

Prospects for the Russian automotive market

Stanley Root
Partner



20 January 2010

Content

1. Market overview
2. Auto dealers
3. Short-term market perspectives, development scenarios
4. Conclusion

1

Market overview

2009 results

- In 2009 the market declined by 56%* in quantitative terms and by 61% in monetary terms.
- Locally produced foreign-branded cars was the segment that declined the least.
- Possibly around a quarter of total car sales in 2009 represented a reduction in stock levels.
- Sales of second-hand imports collapsed following introduction of significant higher customs duties from 1 January 2009.

Car category	Thousand vehicles			USD billion		
	2009	2008	Change	2009	2008	Change
Russian brands	390	700	-44%	3.5	6.5	-47%
Foreign cars produced in Russia	360	580	-38%	6.1	10.5	-43%
Imported new cars	640	1,500	-57%	17	45	-62%
Imported used cars	12	395	-97%	0.2	7	-97%
TOTAL	1402	3,175	-56%	26.8	69	-61%

Sources: AEB, Goskomstat, GTK, ASM-holding, Autostat, PwC estimates

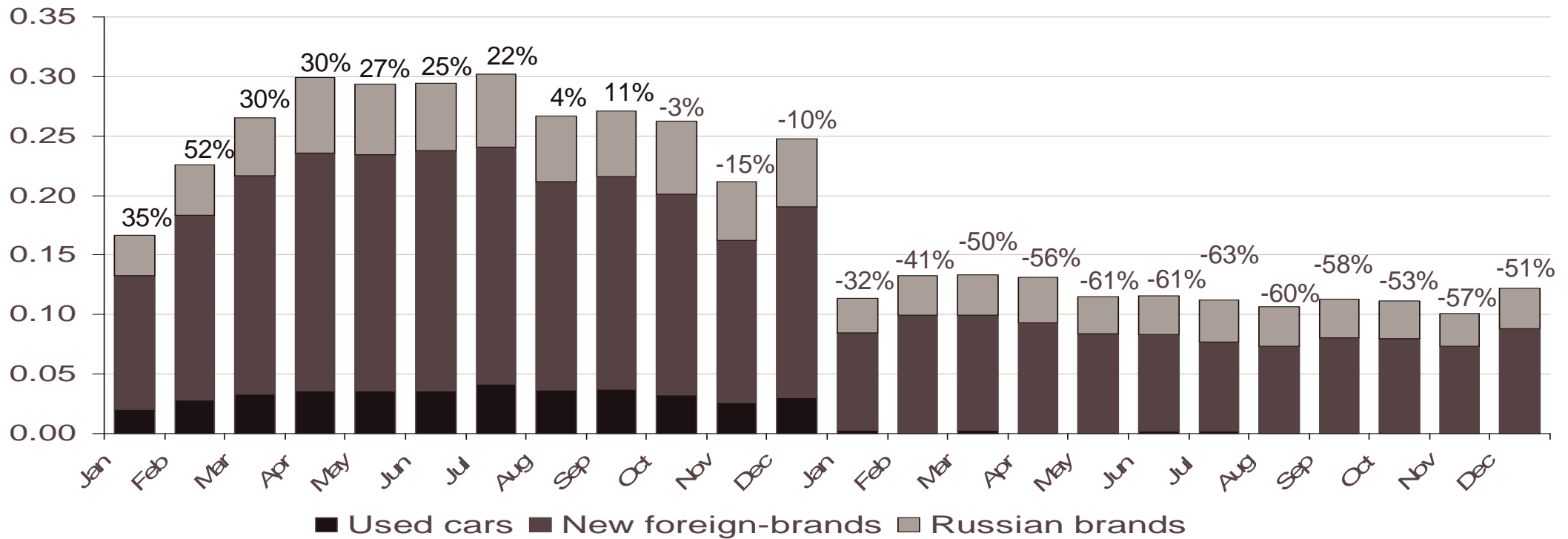
* We include in our analysis imported second-hand cars and exclude LCVs

20 January 2009

The situation is beginning to stabilize, but at a low level

- The market has shrunk dramatically both in quantitative and in money terms, however monthly sales are beginning to stabilize. Despite an increasing level of bank credits given towards the end of the year, sales continue to struggle at a low level.
- We do not expect a rapid recovery in the nearest future, primarily because inventories (which were sold at large discount) have been reduced significantly, unemployment is high, consumer confidence remains low.

Car sales in Russia in 2008-2009 and comparison with prior year month, mln units



Sources: AEB, Goskomstat, GTK, ASM-holding, Autostat, PwC estimates

Top brands

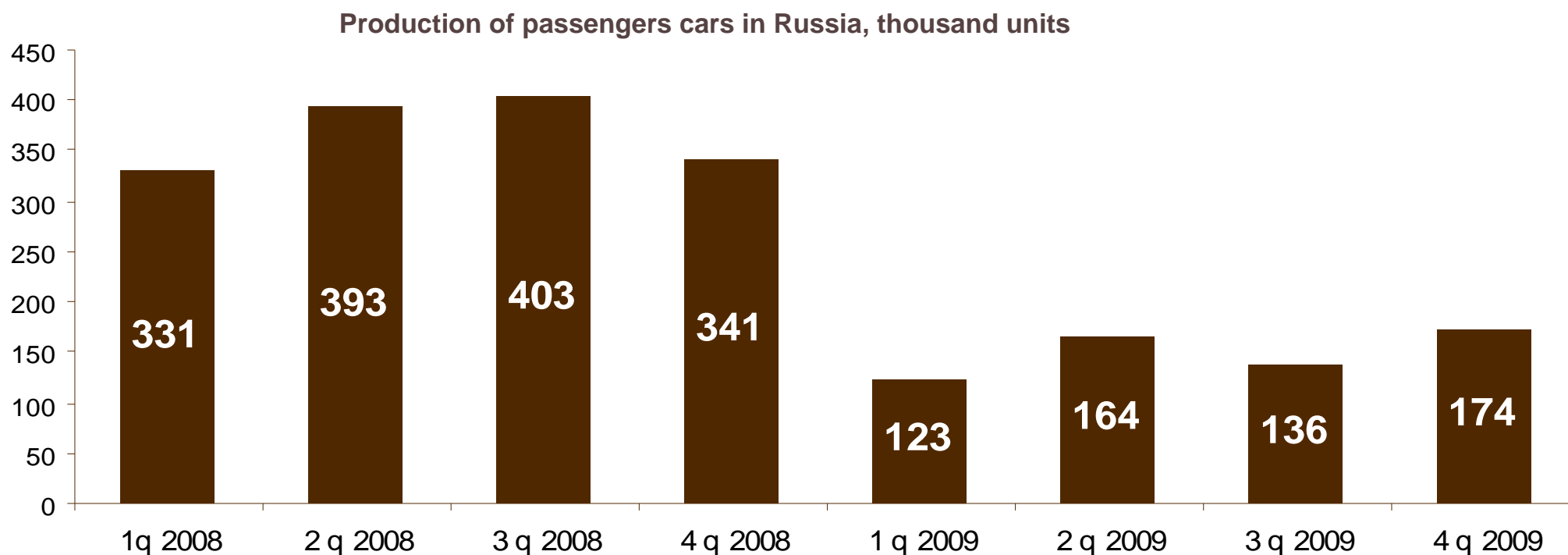
Groups	2009	2008	%
AVTOVAZ	349490	622182	-44%
GM Group	141695	337810	-58%
VW Group	94018	131017	-28%
Ford Group	88977	207869	-57%
TOYOTA Group	75131	204762	-63%
Hyundai	74607	192719	-61%
KIA	70088	88152	-20%
Renault	72284	108070	-33%
Nissan Group	68851	154341	-55%
GAZ Group	58205	131003	-56%
DAEWOO	51414	95510	-46%
PSA	42136	60330	-30%

- The overall market for new cars fell by 49% in unit terms.
- Among the most successful brands were BMW (-11%), KIA (-20%), VW (-28%), PSA (-30%)
- The luxury segment performed relatively better.
- Amongst the hardest hit were Japanese brands who were additionally hit by a strong yen during the year.

Source: AEB, sales figures include sales of LCV

Internal production

- Due to warehouse overstocking and declining demand for cars, both Russian and foreign car manufacturers have had to cut back significantly on production – overall reduction was 60%.
- Based on preliminary results of the year production of foreign brands fell by less than production of Russian brands.
- We expect that internal production in 2010 will grow faster than the overall market since OEMs have managed to clear out their stock overhang from 2008.

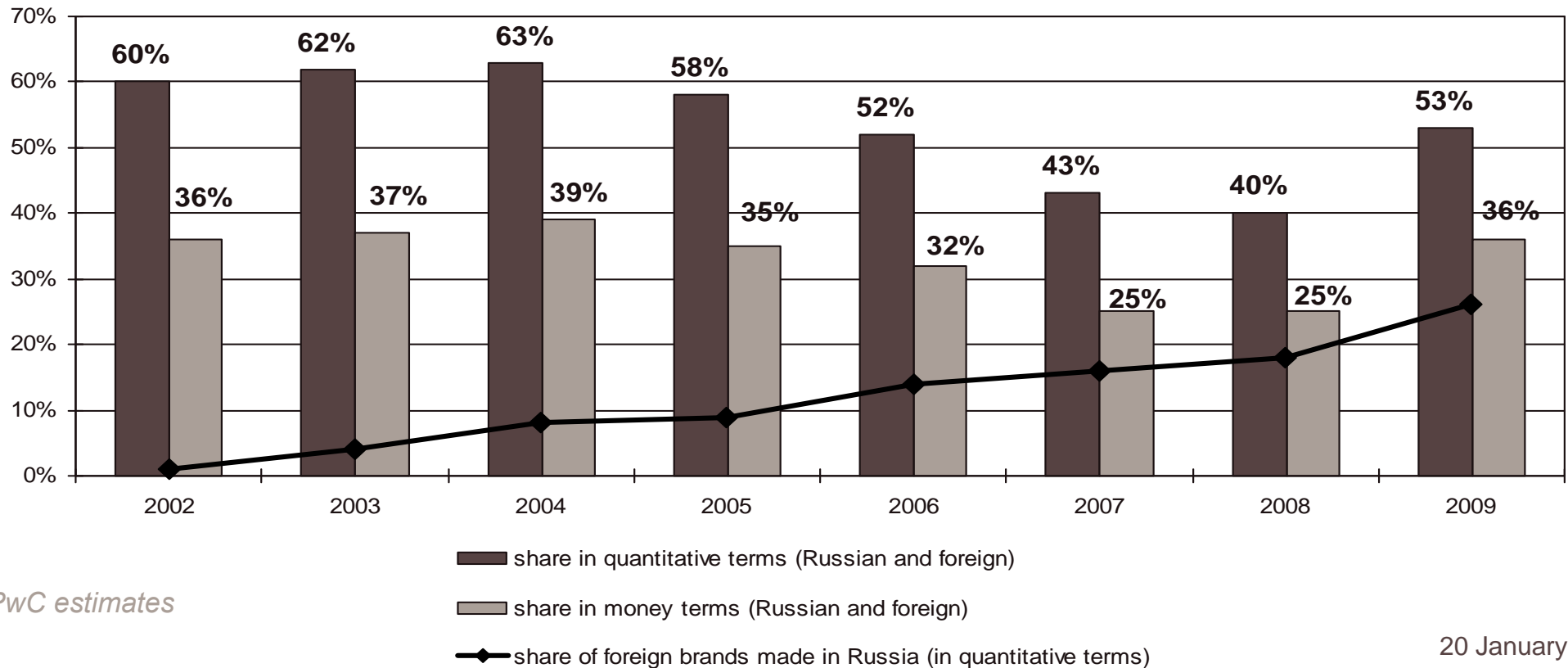


Source: ASM-holding, PwC estimates

Share of cars made in Russia

- In the years preceding 2009, despite the entry of many foreign carmakers into the Russian market, the share of cars made in Russia in the total sales volume decreased, both in money and in quantitative terms.
- However in 2009, increases in customs duties, rouble devaluation and reduced-rate car loans for cars made in Russia have significantly increased the share in total sales of cars assembled in Russia.
- We expect this trend to continue in 2010.

Share of cars made in Russia in the total sales volume



Source: PwC estimates

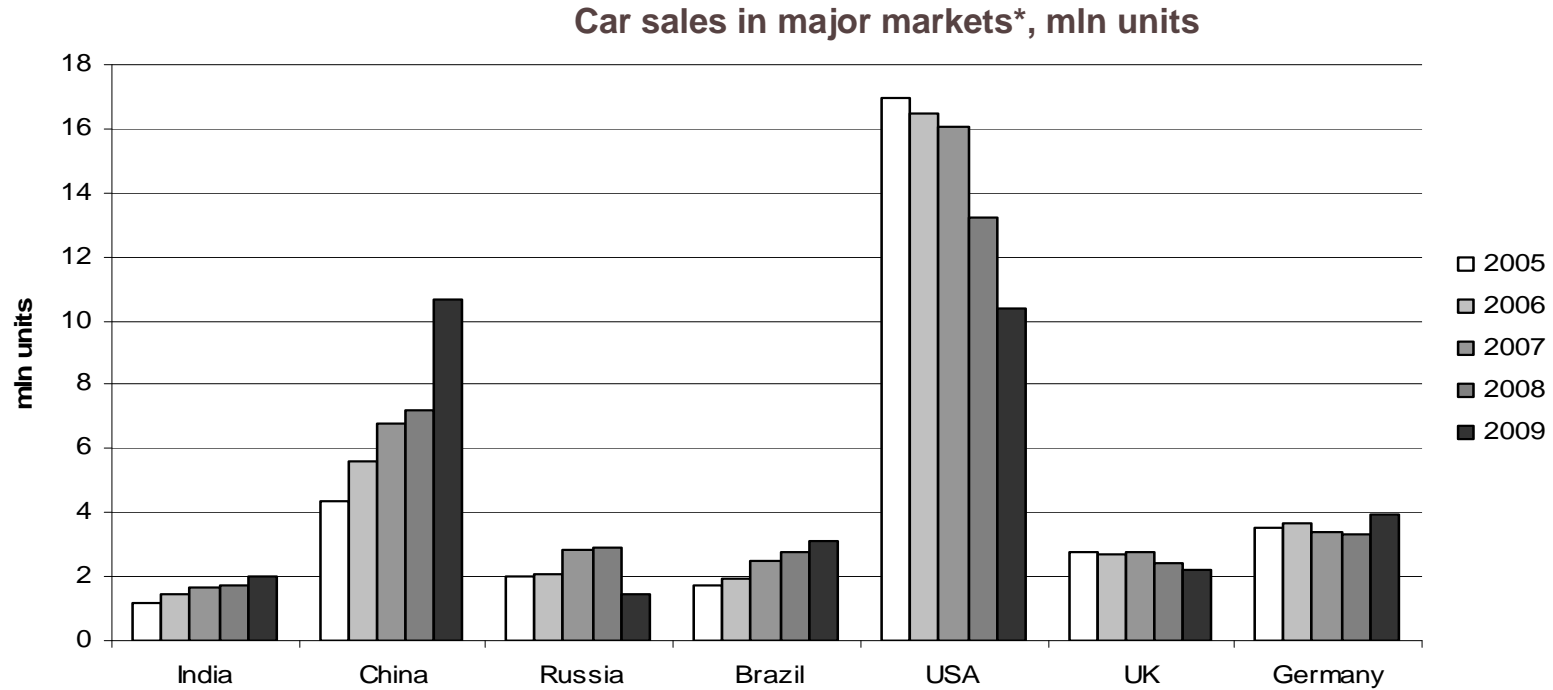
Foreign brands: Moscow VS regional sales

- The Central Federal District of Russia (including Moscow) has increased its market share from 45% to 50%.
- However in a number of large regions such as Sverdlovsk, Tumen, Rostov, Samara, Bashkiria, Chelyabinsk and Perm sales are down by more than 60%
- The Ural Federal district has decreased its market share from 11% to 8%.
- Just as the Central Federal District has weathered the crisis relatively better, we expect it to recover sooner than other regions.

Source: PwC estimates, Autostat

Cross country comparison

China, Germany, India and Brazil have increased car sales despite the crisis. Government intervention was a significant factor.



GDP growth , %	6.5	8.3	-8	-0.3	-2.5	-4.7	-4.8
Nominal appreciation against USD, %	-10.1	1.8	-21.8	-8.2	-	-15.3	-5.1
Average credit rate (Lending rate (av; %)	12.2	5.3	14.5	18	3.2	0.50	8
Change in new car sales 2009VS 2008	16%	48%	-49%	13%	-21%	-10%	20%

*Passenger cars and LCV, Source: PwC estimates, Economist intelligence Unit

Government measures globally to stimulate automotive industry (1)

In each of the countries which showed significant growth in 2009 the government took specific measures to stimulate the market, not just support producers.

China

- Has reduced vehicle purchase tax from 10% to 7.5% (at some point the reduction was even to 5%) on cars under 1.6L;
- Allocated around \$1.6 bln in scrappage schemes and subsidy programs;
- Is developing a new auto credit system to boost sales.

Brazil

- Elimination of the IPI (Industrial Products Tax) on new vehicles purchasing (to March 2010);
- Reduction of IOF (Tax on Financial Operations) from 3 to 1.5%, making it cheaper to finance new vehicles. The Tax was reinstated by January 2010;
- State-guaranteed orders for \$1.8 bln.

India

- High custom duty on imports of vehicles (a CBU import is charged a 100% import duty);
- Reduced VAT by 4% and excise duty by 2% across the board (not discriminating against origin of product or local content of product);
- The “gas guzzler” tax on larger cars with engines larger than 2L was lowered from \$ 440 to \$330.

Government measures globally to stimulate automotive industry (2)

USA

- The Car Allowance Rebate System (CARS), known as “cash for clunkers, \$3 billion US Federal Scrappage Scheme. Consumers bought 678,360 new cars (around 6,5% of the market, \$3500-4500 per car depending on its fuel efficiency);
- Tax deduction to the state and local sales and excise taxes paid on up to \$49,500 of the purchase price of a qualified new car.

Germany

- The German Scrappage scheme provided customers with €2 500 voucher for purchase a new car after scrapping an old one. Total €5 bln (more than 2 million participants proceeded with an application).

UK

- The initial UK £300 million scrappage incentive scheme was extended in September 2009 (+ additional £100 million). The Program discounts the price of a new car by £ 2000 for scrapped an old car. The discount is funded by the Government and the Automotive Industry (£ 1000 each).

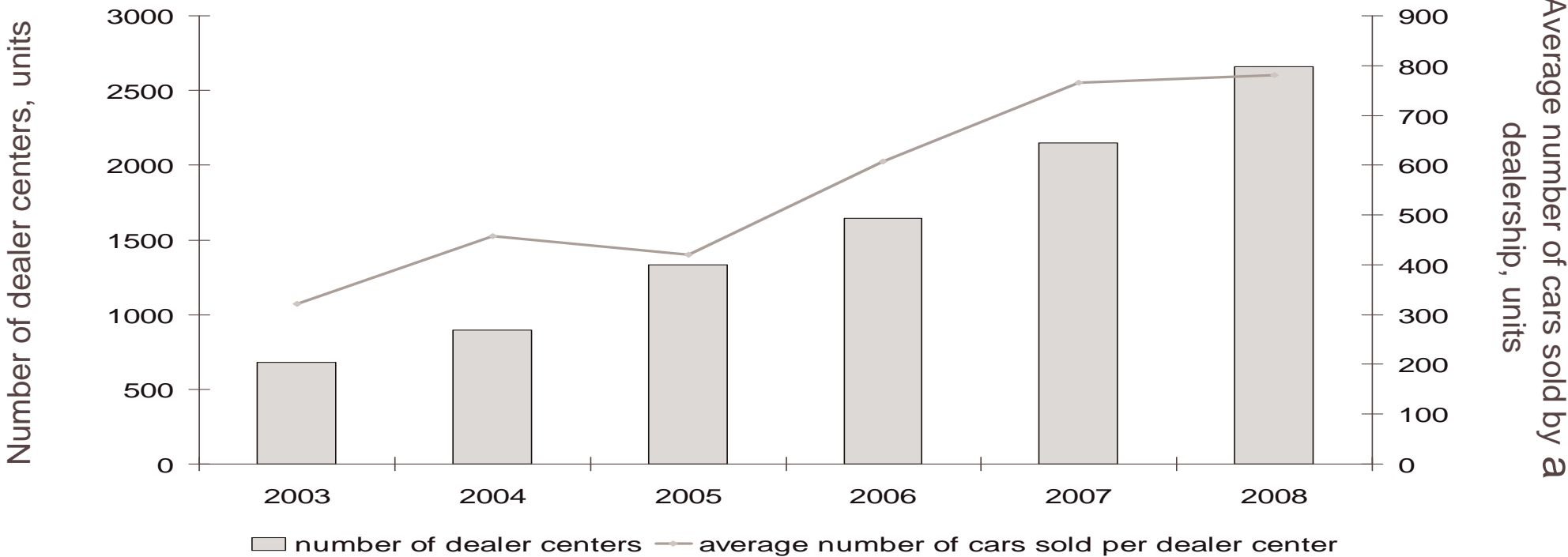
2

Auto dealers

Development of dealership network

- In recent years there has been a significant increase in the number of dealerships. The yearly average number of cars sold per dealership (about 780 cars) was also high by comparison with developed markets (UK – 470, Germany – 250).
- However much of this investment was often financed by short term bank loans. When the crisis arose, many dealerships were hit by a crippling combination of falling profits, rapidly rising interest rates and even worse the inability to refinance their loans.

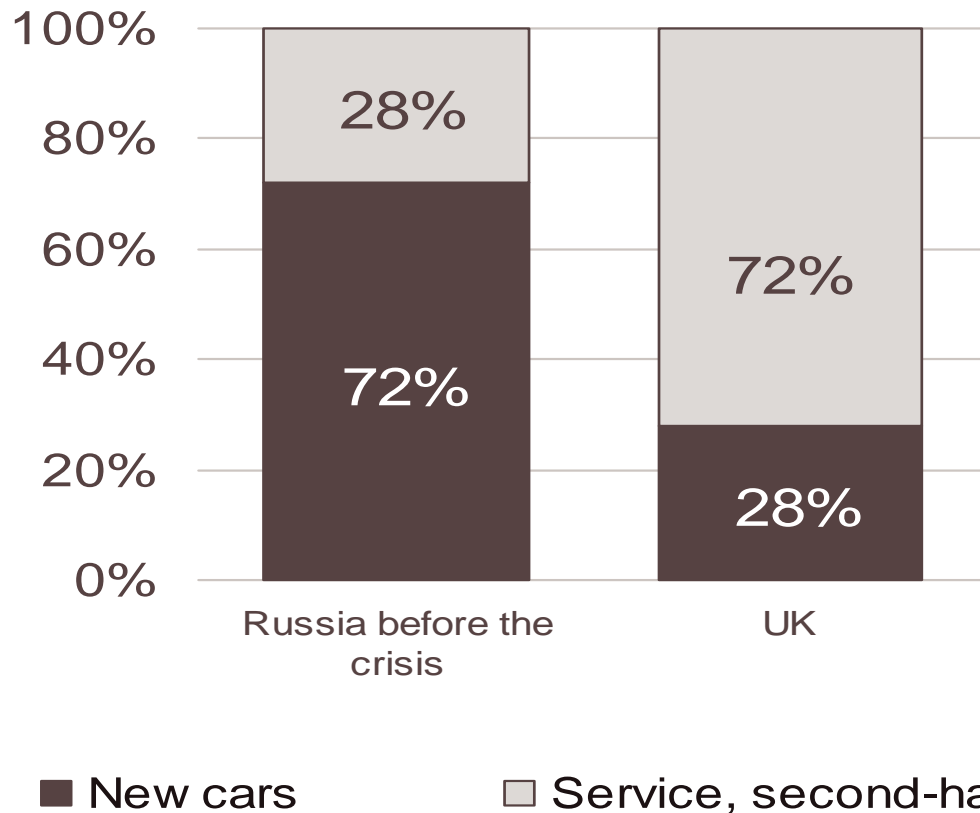
Number of dealerships selling foreign brands and average sales per center, units



Sources: Autostat, PwC estimates

Fragile profit structure of Russia's brand new dealership network

New car sales vs second-hand car sales and service shares in aggregate profits



Before the crisis the major share of dealership's profit was generated by new car sales in Russia, as opposed to developed markets where used car sales and service are the major source of income.

Given the rapid expansion of the dealer network, often financed by significant borrowings, this profit structure has made the Russian dealership network particularly vulnerable to the crisis

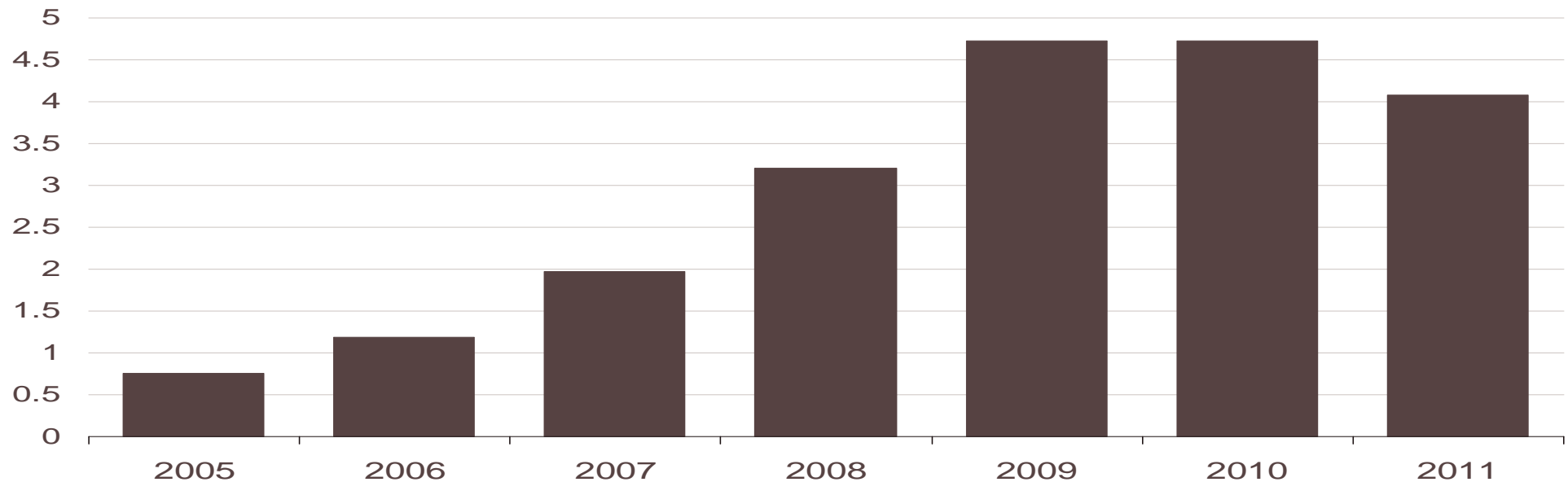
Source: PwC estimates

New car aftersales service in authorised centres

A significant growth in new foreign made car sales over the recent years has resulted in a substantial increase in their fleet. In the short term subsequent sales and service of these cars may help in part to compensate for the decline in profit from new car sales.

However the “under-warranty” car fleet may significantly decrease in the near future due to reducing new car sales

Car parc of foreign brands under 3 years, mln units

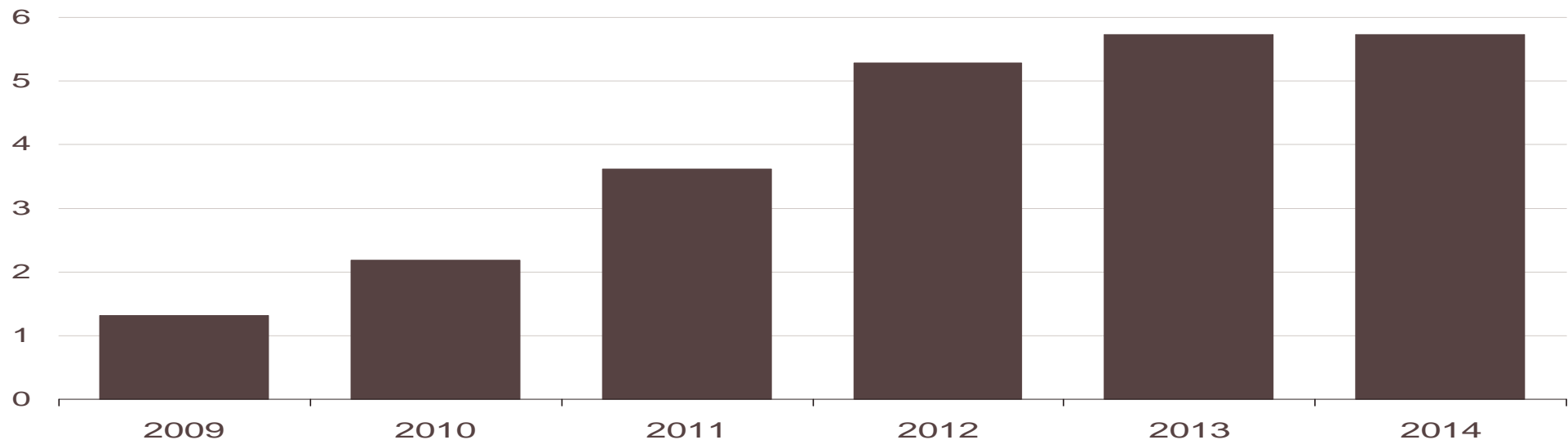


Source: PwC estimates

Sales of second-hand cars through dealerships

- Abolishment of double VAT on used car sales should facilitate growth in used car sales through dealerships
- In the coming years, the number of foreign made cars aged between 3 and 7 years – the segment of cars with a traditionally high activity in secondary sales - should show a significant growth
- In more developed markets aftersales services and sales of used cars are generally more profitable than sales of new cars
- For dealerships who cultivate loyalty among their past customers, this car parc could be a significant source of profit.

Car parc of foreign brands between 3 and 7 years old, sold new in Russia, mln. units



Source: PwC estimates

3

Market perspectives,
development scenarios

Some factors affecting the development of the Russian car market

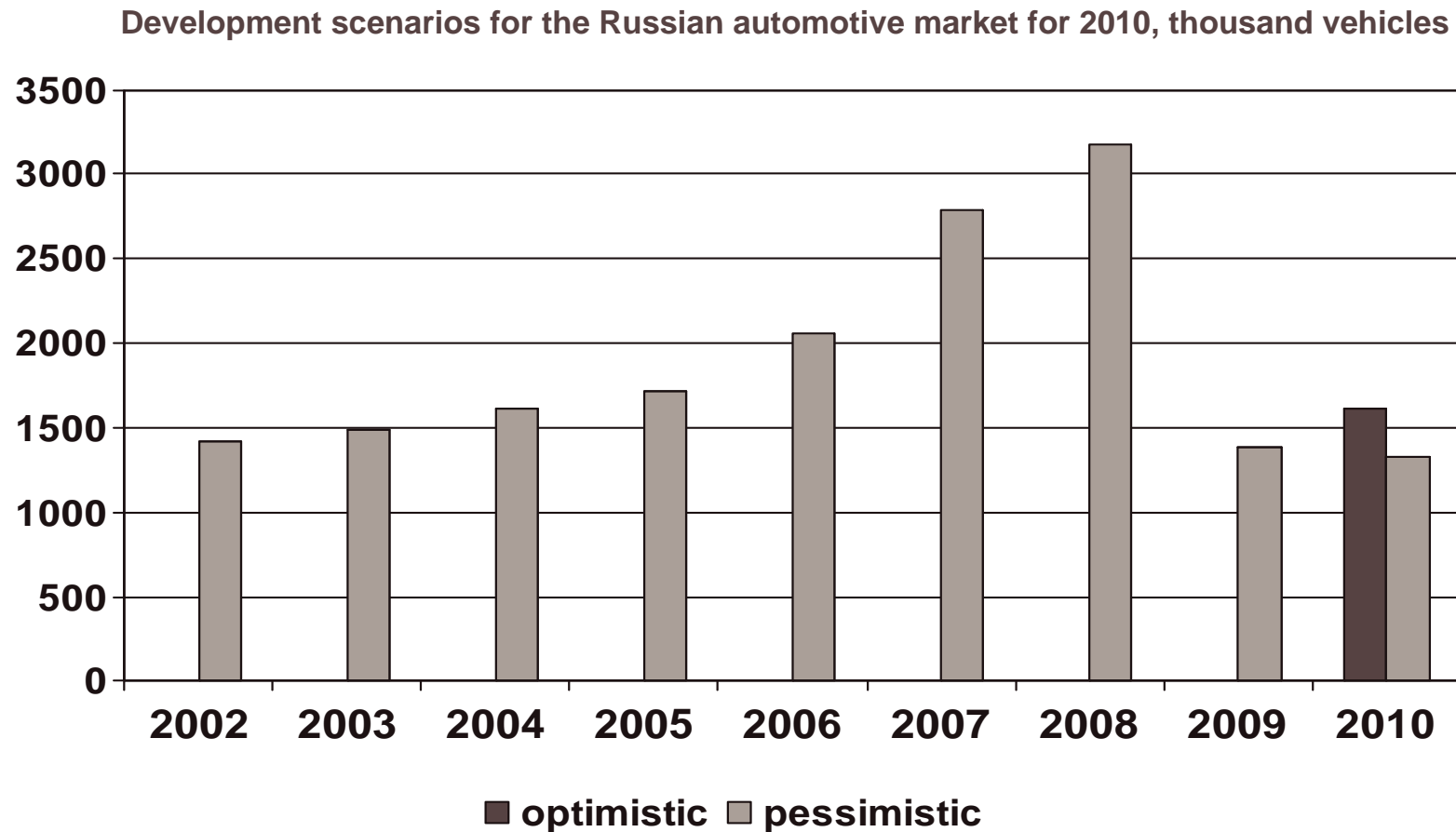
We have tried to model some factors driving the development of the Russian passenger car market. The following table shows the actual factors in years 2004-2009 and our assumptions for 2010.

Factor	2004	2006	2008	2009	Optimistic case scenario	Pessimistic scenario
Change in nominal personal disposable income (PDI)	24%	24%	27%	7.9%	7%	6.1%
Percentage of personal disposable income (PDI) spent on car purchases	4.2%	4.4%	5.4%	3.3%	3.3%	2.9%
Share of total USD spend provided by bank finance (%)	27%	31%	31%	15%	22%	16%
Average exchange rate (RUB/USD)	28.8	27.2	24.9	31.7	28	29.5
Average selling price for cars (USD)	11,300	16,550	21,700	19,300	22,000	20,500

Source: PwC estimates, EIU, Ministry of Economic Development

There remains a high level of uncertainty about prediction of 2010 sales

An optimistic scenario implies a 15% increase in car sales in quantitative terms with a sales volume of about 1.6 million vehicles. A pessimistic scenario implies a decline of around -5% with the market volume of 1.3 million vehicles.



Sources: PwC estimates

Volatility of the Russian car market

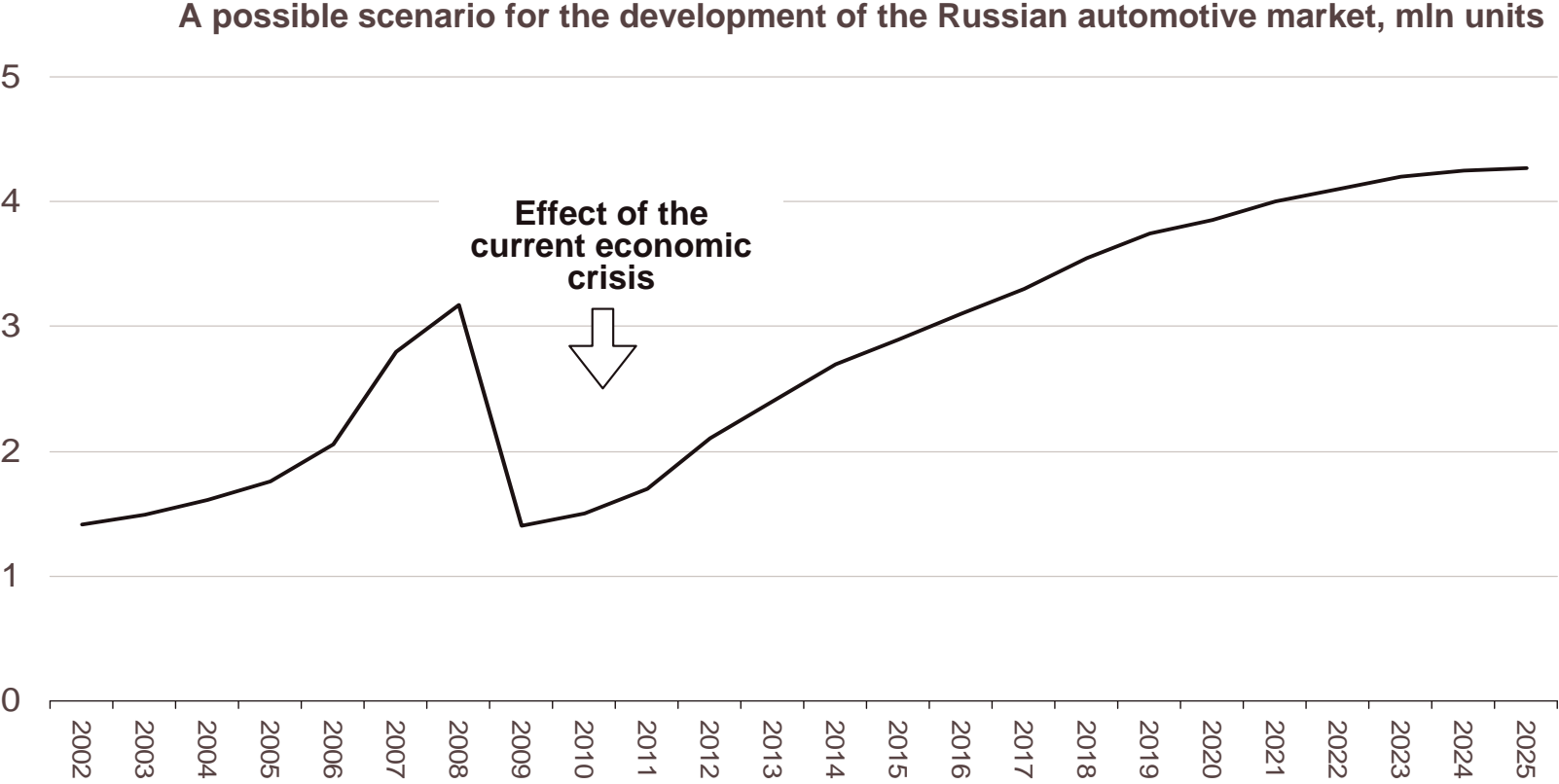
Some reasons why it is difficult to predict with reliability 2010 car sales

- RUR exchange rate
- Interest rates
- Level of auto credits given
- Consumer confidence
- GDP
- Global economy, commodity prices
- Effectiveness of government stimulation package

Each of these factors will have a significant bearing on the eventual results of the year.

A possible development trend for the Russian automotive market through 2025

We continue to believe that Russian car market has significant potential in a long term. However the road to this long term outcome may well be not without further pitfalls, given the vulnerability of the Russian economy to the global economic conditions. And it is not beyond the realms of possibility that there will be another temporary downturn during this period. Assuming an estimated saturation level of 400 cars per 1000 people will be reached by 2025 and annual rate of car disposal will be 6%.



Source: PwC estimates

4

Conclusion

Conclusion

- The negative impact of the global crisis on the Russian automotive market was one of the most noticeable worldwide because of the strong market growth in the preceding period, the high dependence on imported cars, followed by a rapidly weakening Rouble, increasing interest rates and fall in consumer confidence.
- In the short-term, there is still significant uncertainty in the market, including with exchange rates, confidence levels and interest rates. Positive factors such as government support and car disposal programme are offset by negative factors such as reduction in level of discounts given by OEMs and extension of high import duties. Overall this could result in yet further falls in the market. At best growth is likely to be modest in 2010.
- In the mid-term perspective however, Russia has a rather well-developed dealer and logistics infrastructure which may relatively quickly “convert” general economic growth into a rapid upturn in the automotive market.

Thank you!



Stanley Root
Partner
Automotive Industry Leader

This presentation has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this presentation. PricewaterhouseCoopers, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this presentation or for any decision based on it.

© 2010 PricewaterhouseCoopers. PricewaterhouseCoopers. All rights reserved.
"PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL). Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.