



Opportunities of the Market and Future Prospects

Automotive industry in Russia –
challenges and opportunities

22 October 2008

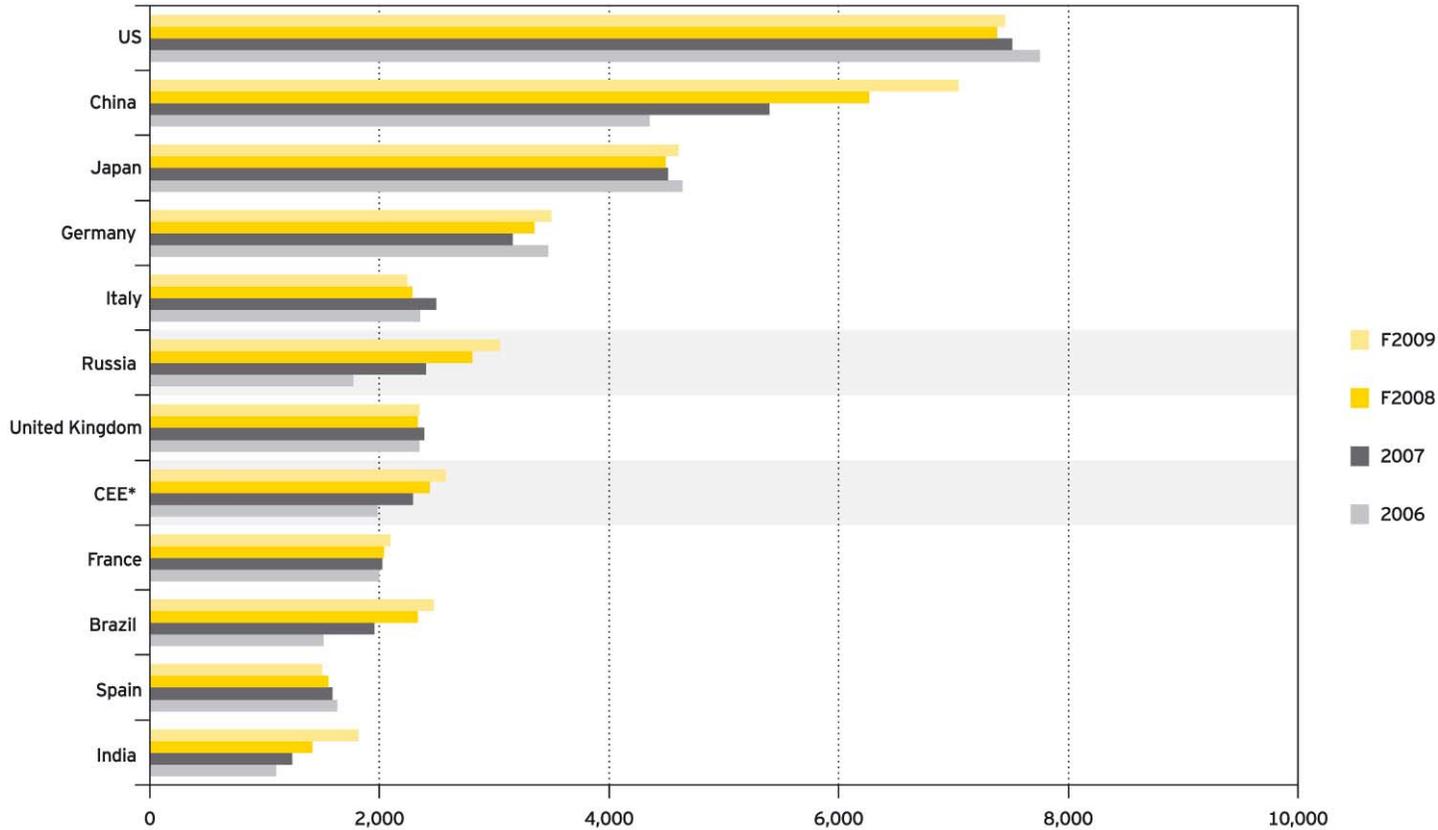
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AEB Automotive Components Committee Chairman



Russian automotive market in a global context

- ▶ Traditionally leading markets such as the US, Germany, and Japan showed a negative dynamic in car sales in 2007
- ▶ China, India, and Russia surpass all sales forecasts
- ▶ In 2007 Russia turned out to be third in Europe and sixth in the world

2007 sales of new passenger cars in the top markets (thousand)



Source: Global Insight, Ernst & Young
 *CEE: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Turkey



Russia and leading automotive countries

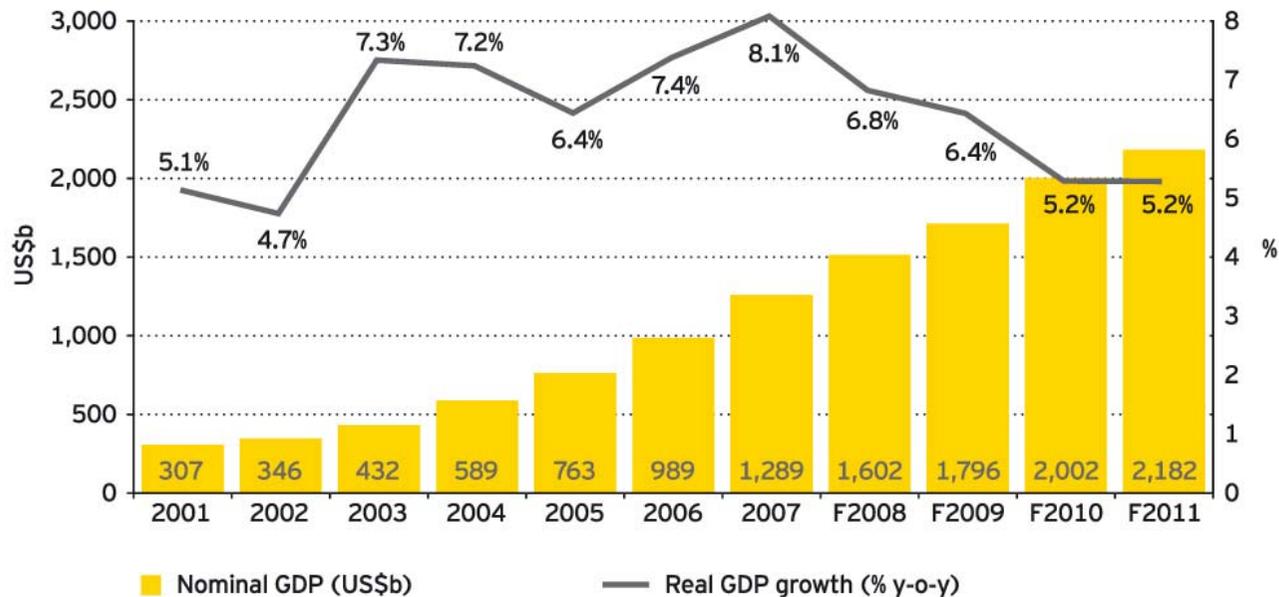
| 2007 | Population (million) | Passenger car parc (million) | Car density (cars per 1,000 people) |
|----------------|-------------------------|---------------------------------|---|
| Germany | 82.2 | 46.81 | 565 |
| UK | 61.0 | 31.34 | 521 |
| US | 302.8 | 136.01 | 450 |
| Czech Republic | 10.2 | 4.31 | 424 |
| Poland | 38.1 | 14.21 | 369 |
| South Korea | 48.9 | 9.65 | 246 |
| Russia | 142.3 | 26.79 | 188 |
| Brazil | 189.4 | 19.80 | 107 |
| Turkey | 75.1 | 6.24 | 85 |
| China | 1,322.1 | 21.43 | 16 |
| India | 1,135.6 | 12.06 | 9 |

Source: Global Insight, Rosstat

Russian economy

- ▶ High oil prices support continued growth and strong ruble
- ▶ Domestic consumption surge (purchasing power grew by 13.5%)
- ▶ Most major ratings agencies - S&P, Moody's and Fitch – have upgraded Russia's investment rating
- ▶ Strong growth in the machine-building and automotive sectors (up to 10% and 5% in the last 5 years) and expected further growth of 12% to 2015

Nominal and real GDP growth

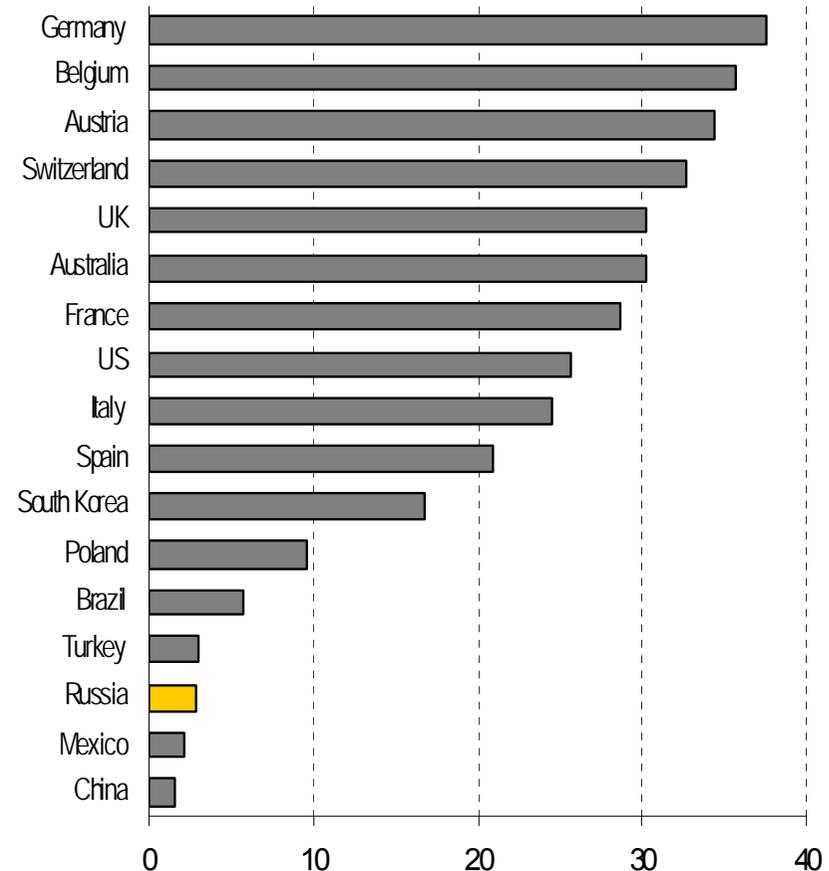


Source: Rosstat, Ministry of Economic Development and Trade of the Russian Federation, Ernst & Young

Russia can leverage relatively cheap domestic costs

- ▶ Average **Labor costs** in Russia are between Turkey's and Mexico's levels. However high-qualified personnel and top managers have salaries compared to European levels
- ▶ **Energy is 2-6 times cheaper** than in developed markets. Liberalization of power market may result in rising energy cost.
- ▶ The domestic **natural gas price** is low due to regulation. This situation may change in the next five years, as the domestic price is going to increase substantially
- ▶ Russia has other important resources in abundance like metal ores, coal, water and forest

Labor Costs ('07, \$/hour, EIU estimates)



Source: EIU, Feb 08

WTO membership

- ▶ Russia has been negotiating for WTO membership since 1993. Last year it completed the majority of bilateral negotiations including that with the US.
- ▶ Multilateral negotiations with 60 countries have already been conducted. Will Russia join the WTO in the near future???
- ▶ WTO membership followed by trade liberalization is likely to have a positive macroeconomic impact on total trade turnover and volume of FDI into the country.
- ▶ 7 years of transitional period;
- ▶ Change of customs duties foreseen on the 5th year of the transitional period:
 - ▶ Passenger cars, 0-3 years old: from 25% to 15%;
 - ▶ Vans (engine > 2,8 l.) + SUVs (engine 3,5-4,2 l.) down to 12.5%;
 - ▶ SUVs (engine > 4,2 l.) down to 10%;
 - ▶ Passenger cars, 3-7 years old: from 25% to 20%;
 - ▶ All vehicles, > 7 years old: no change;
 - ▶ New CVs, no change.
- ▶ Industrial assembly implications:
 - ▶ the companies which succeed to apply before the deadline can in future enjoy the benefits of the procedure
 - ▶ new Agreements on industrial assembly are not to be signed
 - ▶ new concept of Industrial assembly which does not contradict to WTO rules is under consideration of RF Government.



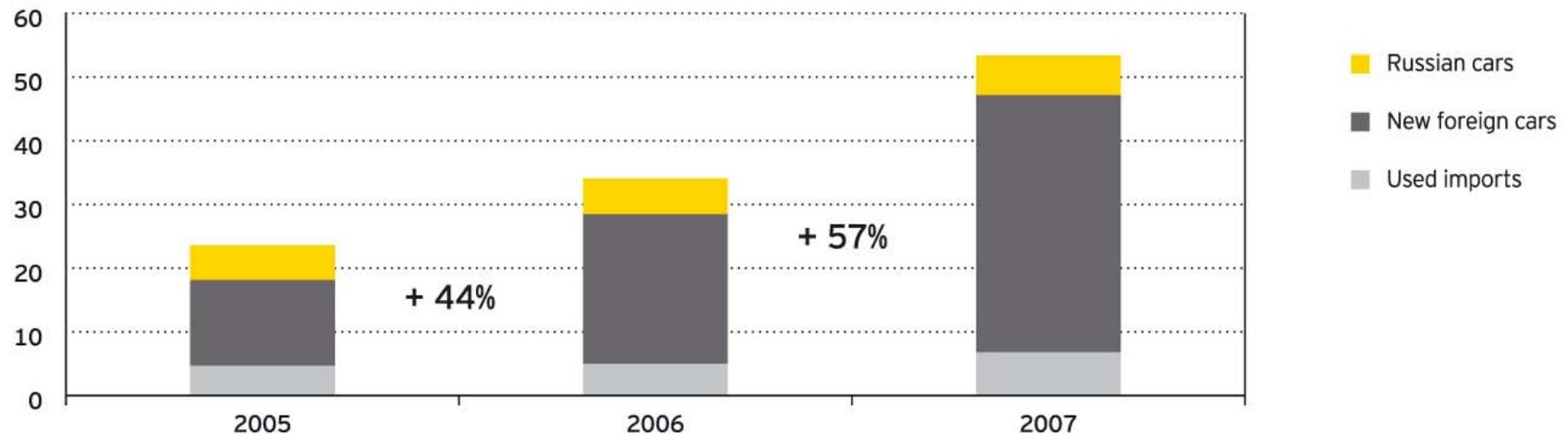
Russian Automotive Market

- ▶ A record level of investment in the industry
- ▶ Commitment of most of the leading automotive players to establish manufacturing facilities in Russia with overall new capacity over 1.5 million units by 2012
- ▶ A continued restructuring by Russian automotive players coupled with several international acquisitions
- ▶ A clearly intensifying trend of a shift in new car purchases not only toward foreign brands, but also toward a higher price segment
- ▶ A further aggressive expansion of car dealerships into the regions
- ▶ Intensifying competition in the car finance market with the appearance of many new players, including OEM banks, as well as attractive credit instruments

Russian automotive market

- ▶ Passenger car market sales estimated at over US\$50 billion in 2007
- ▶ New foreign brands sales (both imported and locally produced) estimated at more than US\$40 billion
- ▶ Russian brand sales fell to US\$6 billion

Car market (US\$b)



Source: AUTOSTAT, Ernst & Young

Russian vehicle production – 1H2008

| Vehicle production | 2007 | 1H 2008 | 1H 2007 | % Growth |
|------------------------|------------------|------------------|----------------|-------------|
| Passenger cars | 1,288,652 | 1,020,262 | 808,392 | 26.2 |
| Commercial vehicles | 287,914 | 144,119 | 135,258 | 6.6 |
| Buses | 88,824 | 36,254 | 39,869 | -9.1 |
| Tractors | 14,985 | 11,252 | 6,819 | 65.0 |
| Agricultural equipment | 7,235 | 7,139 | 4,876 | 46.4 |
| TOTAL | 1,687,610 | 1,219,026 | 995,214 | 22.5 |

▶ **Passenger cars:**

- ✓ During 6 months of 2008, production of passenger cars increased by 26.2% comparing to the same period last year.
- ✓ Class C is the largest segment (65%), followed by Class B (14%) and SUVs (12.4%)

▶ **Commercial vehicles:**

- ✓ During 6 months of 2008, production of commercial vehicles increased by 6.6% comparing to the same period last year
- ✓ GAZ has shown the best results in 1H 2008, its production of commercial vehicles increased by 8.6%

▶ **Buses:**

- ✓ During 6 months of 2008, production of Russian brands reduced by 9.1% comparing to the same period last year. Production of Foreign brands buses doubled and made up for 4.9% of total volume.
- ✓ Minibuses are the largest segment (67.4%)

The passenger car market –2007

- ▶ The underestimated car sales boom led to a new record: a 34% growth from 2006 with 2.4 million units sold.
- ▶ Russian-made foreign brands occupy 19% of the total market and already outnumber the used imports with a share of 16%.
- ▶ Russians have been buying more new foreign cars leading to a drop in sales of domestic brands.



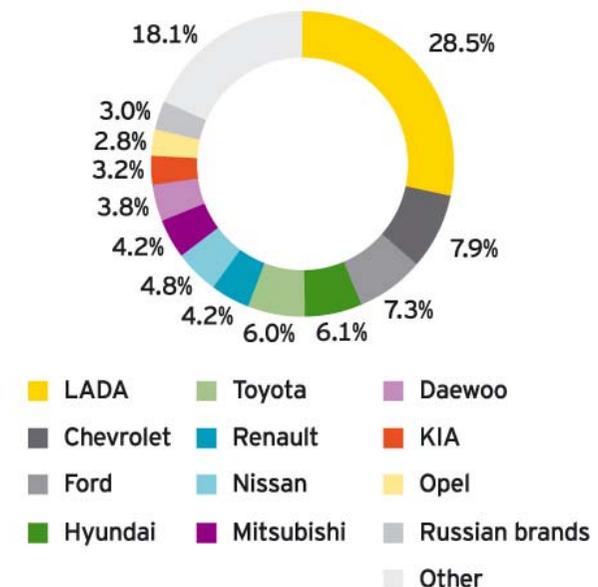
1H2008 Sales of Passenger Cars

- ▶ Foreign brands sales continue to go up, however the sales growth rate has slowed (+47% in 1H 2008 comparing to +70% in 1H 2007)

| Passenger Cars ('000) | 2007 | 1H 2008 | 1H 2007 | % Growth |
|-----------------------|--------------|------------------|------------------|-----------|
| Russian | 752 | 349,500 | 304,700 | 15 |
| New Imports | 1,194 | 760,600 | 521,500 | 46 |
| Foreign Russia-made | 452 | 300,500 | 198,600 | 51 |
| Used Imports | 380 | 201,800 | 160,100 | 26 |
| TOTAL | 2,786 | 1,612,400 | 1,184,900 | 36 |

Source: ASM-holding

Market share by brand in 2007*



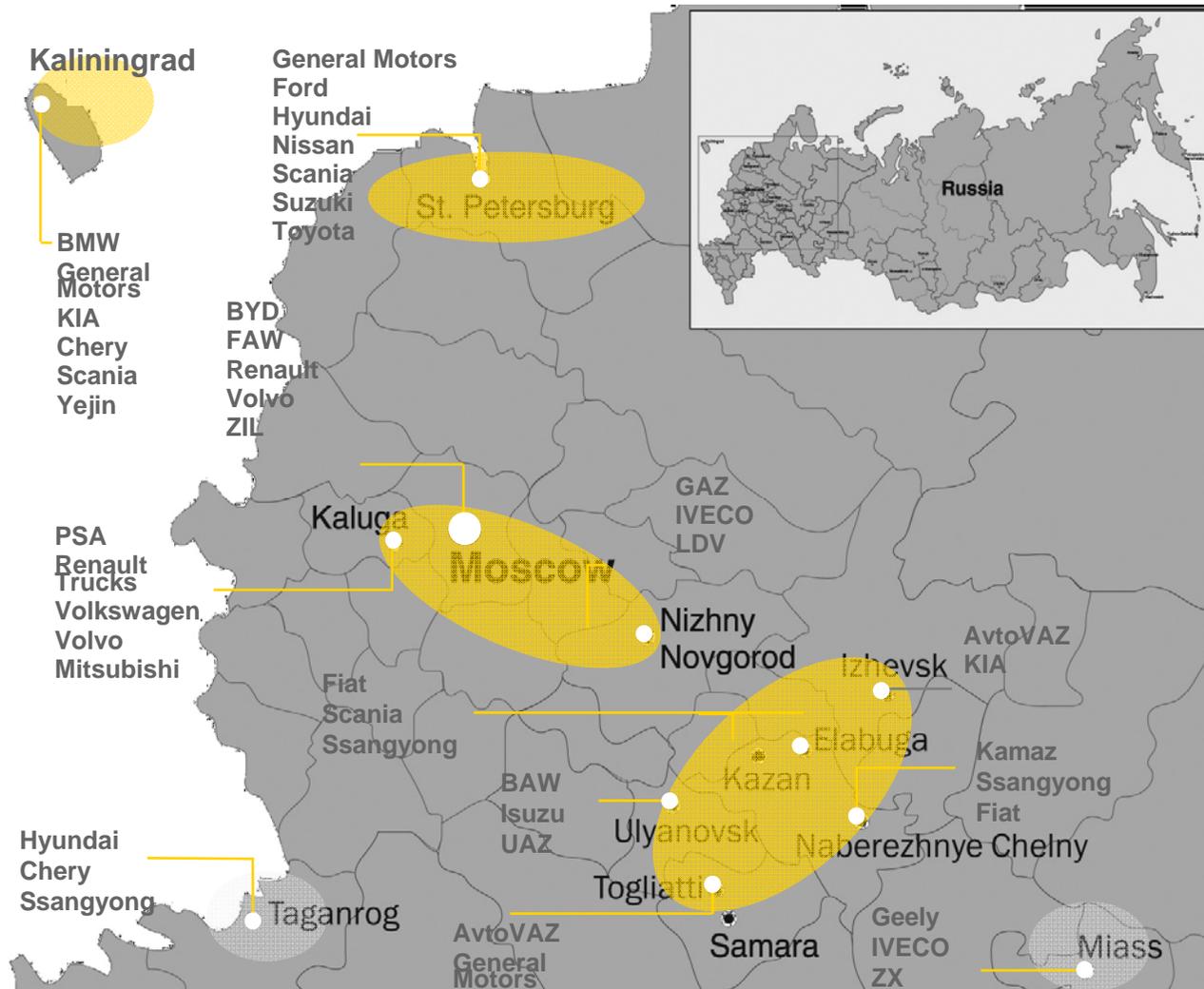
Source: AEB, ASM-holding, Ernst & Young

* Does not include used car sales

Passenger market forecast

- ▶ By 2009 – 2010 the number of locally assembled foreign brands will grow significantly
- ▶ By 2012 car density may reach a level of 300 vehicles per 1,000 people
- ▶ By 2015 the substantial car parc could surpass 50 million units
- ▶ Car parc will become much younger (now average car parc age is 10 years)

OEM presence in Russia



*This list is not exhaustive

- ▶ Most global OEMs committed to manufacturing in Russia (over 1.6 mn cars);
- ▶ By 2010 the foreign OEM capacities are expected to overweigh the domestic ones;
- ▶ The CV market is closely following the passenger car market
- ▶ Number of OEMs from China is reducing significantly

Russian Passenger Cars Market

- ▶ Eight Greenfield sites for foreign-branded car production are either under construction or planned for construction in Russia. Five of these will be located near St Petersburg, while three foreign carmakers (Volkswagen, PSA and Mitsubishi) have selected Kaluga, 180 km southwest of Moscow, for their Russian plants.

New foreign Greenfields in Russia

| Manufacturer | Launch year | Models | City | Investment, USD m | Initial Capacity, '000 cars | Capacity, '000 cars |
|----------------|-------------|--|----------------|-------------------|-----------------------------|---------------------|
| Nissan | May 2009 | Nissan Teana (sedan) Nissan X-Trail (SUV) | St. Petersburg | 200 | 50 | 200 |
| Toyota | Dec 2007 | Toyota Camry | St. Petersburg | 150 | 20 | 50 |
| Suzuki | 2009 | Suzuki Grand Vitara, SX4 | St. Petersburg | 120 | 30 | 30 |
| General Motors | Nov 2008 | Chevrolet Captiva, Lacetti or Opel Astra | St. Petersburg | 300 | 25 | 70 |
| Hyundai | N/a | Hyundai Elanta, Accent, Sonat | St. Petersburg | 400 | 50 | 100 |
| Volkswagen | Nov 2007 | VW Passat, VW Jetta, Skoda Octavia, Fabia | Kaluga | 570 | 60 | 115 |
| PSA | 2010 | Citroen C4, Peugeot 307 | Kaluga | 400 | 75 | 200 |
| Mitsubishi | 2010 | Mitsubishi Outlander X7 | Kaluga | 200 | 25 | 50 |

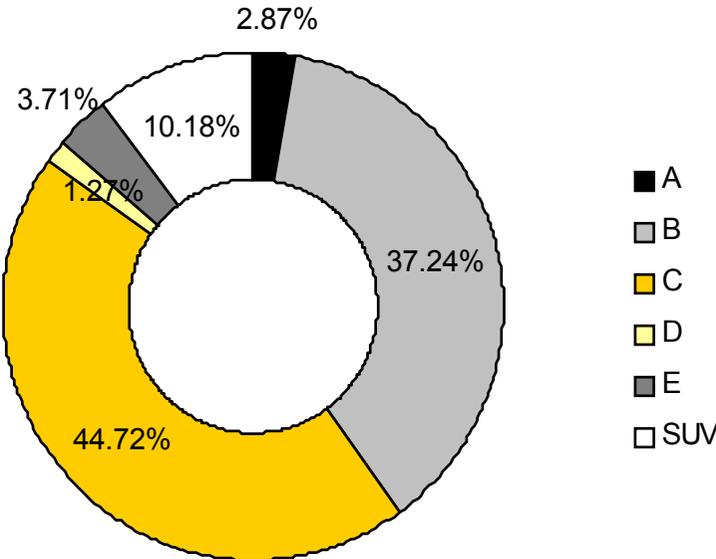
Source: Companies data, Press

Russian Government's Plan for Development of the Automotive Industry

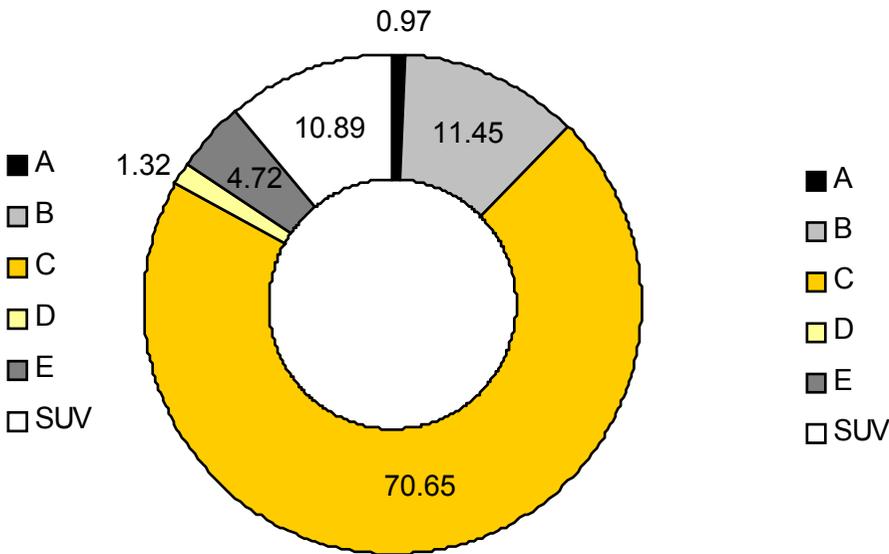
- ▶ Stage 1 (2008-2010) – organization and extension of motor vehicle and automotive component output by companies with foreign capital; re-equipment of existing operations; improvement of legislation; model ranges of motor vehicles.
- ▶ Stage 2. (2011-2015) – creation of new export-oriented facilities for production of motor vehicles.
- ▶ Stage 3. (2016-2020) – 70% of Russian manufacturers' production to cover demand of the local auto market, and 30% of vehicles produced to be exported.

Car Segmentation by Class - 2007

Sales

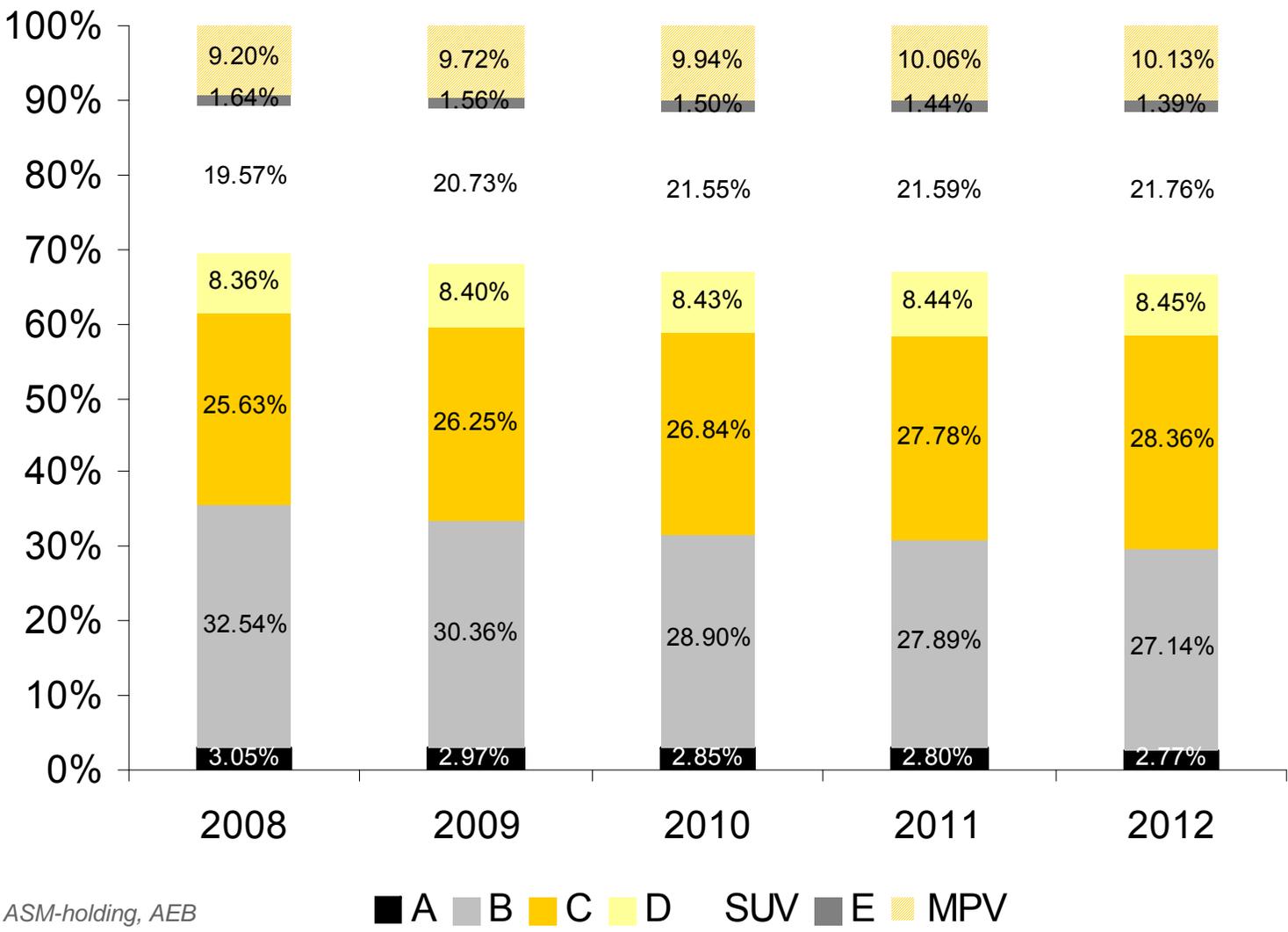


Production



Source: ASM-holding, AEB

Car Segmentation Forecast



Source: ASM-holding, AEB



The Russian components industry

- ▶ **Lack of the traditional tier division of component manufacturers due to the high level of integration with the major OEMs;**
- ▶ **Lack of a competitive technologies among Russian manufacturers as a legacy of the highly integrated vehicle manufacturing coupled with highly amortized equipment make most local component manufacturers not that attractive;**
- ▶ **The relatively long-term process of adapting new technologies and applying know-how to local manufacturers;**
- ▶ **Economies of scale are a must for attracting major foreign component manufacturers (most require a good over 200,000 units of car production in order to make an investment economically viable).**

Supplier Presence in Russia*



*This list is not exhaustive
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Challenges

- ▶ How deeply will the credit crunch affect the Russian automotive market?
- ▶ Are the OEMs, suppliers and dealers prepared to fend off the slowdown?
- ▶ What changes in market leadership and segmentation will follow?
- ▶ Who will survive and who will be best suited to take advantage of some immediate opportunities?
- ▶ Is the government willing to support and smoothen the effect of the slowdown?
- ▶ How will the power be redistributed and what new major players will emerge?



Thank You for Your Attention !