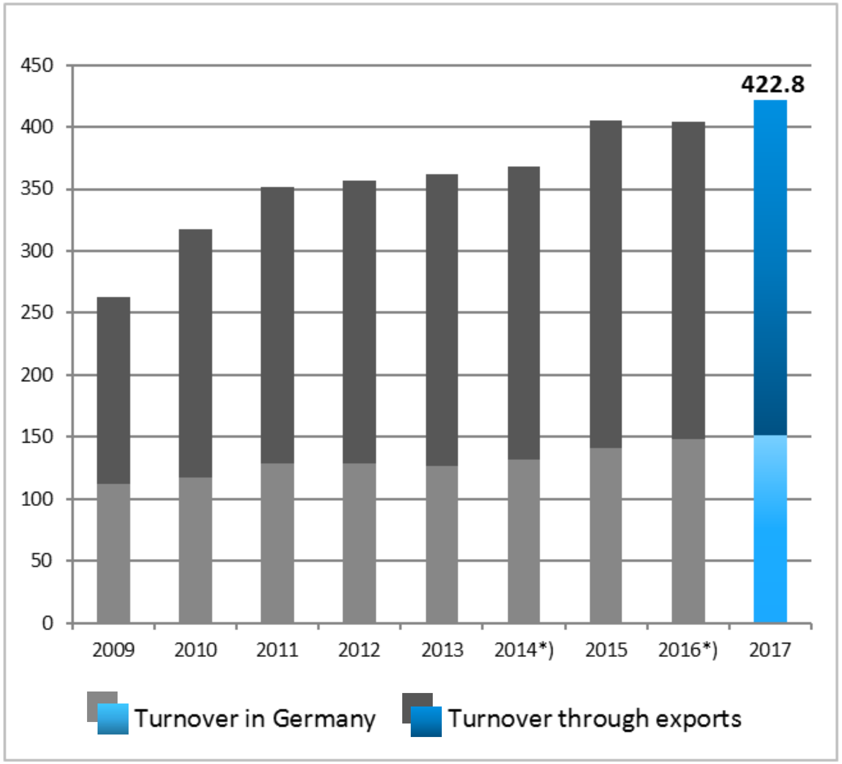
Food & Beverage Industry	EUR 180 bn

Picture Credits: © iStock.com/Photoblaz; Zbynek Jirousek – Fotolia.com; Roman Lipovskiy; www.fotolia.de - Kaikoro

Turnover in the Automotive Industry

Germany´s automotive industry turnover hit new record

Turnover of the German Automotive Industry in Germany
(in billion EUR)



Total turnover of **EUR 422.8 billion**

High export share: EUR 271.7 billion generated in foreign markets.

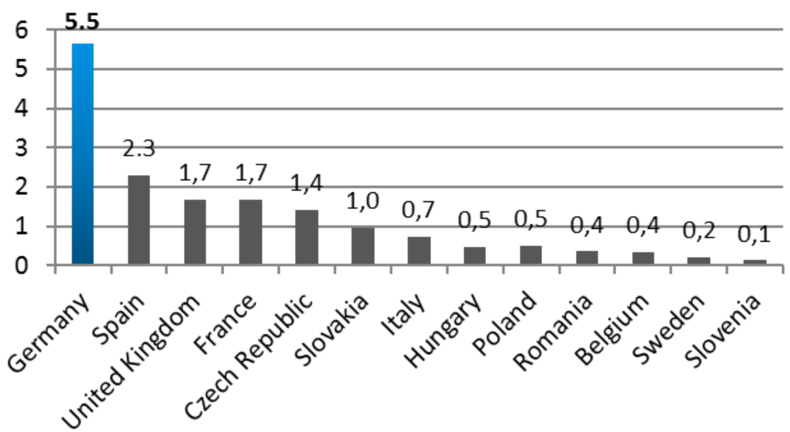
77,5% of the industry's turnover (EUR 327,5 billion) is **generated by the OEM**

Source: VDA (2018)

Germany´s Automotive Market Size

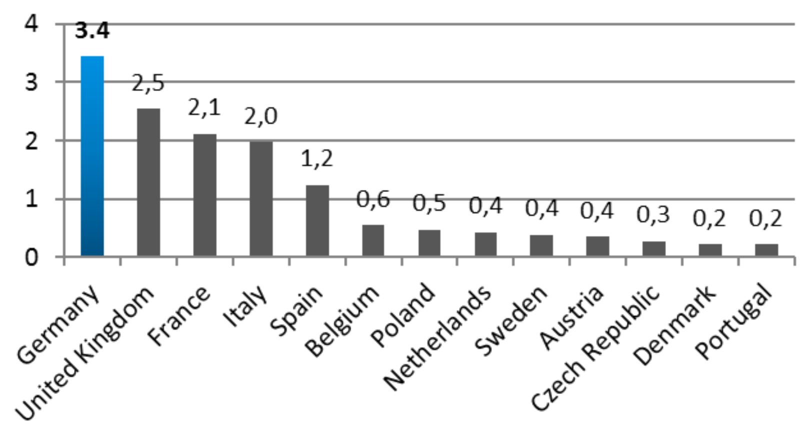
Germany is Europe´s largest automotive market

Passenger car production in Europe 2017
(in million units)



Number one market by production and sales, accounting for over 33% of all passenger cars produced in Europe

Passenger car registrations in Europe 2017
(in million units)



Increase of passenger car registration numbers in Germany in 2016: **+2.7%**

Number one market by car registrations, accounting for over 22% of all newly registered passenger cars in Europe

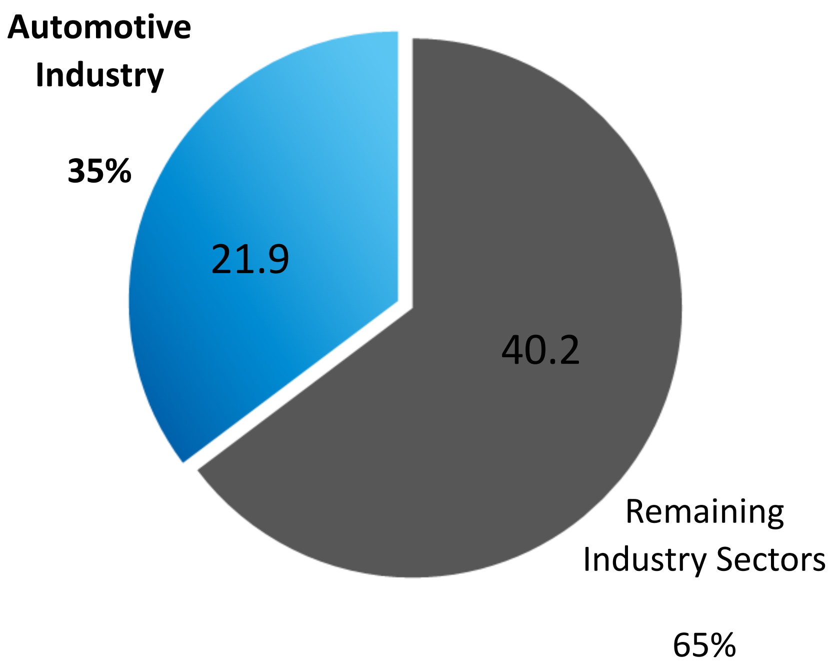
Sources: ACEA (2018); OICA (2018)

Industry R&D Investments

German automotive industry is the leading innovator

Internal R&D investments in Germany within the industrial sector

(2017, in billion EUR)



R&D expenditures of the German automotive sector account for **35% of industrial R&D spending** & **increased by 2%**

Germany is world leader in auto industry patents: German OEMs account for more than **1/3rd of the world´s auto R&D**

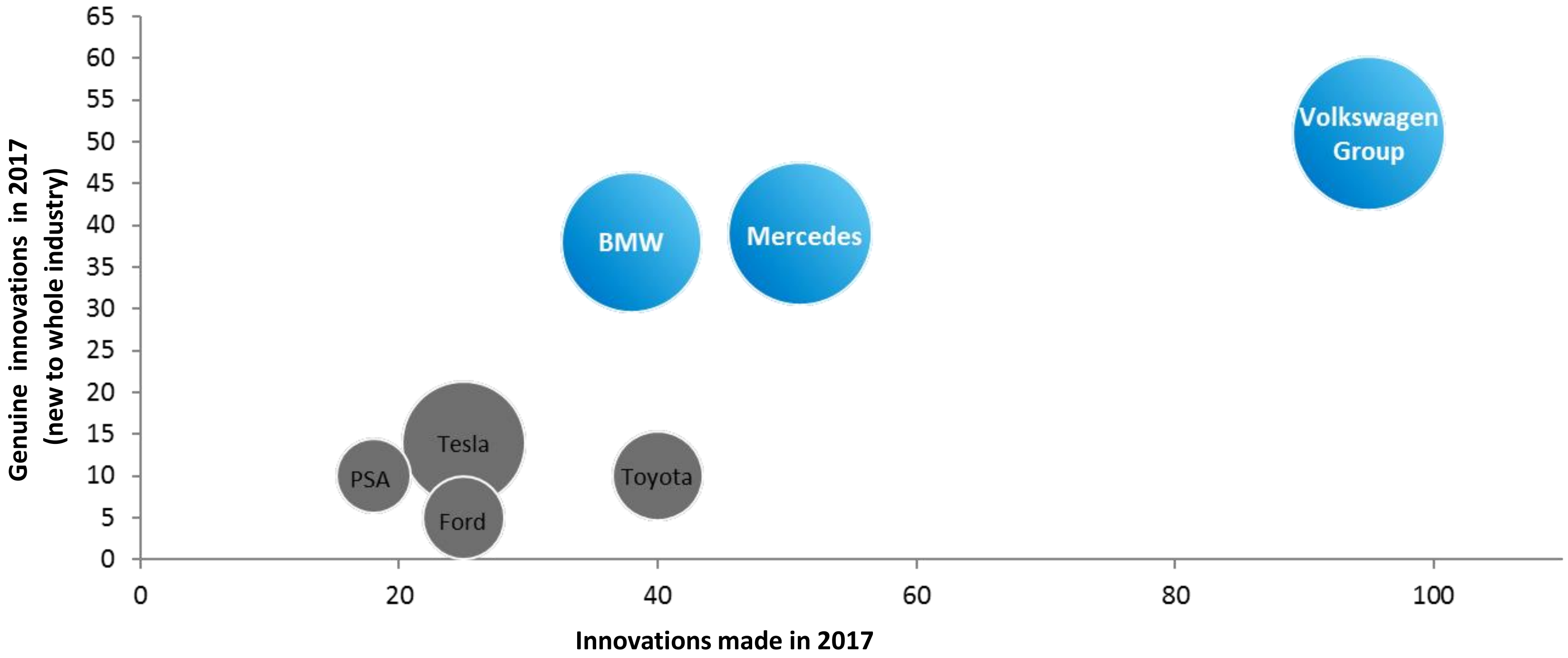
114,000 highly skilled engineers work on automotive-related R&D-topics in Germany (+3.6 % increase to 2016)

Sources: GTAI Research (2018), VDA (2018), Stifterverband (2018)

Innovative Power of Premium Car Manufacturers

Among the top 7 premium OEM, the top 3 are German

Innovativeness of global premium OEM in 2017 according to CAM Study 2018



German premium manufacturers are globally assessed as the most innovative car companies

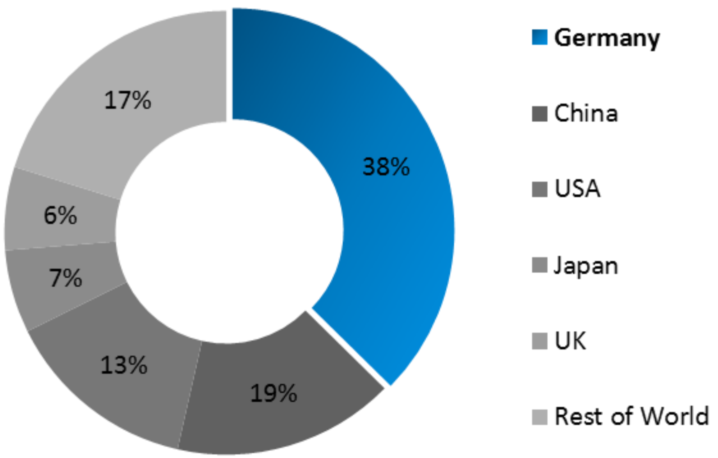
Sources: Center of Automotive Management (2018)

Bubble Size - Indicator for Innovative Power Consideration of innovations with a noticeable consumer benefit [KPIs: Degree of innovation; Originality; Maturity; Comfort; Versatility]

The Premium Segment

Germany: World´s premium car production and innovation hub

Premium car production by country 2017



Germany produces **38%** of all premium vehicles globally

56% of all premium vehicles are manufactured in Europe

69% of all premium vehicles are manufactured by German OEM

The country’s **strong industrial base**, its **value chain density**, its **R&D power** and particular **strength in the automotive premium business, enables investors** to **develop cutting edge automotive technologies** for today’s automotive needs. […]“

Sources: GTAI Research (2018); MarkLines database (2018)

Mega Trends in the Automotive Industry

Efficient and connected cars

KEY ISSUES

ENVIRONMENTAL ISSUES

“Fuel efficency and environmental friendliness rated as most important product issues.“

URBANIZATION

“Congestion and limited parking space are major concerns in megacities.“

DIGITALIZATION & CHANGING CUSTOMER BEHAVIOR

“Customers expect the same services when in the car as they receive at home, at work or on their smartphones.“

“The world is moving from asset owned to asset shared business models.“

KEY TRENDS

- ICE DOWNSIZING
- ELECTROMOBILITY
- LIGHTWEIGHT MATERIALS
- INNOVATIVE URBAN CAR DESIGN CONCEPTS
- CONNECTED CAR CONCEPTS / AUTONOMOUS DRIVING
- MOBILITY SERVICES
- OEM CAPTIVE FINANCING, LEASING, AND PAY PER USE

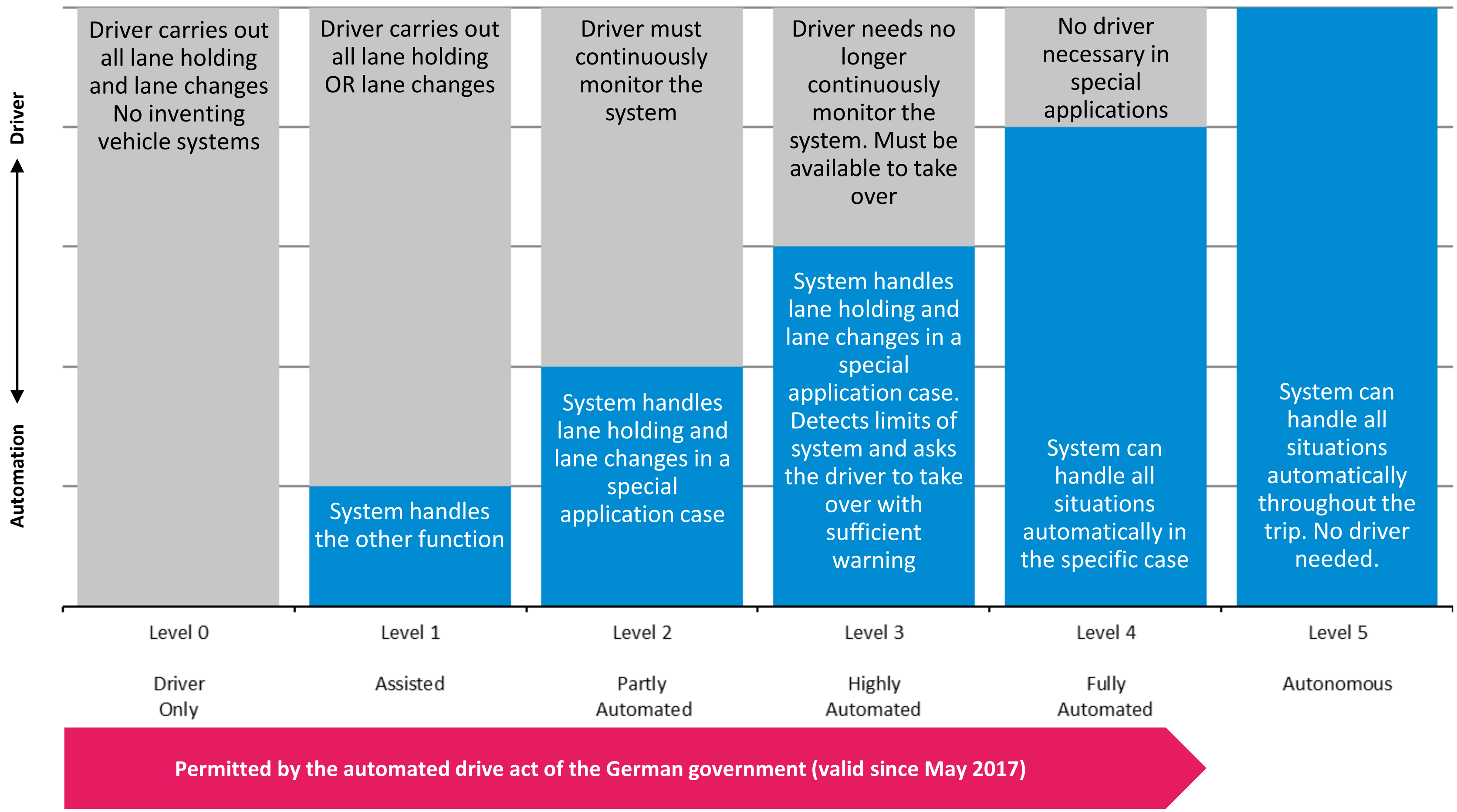
SOLUTIONS

- Nº 1 Battery electric mobility
- Nº 2 Fuel cell electric mobility
- Nº 3 Innovative urban vehicle design concepts
- Nº 4 Connected car concepts
- Nº 5 OEM captive financing and leasing
- Nº 6 Mobility services

Source: KPMG’s Global Auto Executive Survey (2012); GTAI Research (2016)

Automated Drive Roadmap

Legal agreement governing autonomous car use

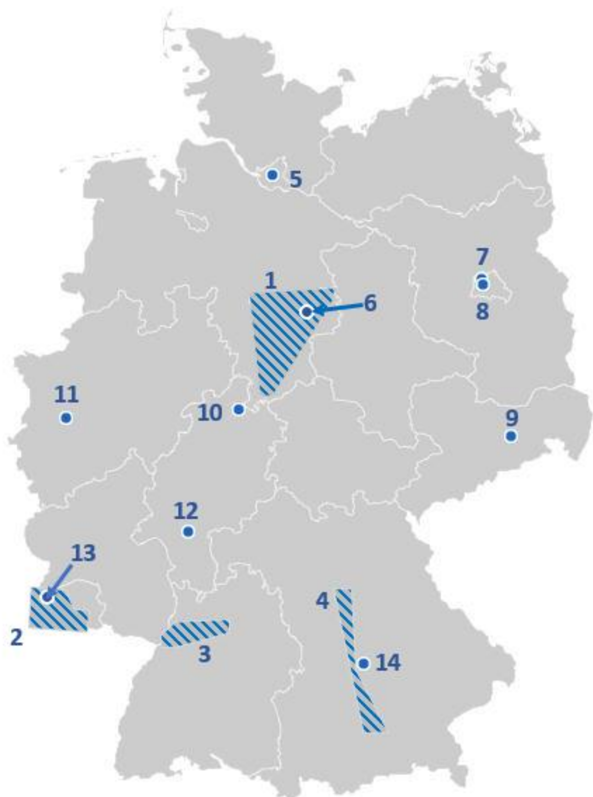


Source: Federal Highway Research Institute; German Association of the Automotive Industry (VDA) 2015, GTAI

Digital Test Fields for Autonomous Driving

Possibility with up to level four fully automated driving mode

14 different test fields enabled for autonomous and automated driving

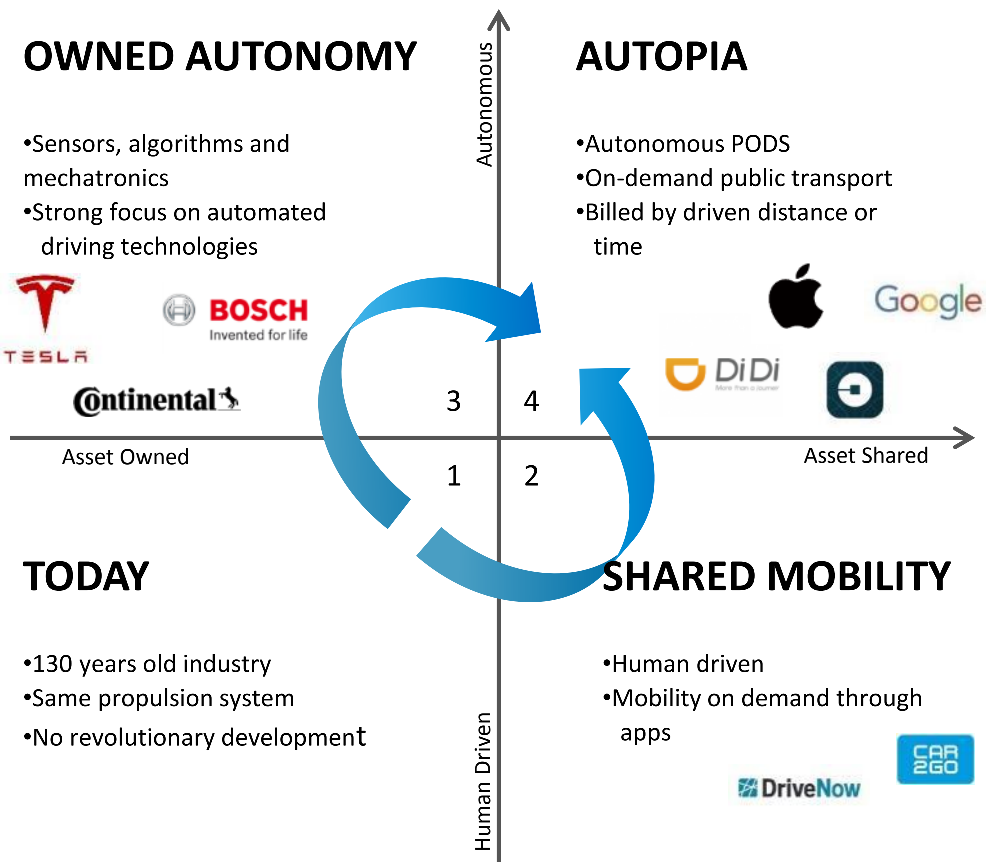


	Location	Type
1	Lower Saxony	Regional
2	Germany / France / Luxemburg	Regional
3	Baden-Würtemberg	Regional
4	Bavaria	Highway
5	Hamburg	City
6	Brunswick	Regional
7	Berlin (1)	City
8	Berlin (2)	City
9	Dresden	Regional
10	Kassel	Regional
11	Düsseldorf	City
12	Frankfurt	Regional
13	Merzig	Regional
14	Ingolstadt	City

Source: Federal Ministry of Transport and Digital Infrastructure

Disrupters in the Automotive Industry

From asset owned and human driven to asset shared and autonomous



- New business models emerge
- Earning money without building cars
- Pay per mile or minute
- On-demand service
- Questioning individual ownership
- Change of customer behavior „ millennials“
- Environmental friendliness

Sources: A . Jonas, Morgan Stanley (2016); GTAI Research (2016)

Miles will Matter in the Future

New definition of the business model

Traditional business model

80 million vehicles × 20,000 $/car = 1.6 trillion $

2 percent of global GDP

Silicon Valley approach

1 billion existing vehicles × 10,000 miles per year × 1 $ per mile = 10 trillion $

10 percent of global GDP

Sources: A . Jonas, Morgan Stanley (2016); GTAI Research (2016)

Paradigm Shift of Digital Transformation

Worldwide revolutionary change in the automotive industry

German OEM and suppliers aware and well prepared for significant change

The Auto Industry will change more in the next 20 years than it has in the previous 130 years

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