



OPEN EVENT of AEB in RF Automotive Industry in Russia

Challenges and opportunities

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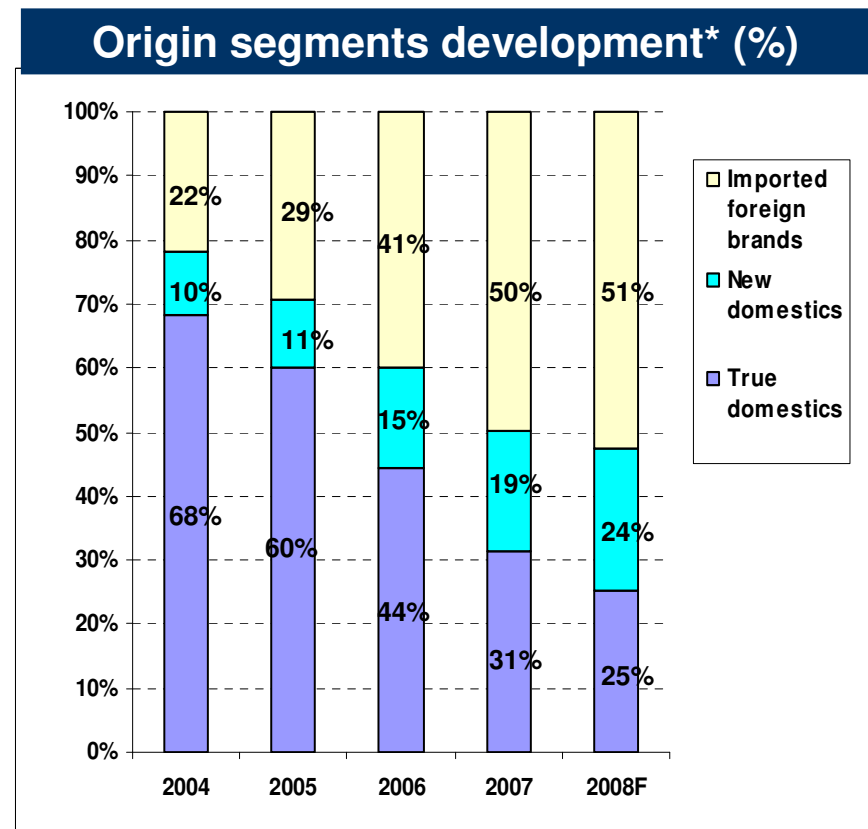
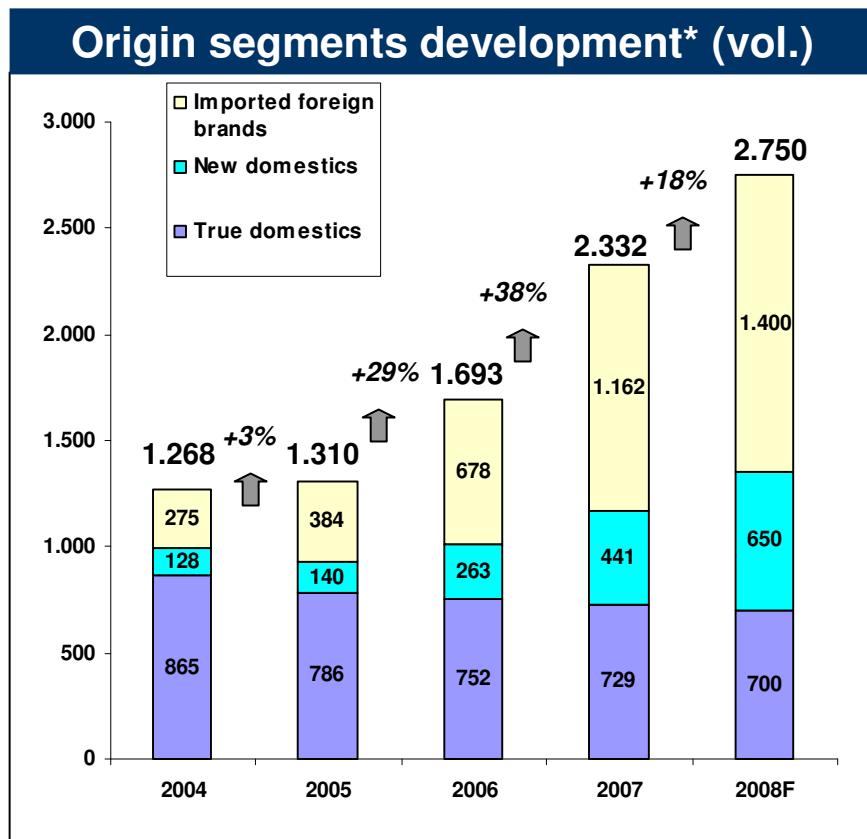
Vice-chairman of Automobile Manufacturers Committee, Association of European Business in RF
General Manager of «Volkswagen Group RUS».

Moscow, Baltchug Kempinski , 22.10.2008

New passenger cars market development 2004-2008F

Sales forecast of new PC in 2008 = 2,75 Mio. units (new PC without LCV)

- Market booming since 2005 with clear trend of replacing the true domestics by foreign brands
- Decrease of growth rate in 2nd HY '08 due to crisis, as result ~18% growth in 2008 (full year) is expected

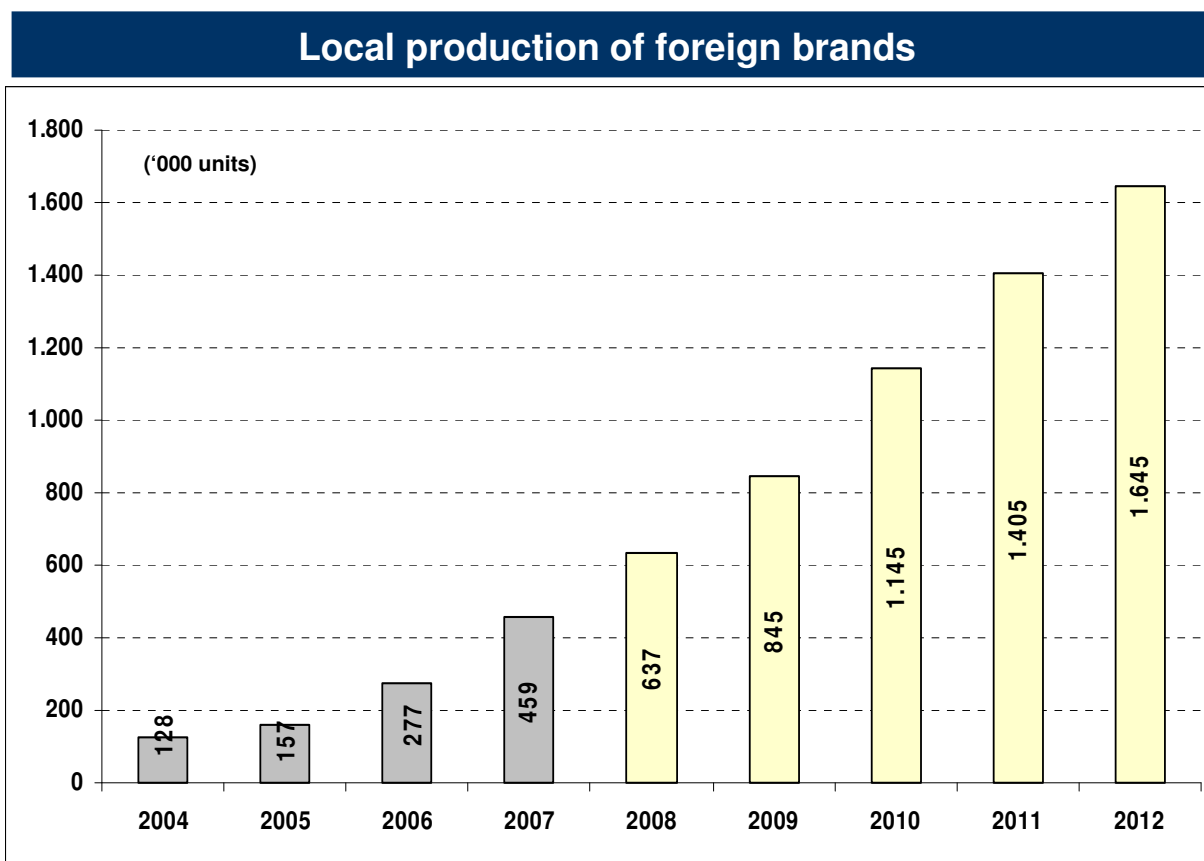


* Retail sales of new passenger cars without LCV, «grey» and used car import according to AEB statistics

Production of foreign brands in Russia 2004-2012

Local production is the main success factor for foreign brands in Russia

- Customs preferences for OEMs, acting under decree #166 let minimize import tariff on components
- Regions create attractive investment climate for foreign OEM's



Source: AUTOSTAT 07/08



Overview production facilities of foreign brands

Expected production volume by 2012: 1,7 Mio. units with total investments > 5 Bio. \$

Factory	City	Brands	Start	Investments, Mio. \$		production 2007 tsd. units	production 2012 tsd.units
				innitial	total		
Avtotor	Kaliningrad	Kia, BMW, Hummer, Chevrolet, Chinese*	1994	250	250	106	130
Avtoframos	Moscow	Renault	1999	230	380	70	160
Ford	Vsevolozhsk	Ford	2002	230	330	70	150
СП GM AvtoVaz	Togliatti	Chevrolet	2001	338	338	55	60
TagAz	Taganrog	Hyundai	1997	270	320	80	155
IzhAvto	Izhevsk	Kia	2003	90	90	50	120
Sollers	Nab. Chelni	Sssang Yong, Fiat	2006	180	180	21	90
Sollers	Elabuga	Fiat	н.д.	180	180	0	50
Toyota	St. Pete	Toyota	2008	180	220	0	100
GM	St. Pete	Chevrolet, Opel	2007	115	300	6	180
Volkswagen	Kaluga	Volkswagen, Skoda	2008	450	1.200	2	140
Nissan	St. Pete	Nissan	2009	200	200	0	80
PSA-Mitsubishi	Kaluga	Mitsubish, Peugeot	2010	243	400	0	60
Hyundai	St.Pete	Hyundai	2010	400	400	0	80
Suzuki	St.Pete	Suzuki	2009	120	120	0	30
Others**						1	60
Total				3.138	4.908	459	1.645

* Production of Chinese brands is suspended

** incl..Amur, Derweys, Daimler-Chrysler GAZ, ZAZ Ukr Avto

Source: AUTOSTAT Status 07\ 2008



Disturbing factors of Russian automotive market development

Factors	Needed measures
1) Old car park (av. age 12 years)	Creating car utilization mechanisms , toughening of ecological norms, progressive taxation for old cars
2) Double VAT for used cars	Creating premises for building civilized second hand car market as a tool of new cars sales via cancellation of double VAT for used cars
3) Weak competitiveness of local components suppliers	Risk not to fulfill commitments of automotive producers on localization necessary for further retail price decrease
4) Poor quality of local body steel	Review of customs duties for import or measures to improve quality of local made steel
5) Lack of qualified personnel in the industry	State and regional educational programs for industry staff
6) Weak road- and logistic infrastructure	State programs of road construction- and infrastructure development
7) Rising operational costs (transport, logistics, real estate price, office rent etc)	Creating conditions for “healthy” competition in the infrastructural sphere
8) Complicated bureaucratic procedures	Contacts with state authorities, primarily with customs, in order to simplify procedures for loyal market operators



Government support of automotive industry

Assignment to the Government at the meeting with Russian car manufacturers on 28.05.08 in Elabuga (Attend: Mr.Putin, Mr.Sechin, Mr.Shaymiev, Mrs.Nabiulina)

- To bring changes & additions into #154 of Tax Law regarding VAT for used cars
- To make proposals on differentiation of transport tax depending on ecological class of vehicles
- To work out measures to differentiate insurance tariffs depending on vehicle's production year
- To prepare proposals on expansion of research and development activities in automotive industry especially for double purpose technique
- To prolong "Industrial assembly" decree for auto components and cars
- To introduce suggestions on review of import customs duties for new and used automobiles, lorries and busses (protection of local manufacturers)
- To carry on negotiations with Russian metallurgy to improve quality of steel. Depending on results to reduce import tax on flat zinned hire
- To propose measures on improvement of legislative basis for certification of vehicles. To review requirements on constructive and ecological safety
- To increase import duties for vehicle bodies and for used cars for special purposes

expected 1HY'09

in consideration

in consideration

in consideration

✓OK

in consideration

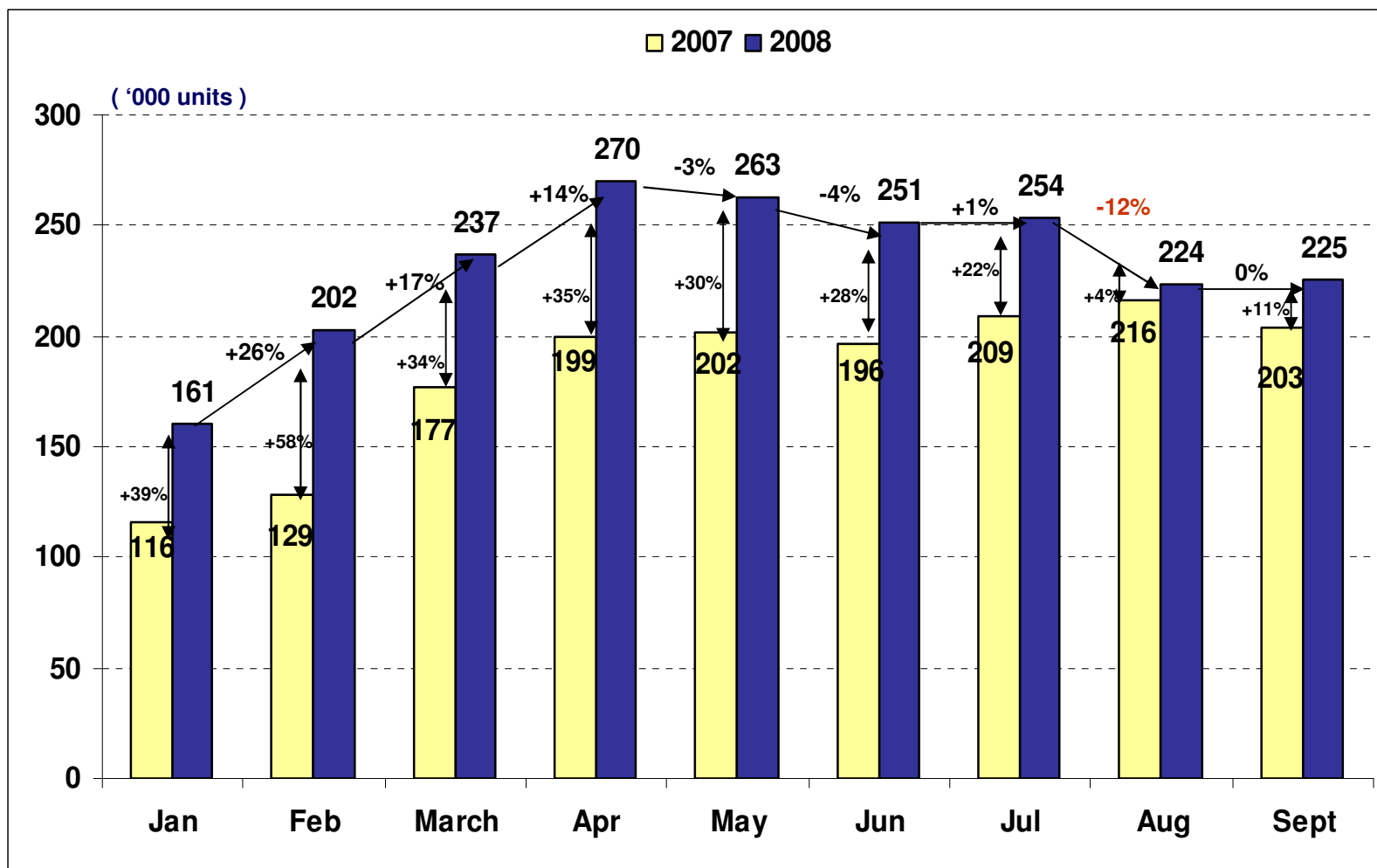
expected Q4'08

in consideration

✓OK



In September the Russian market has shown almost the same figures as in August. Growth vs. September 2007 is only 11%



YTD key figures

('000 units)

Import Segment:

YTD '08 = 1.571
YTD '07 = 1.124
Growth = 40%

True domestics:

YTD '08 = 514
YTD '07 = 521
Growth = -1%

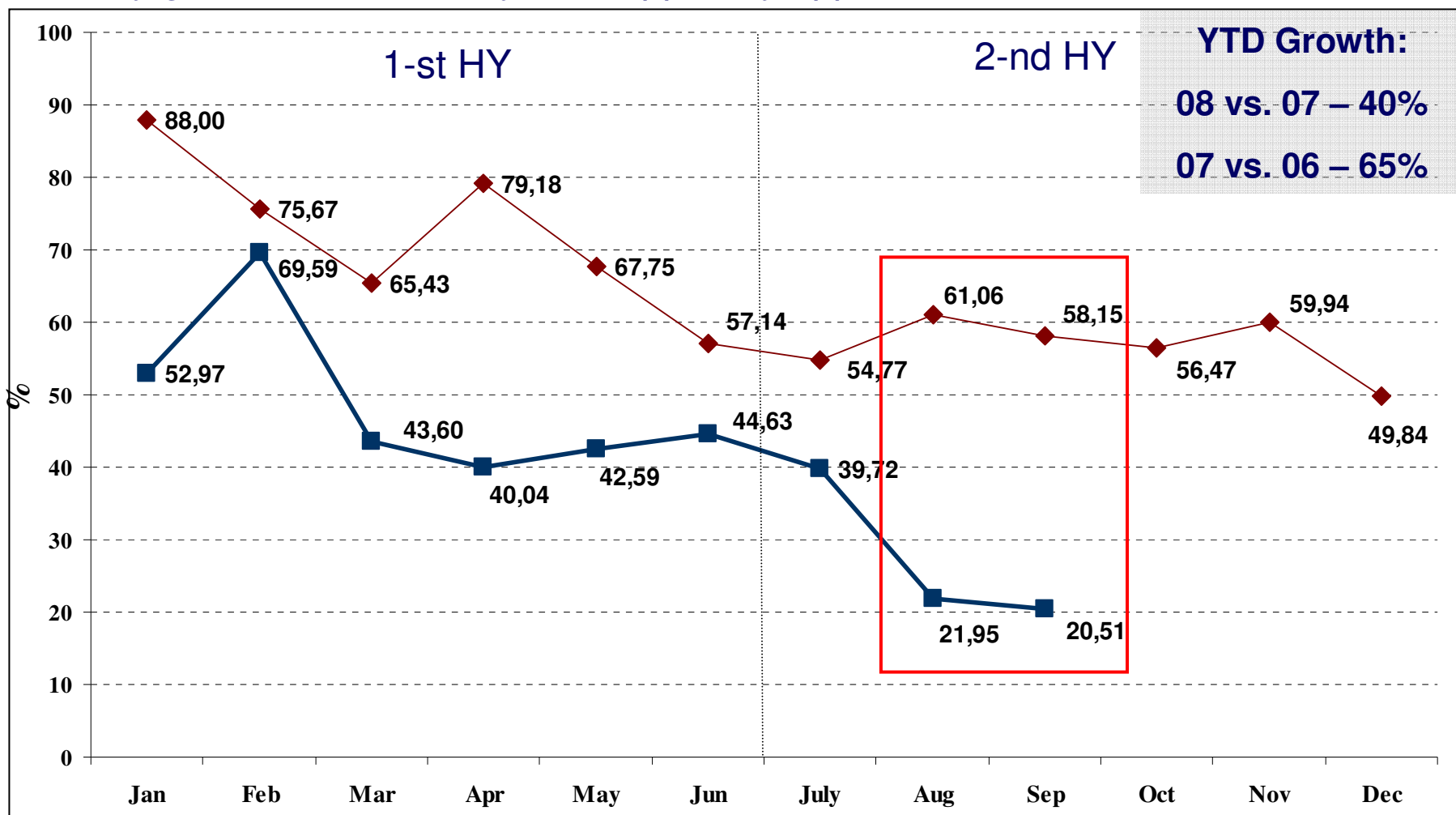
Total Market:

YTD '08 = 2.085
YTD '07 = 1.646
Growth = 27%



FOREIGN Brands Month-to-Month GROWTH, 2006-2008

Monthly growth rate vs. last year dropped by approx. 3 times



Source: AEB

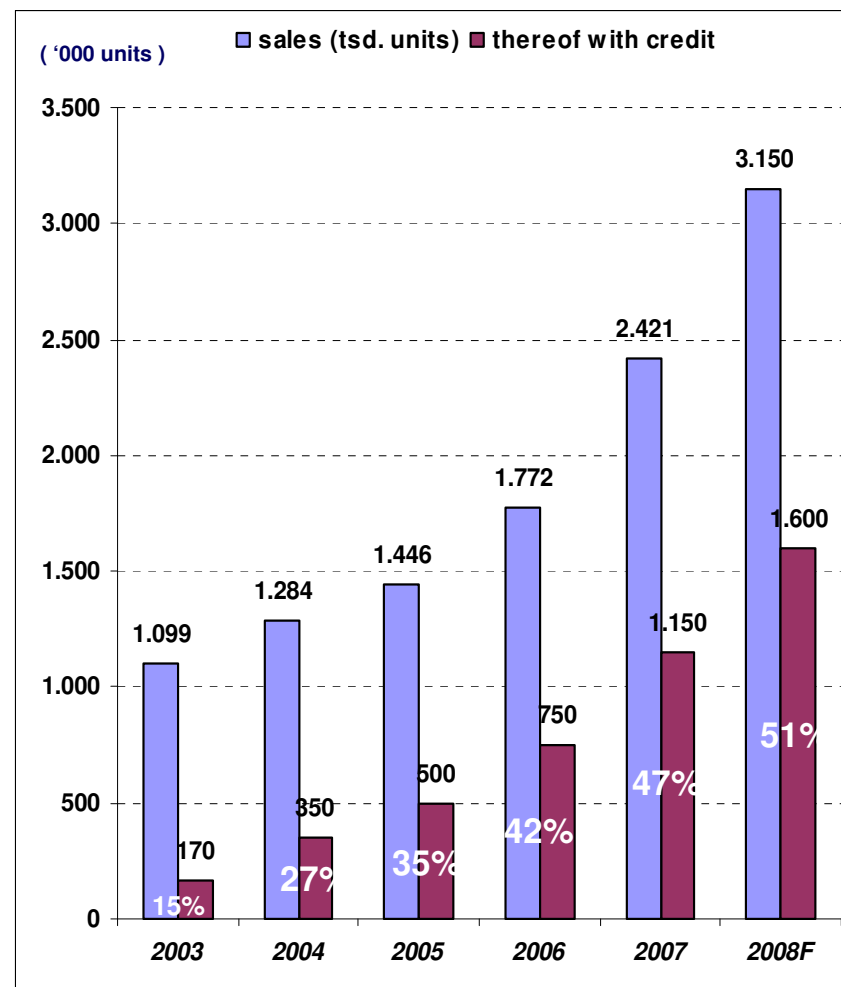
◆ 2007/2006 ■ 2008/2007
M. Jahn, Vice-Chairman of Auto Manufacturers Committee \ AEB in RF \ 22.10.2008

Liquidity crisis – the main risk for automotive market

Summary

- ❑ World's financial crisis and withdrawal of foreign investments provoked liquidity problems in Russian financial system;
- ❑ Commercial banks toughened credit policy towards private customers and auto dealers and as a result decrease of consumer activity and liquidity problems \ over stock at auto dealers;
- ❑ Before crisis about 50% of car sales done with use of credit, average credit amount = 17,5 tsd. \$;
- ❑ Mostly with use of credit are being bought low cost foreign brands and they suffered in August and September more than others;
- ❑ Government support supposed to facilitate liquidity problems, but it will push inflation and interest rates higher;
- ❑ Customers are losing confidence and wait for the situation to be clearer and for significant discounts

Share of sales with financing



Inclusive LCV

Source: AUTOSTAT, Market of automotive financing 08\2008

Un-proportional Inflation in different areas in Jul '07 – Jul '08

Price Indexes, %

