

Russian automotive market

Battling the crisis

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PRICEWATERHOUSECOOPERS 

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Market overview

Figures for the first six months of 2009

Car category	Thousand units			USD, billion		
	6M 2009	6M 2008	Change	6M 2009	6M 2008	Change
Russian brands	200	380	-47%	\$1.6	\$3.5	-54%
Russian-made foreign brands	190	290	-34%	\$2.9	\$ 4.8	-40%
New car imports	345	785	-56%	\$8.2	\$22.2	-64%
Second-hand car imports	8	190	-96%	\$0.1	\$3.3	-97%
TOTAL	743	1,645	-55%	\$12.8	\$33.8	-62%

Sources: Federal State Statistics Service, State Customs Committee, ASM-holding, AEB, PwC estimates

Major trends

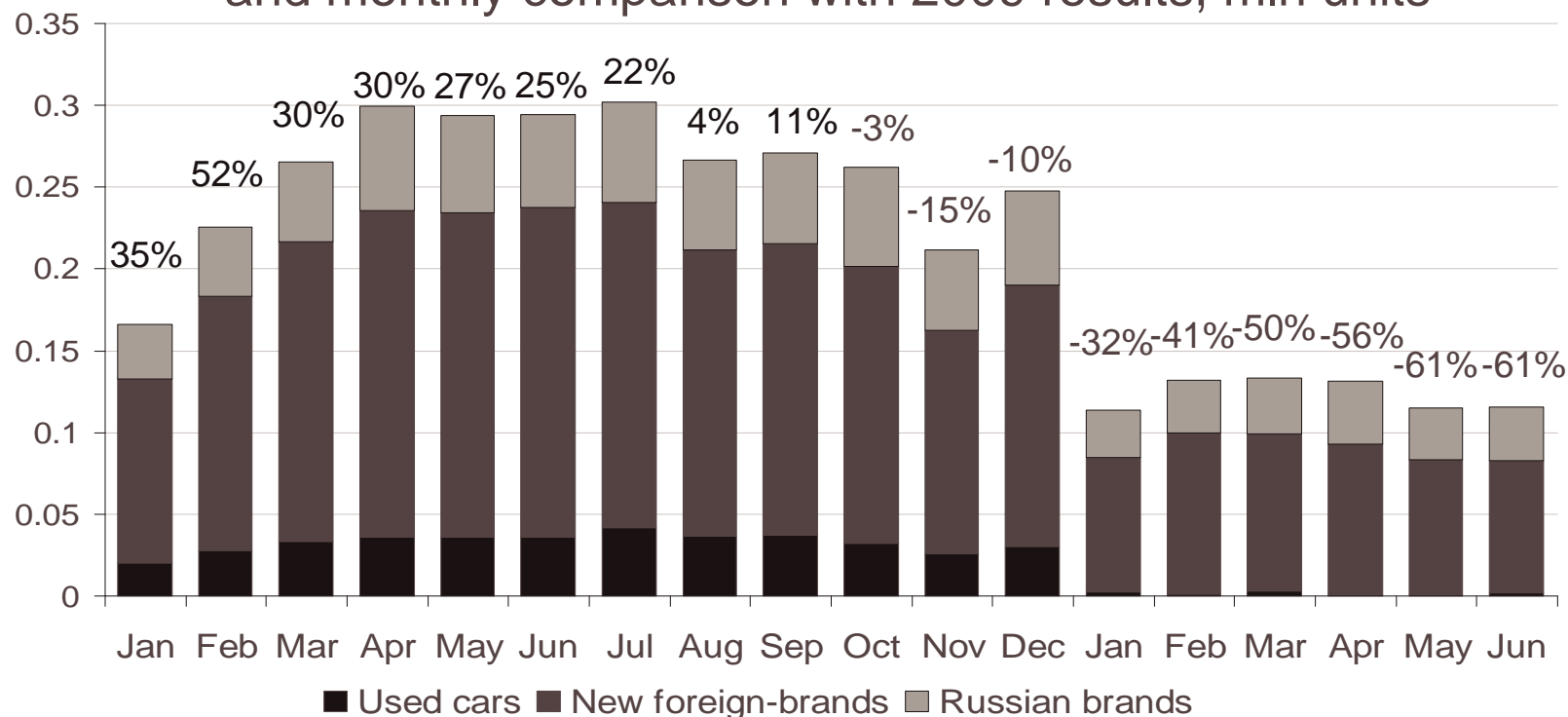


- The average car price changed significantly across all segments due to: a significant change in the Russian rouble exchange rate, large-scale discount sales, the large share of cars produced in 2008 in current year sales, and increased customs duties.
- The average car price in US dollars decreased by 16% and increased by 13% in Russian roubles.
- Cars made in Russia sell better than other categories, both in quantitative and money terms.
- Inventories were an important but short-lived stimulus for the market – they provoked considerable price competition in the first six months of 2009 and prevented sales from plunging further. In the next six months, inventories will not influence market dynamics as much.

The situation is changing rapidly

- The market is shrinking, both in quantitative and in money terms, at an ever increasing rate.
- We do not expect this tendency to reverse, primarily because inventories (which were sold at a great discount) are close to exhaustion, unemployment is growing and consumer confidence continues to decrease.

Car sales in Russia in 2008
and monthly comparison with 2009 results, mln units



Sources: AEB, Autostat, PwC estimates

Russia rolled back to fifth place in Europe

- The reduction in Russian automotive market in the first six months of 2009 was much larger than it was in Europe's largest markets.
- Based on the results for the first six months, Russia was rated fifth among the European countries.

New passenger car registration, thousand units

Country	6M 2009	6M 2008	%
Germany	2,059	1,633	+26
France	1,131	1,129	0
Italy	1,128	1,263	-11
UK	924	1,247	-26
Russia*	735	1,455	-49

Source: European Automobile Manufacturers Association, PwC estimates

*New car sales

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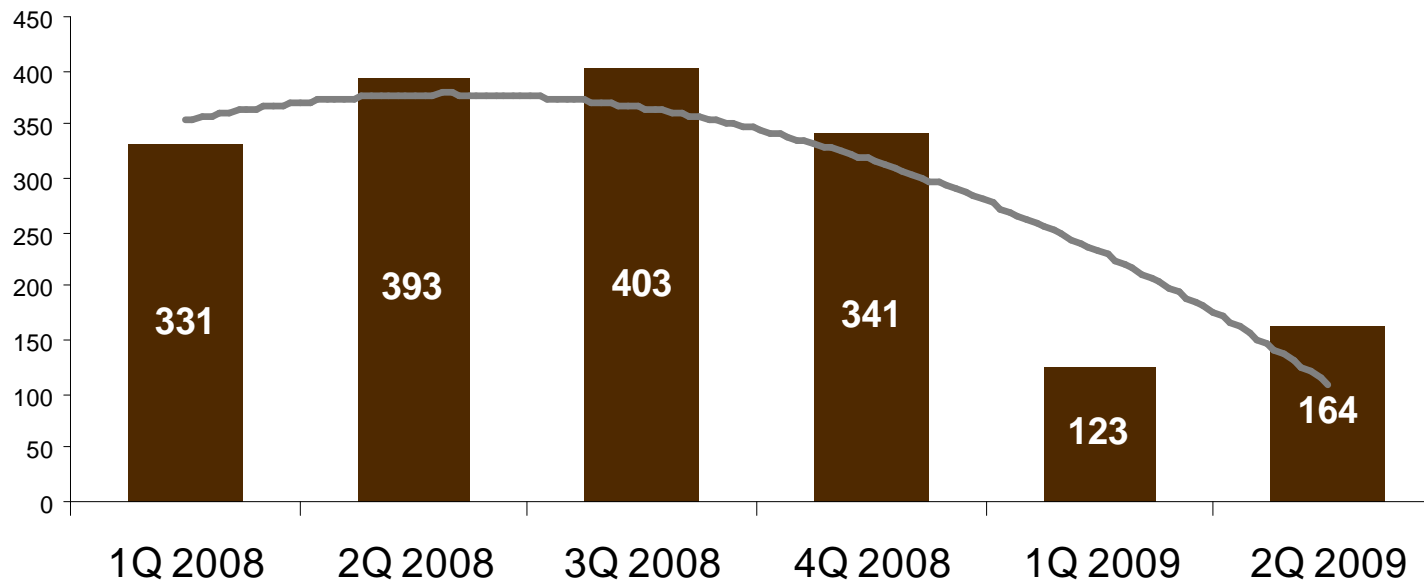
Car scrapping

- Measures to stimulate scrapping of old cars have been successful in countries like Germany, Austria, Japan, France, Italy and the UK. Such a programme is also planned in the US.
- The incentive compensation ranges from USD 1,250 to USD 5,000.
- The relative “success” of the German and French markets is largely due to incentives for scrapping old cars.
- This kind of measure would be advantageous for the Russian automotive market and would help: 1) facilitate sales growth and 2) renew a car fleet that is very old and unsafe (almost half of the Russian car fleet is more than 10 years old).

Domestic manufacture

- Due to warehouse overstocking and declining demand for cars, both Russian and foreign car manufacturers have had to cut back significantly on production.
- In the first quarter of 2009, the reduction was 63% as compared to the same period in 2008; in the second quarter, it was 58%.
- According to the results for the first six months, production of traditional Russian brands has dropped by 65%; foreign brands, by 53%.

Production of passengers cars in Russia, thousand units

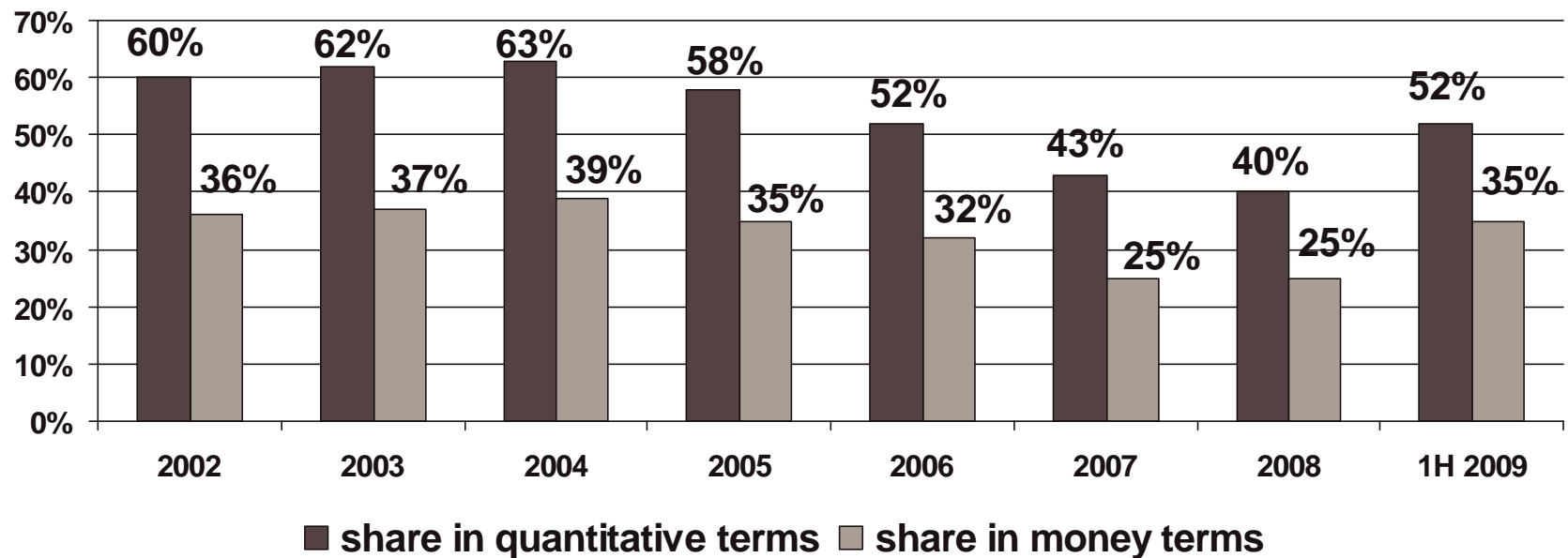


Sources: ASM Holding, PwC estimates

Share of cars made in Russia

- Over the last seven years, despite the entry of many foreign carmakers into the Russian market, the share of cars made in Russia in the total sales volume has decreased, both in money and in quantitative terms.
- However, increases in customs rates, the rouble's devaluation and reduced-rate car loans for cars made in Russia, as well as a reduction in customs duties on components for Russian car assembly plants have significantly increased the share of cars assembled in Russia (both in quantitative and in money terms) in the total sales volume.

Share of cars made in Russia in the total sales volume



Source: PwC estimates

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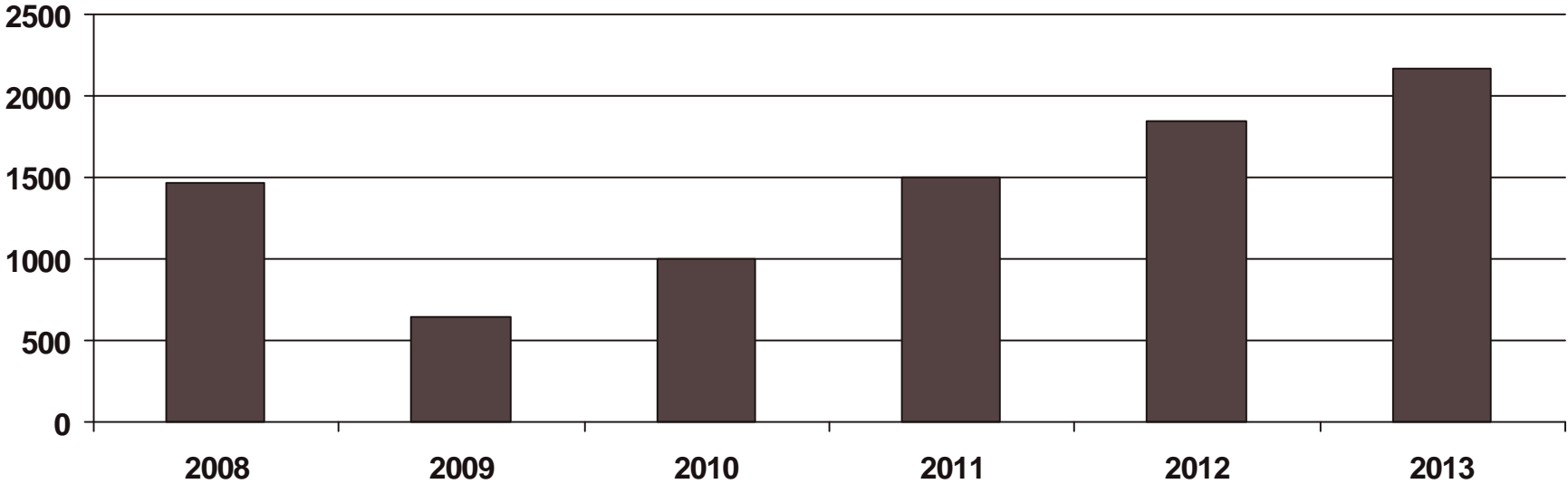
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Mid-term market
development

Prospects for domestic production

An optimistic view suggests domestic passenger car production in Russia bouncing back to the pre-crisis level by 2011.

Car production in Russia, units



Source: PricewaterhouseCoopers Automotive Institute

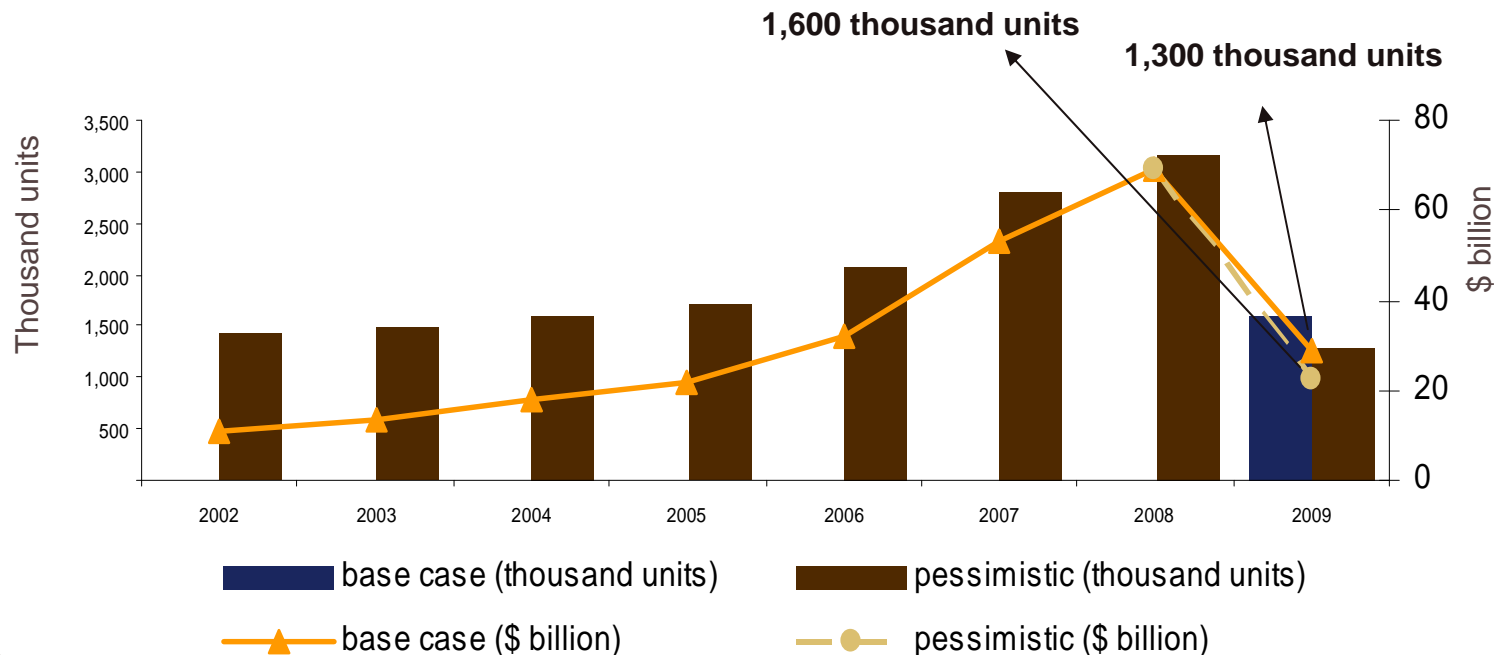
Car loans

- Less than 20% of cars were bought using a loan during the first six months of 2009 (over 50% during the first six months of 2008); in money terms, that accounts for 17% (35% in the first six months of 2008) of sales. Taking into account 55% decrease in sales in unit terms this means that the car loan market shrank five-fold in the first half of 2009 as compared to the same period a year earlier.
- Only 16,000 government subsidized car loans, or about 10% of all loans, were issued over the period. The number of applications for such loans is about twice as much. Thus, the state subsidised interest for about 2% of cars that were bought using a loan in the first half of 2009. Four out of five of these loans were issued for Avtovaz cars.
- Many Russian and foreign carmakers together with their partner-banks launched their own loan schemes with reduced rates.
- In the second half of the year, we expect the car loan market to revive in connection with expanding state support, which is seen in the increase in the maximum car price, lower first instalment amounts, and more banks participating in the scheme.

Short-term forecast

- Given the current levels of uncertainty, it is extremely difficult to reliably predict even the next six months' sales.
- Our base case scenario implies a 50% decline in car sales in quantitative terms, with the market decreasing to 1.6 million units, and our pessimistic scenario implies a decline of up to 60%, with a market of 1.3 million units.
- We do not expect any drastic change in market dynamics in the second half of 2009, primarily because of deteriorating macroeconomic conditions and the exhaustion of inventories of cars produced in 2008. Also, a lot will depend on measures taken by the government and the situation in the car loan market.

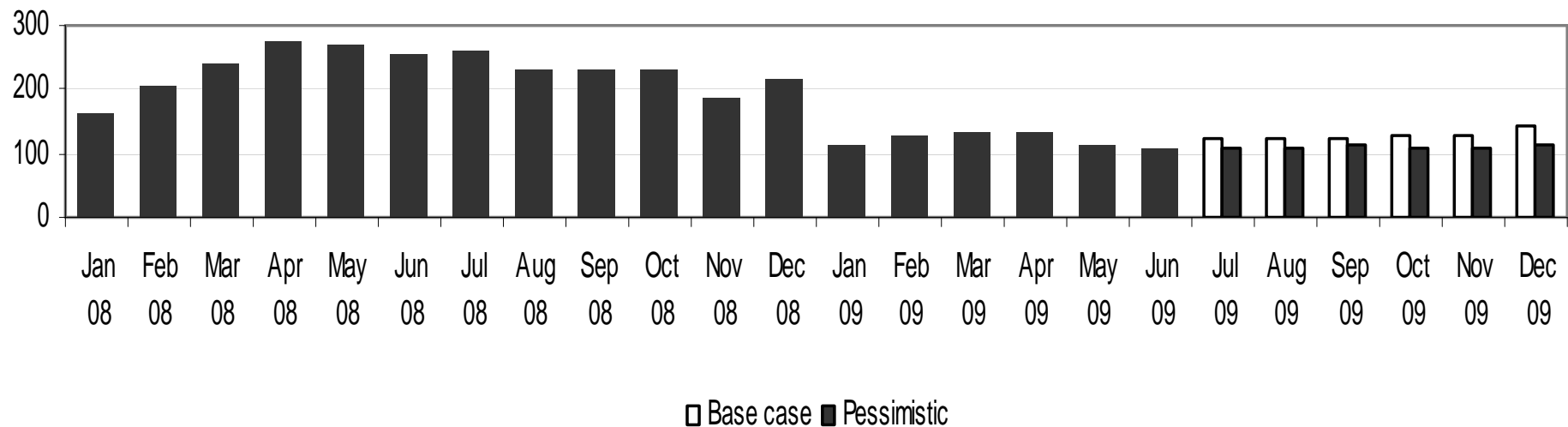
2009 scenarios for Russian automotive market



Short-term monthly forecast

- Taking into consideration the high degree of uncertainty, we are following the market on a month-by-month basis to understand how it is developing.
- Both scenarios (base case and pessimistic) take into account seasonal factors.

Car sales for base case and pessimistic scenarios by month, thousand units



Sources: AEB, Autostat, PwC estimates

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Conclusion

Conclusion

- The negative impact of the global crisis on the Russian automotive market was one of the most pronounced in the world because of the rapid market growth in the preceding period and the rouble's considerable devaluation.
- Sale of inventories in the first six months of the year bolstered sales levels, but in the coming six months, inventories will not influence market dynamics as much.
- In many markets the state is playing an increasingly important role, so in the short-term Russian market dynamics will to a great extent depend on the incentives introduced by the government.
- Scrappage incentives for old cars has proven to be an effective measure to back sales in many markets, with Germany being the best example of this.
- In Russia, manufacturers producing foreign brands in the country are weathering the crisis best: they have increased their share in quantitative terms from 18% to 26%.

Thank you!



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