

Russian Automotive Market

Is Russia the largest car market in Europe?



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PRICEWATERHOUSECOOPERS 

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Market overview

Results for first six months 2008

Car category	Thousand units			US dollars, billions		
	First six months 2008	First six months 2007	Difference	First six months 2008	First six months 2007	Difference
Russian cars	380	300	27%	\$3.5	\$2.4	46%
Foreign cars produced in Russia	290	205	41%	\$ 4.8	\$2.8	71%
New car imports	785	510	54%	\$22.2	\$13.2	68%
Used car imports	190	150	27%	\$3.3	\$2.2	50%
TOTAL	1,645	1,165	41%	\$33.8	\$20.6	64%

Sources: Russian State Statistics Committee, Russian State Customs Committee, ASM Holding, AEB, PwC estimates

Main trends



- ✓ The market not only continues to rise in quantitative terms - growth rates are also accelerating.
- ✓ The average car price continues to grow, in part because of the increasing share of relatively expensive new car imports.

Top foreign brands

- The most successful of the largest brands were Hyundai, Opel, and Honda. Sales of all three more than doubled
- Chevy sales dropped by 40%*
- Three of the top five models are manufactured in Russia (Ford Focus, Renault Logan, Hyundai Accent)

Brand	Five months 2008	Five months 2007	%
Chevrolet (incl. GM-AVTOVAZ JV)	103,735	70,027	48
Hyundai	84,745	41,858	102
Ford	78,396	68,450	15
Toyota	70,446	59,337	19
Nissan	62,958	40,779	54
Mitsubishi	46,653	28,054	66
Renault	46,094	35,595	29
Opel	43,628	21,407	104
Daewoo	42,669	33,488	27
Kia	41,123	26,156	57
Mazda	30,906	17,422	77
Honda	28,786	10,412	176
Other foreign brands	279,068	196,818	42
Total	855,472	579,776	48

* This drop in sales is likely to be temporary, tied to Avtotor's stopping production.

Source: AEB

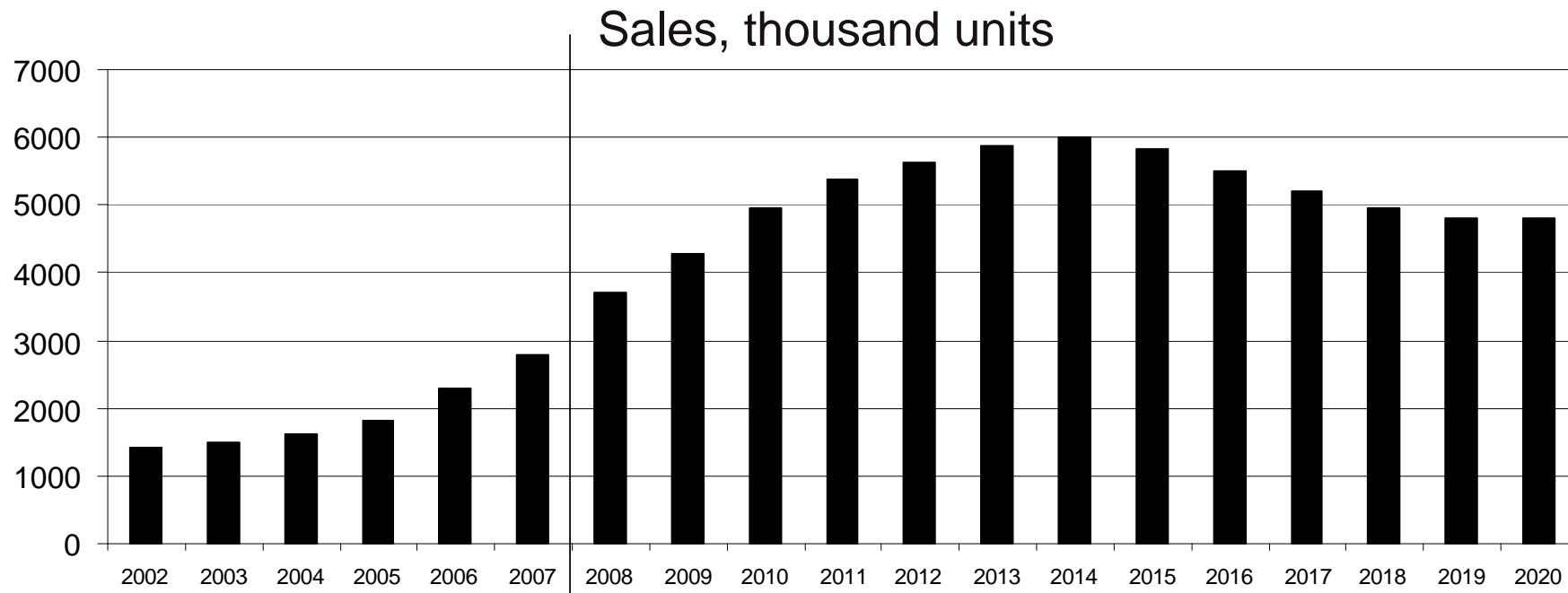
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Future market development
drivers in the mid-term

One possible scenario for market growth

PricewaterhouseCoopers developed a market development scenario* based on three simple assumptions:

- ✓ Innovation-based economic development up to 2020 (Ministry of Economic Development and Trade)
- ✓ The number of cars per 1,000 people increasing to 400
- ✓ Annual scrapping rate: 6% of the car fleet



Source: PwC estimates

See press briefing for January 2008

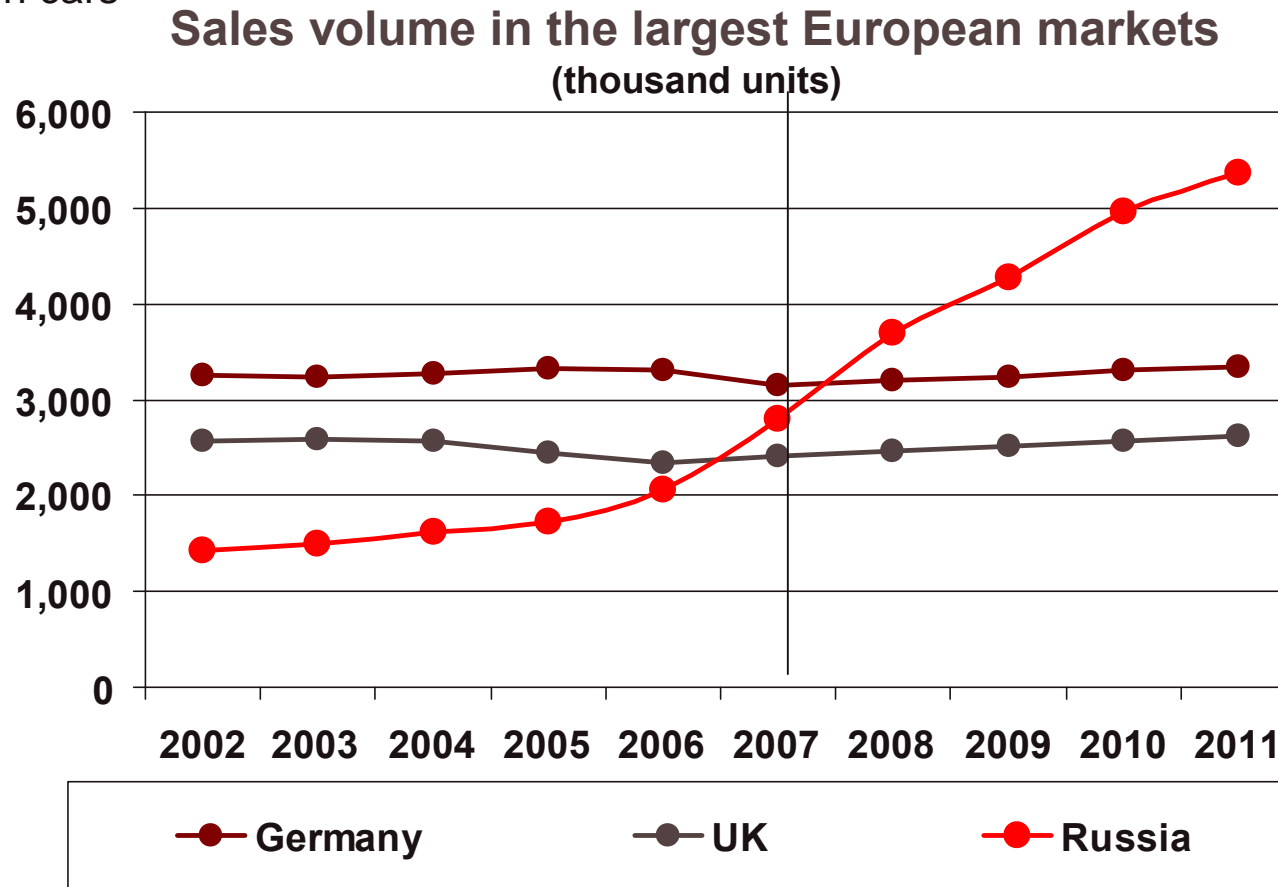
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Russia may become the largest market in Europe by as early as 2008 – Russia has already outpaced Germany following first-half results*

If the market growth rate remains at the same level in the second half of the year, sales in Russia will exceed sales in Germany in quantitative terms and may reach 3.6 million to 3.8 million cars

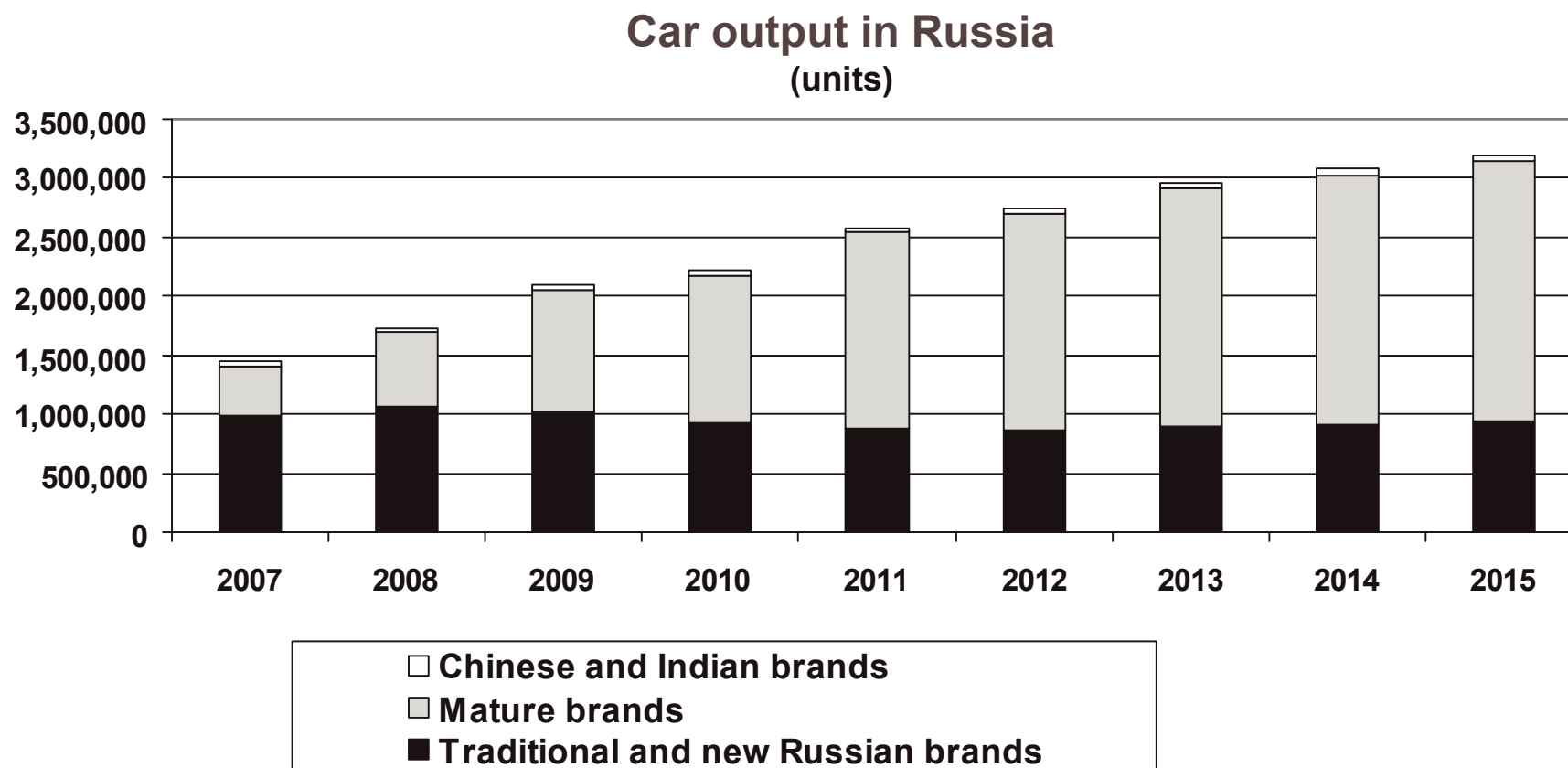


Source: European Automobile Manufacturers Association, DATAMONITOR, PwC estimates

*According to the German National Automotive Federation, 1.63m cars were registered in the first six months 2008 as compared with 1.645m cars in Russia

Local production outlook

Over the next eight years, Russia could more than double its domestic car output



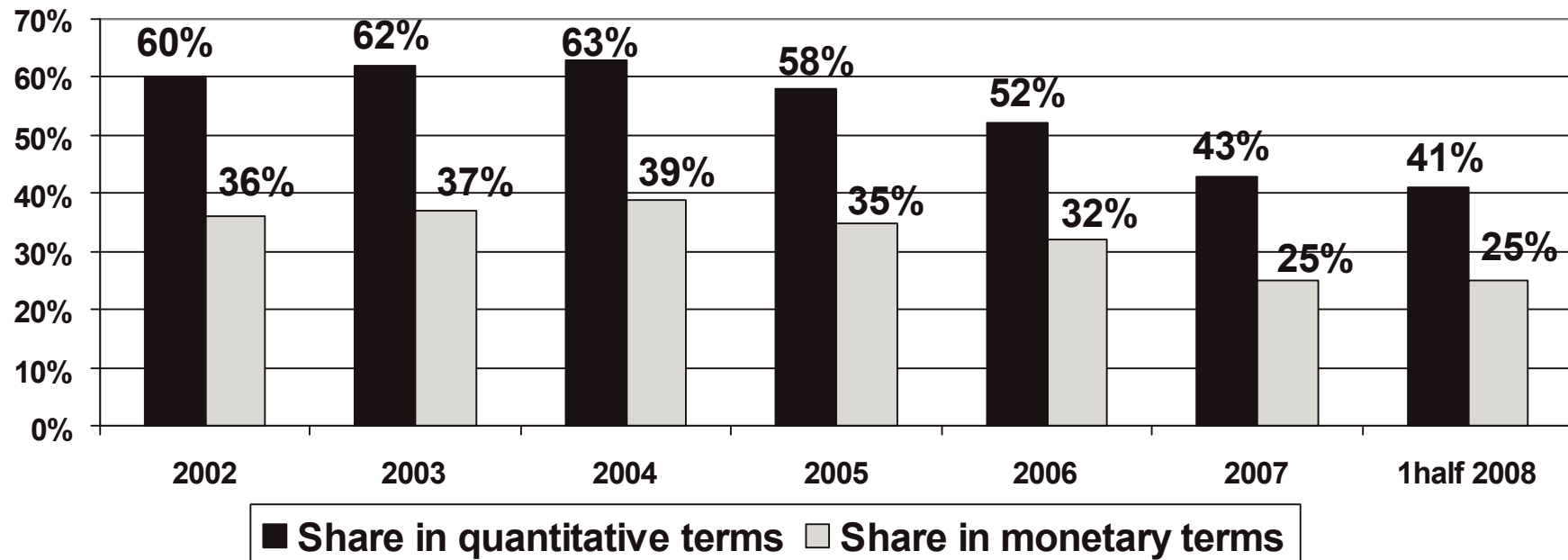
Source: PricewaterhouseCoopers Automotive Institute

Share of cars manufactured in Russia

Over the past seven years, the share of Russian-manufactured vehicles in the total sales volume has decreased in both monetary and quantitative terms, despite the arrival of a large number of foreign car manufacturers in Russia.

Domestic production of up to 80% of all vehicles sold in Russia (plans voiced by the Russian prime minister) will not be easy to achieve.

Share of Russian-made vehicles in total sales



Source: AutoFacts

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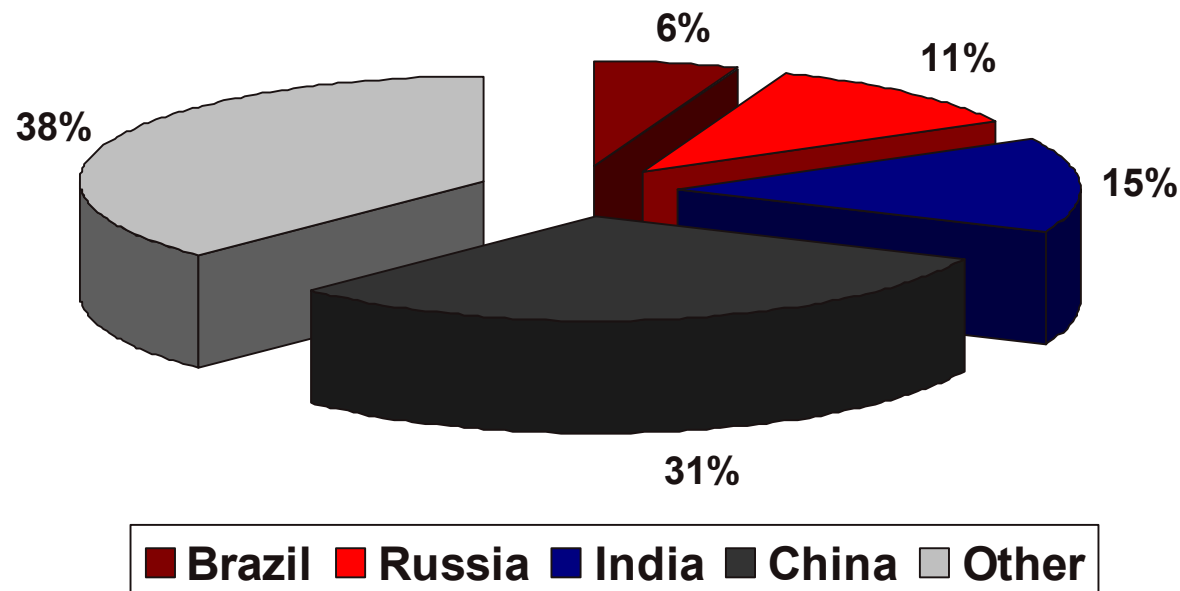
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Russia is one of the engines for the global automotive industry and global sales

Brazil, Russia, India and China (BRIC) are key drivers of automotive production. From 2007 to 2015, Brazil's contribution to global car assembly growth will be 6%, **Russia's will reach 12%**, and India and China will contribute 15% and 31%, respectively.

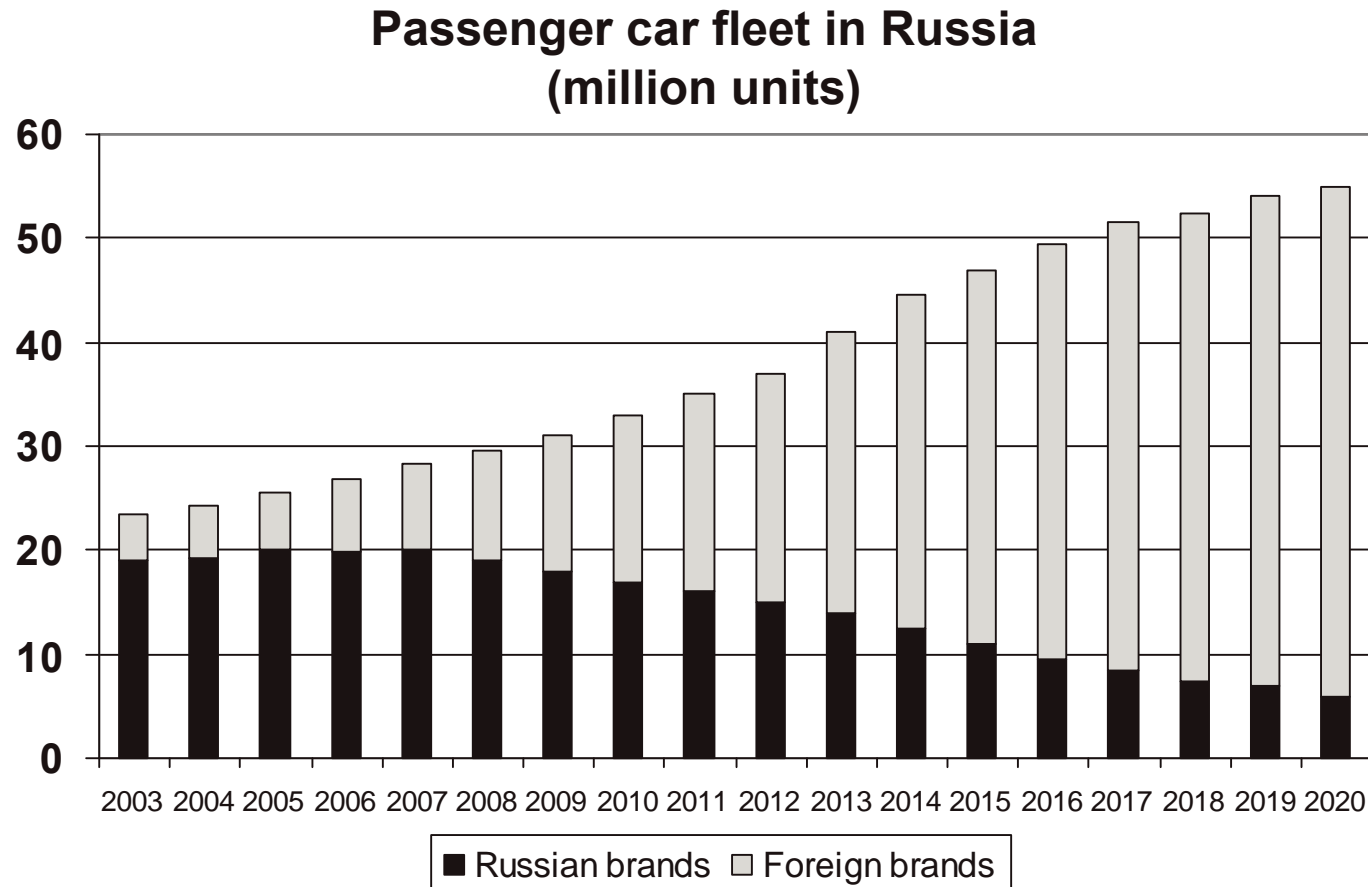
Country shares of increase in global passenger car production



- Russia's contribution to the global sales increase will be around 20% in quantitative terms by 2015.
- Russia will contribute over 30% to automotive sales growth in BRIC countries in monetary terms.

Car fleet composition*

In the same way that they “captured” the new car market, foreign brands will begin to prevail in Russia’s car fleet over time.

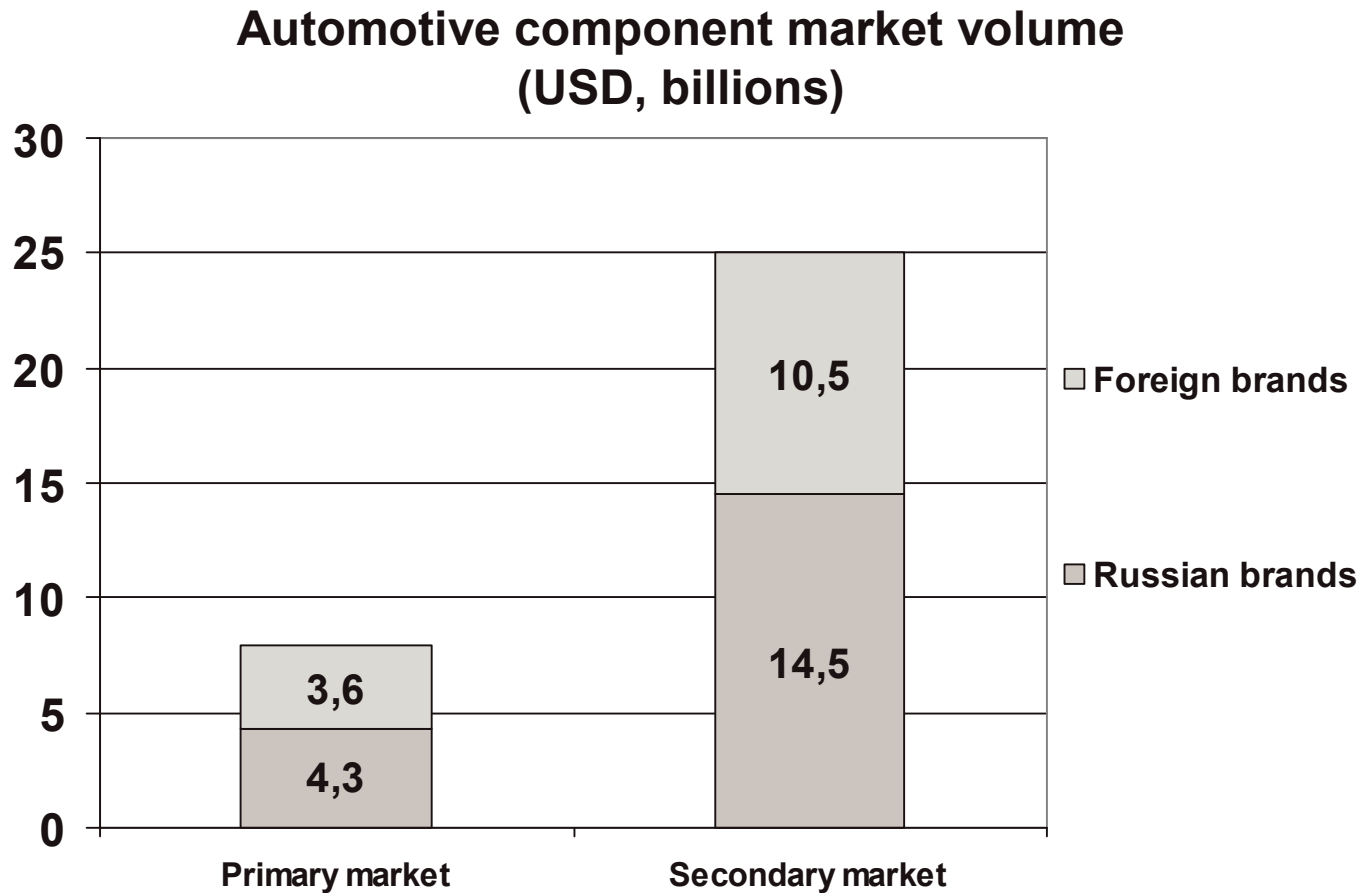


* Estimates are based on an optimistic market development scenario

Source: PwC estimates

Russia's automotive component market in 2007

The current breakdown between the primary and secondary auto component markets in Russia is 24% and 76%, respectively*.



*Source: AutoStat

Primary market: potential auto component production for Russian-made foreign brands

- Around 440,000 foreign brands were manufactured in Russia in 2007
- The value of auto components produced in Russia for assembly of Russian-made foreign brands was USD 360m, as the majority of components were imported
- The majority of manufacturers, having concluded agreements on industrial assembly, have taken it upon themselves to reduce car component imports in monetary terms by a third over the next seven years

Assuming that:

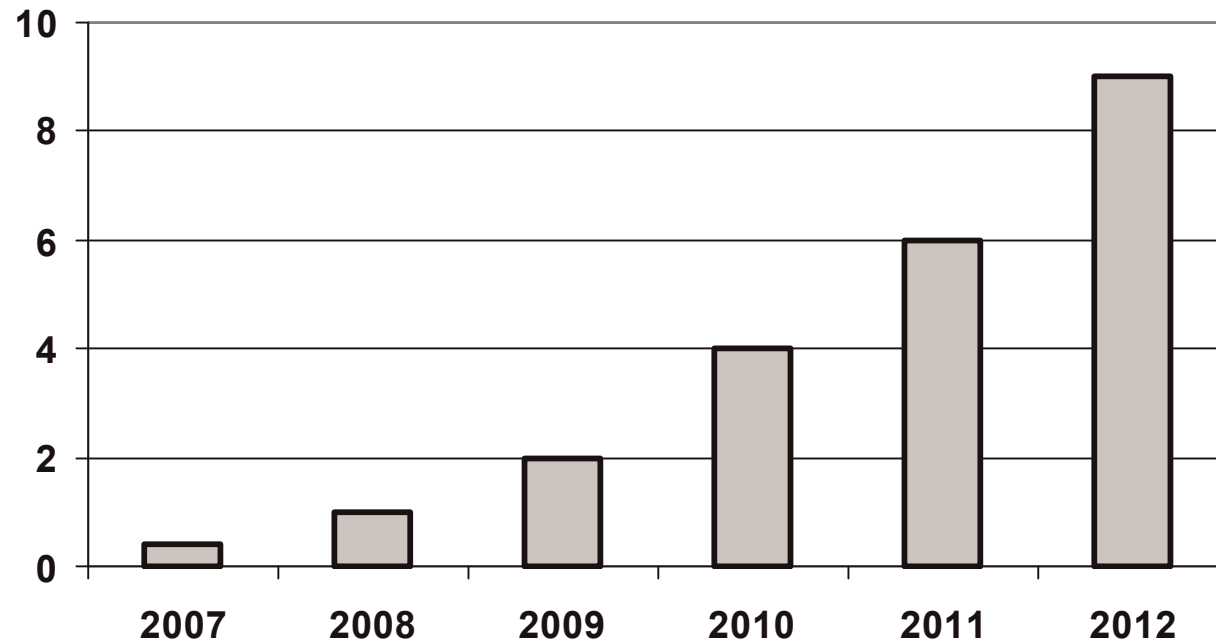
- The volume of Russian-made foreign brands will reach 2m units by 2012 and
- The average car price will be around USD 25,000, 60% of which will go to components, and at least 30% of components will be manufactured in Russia...

... Demand for components in the primary market of Russian-made foreign brands could reach USD 10 billion by 2012

Source: PwC estimates

Primary market: potential auto component production for Russian-made foreign brands (cont.)

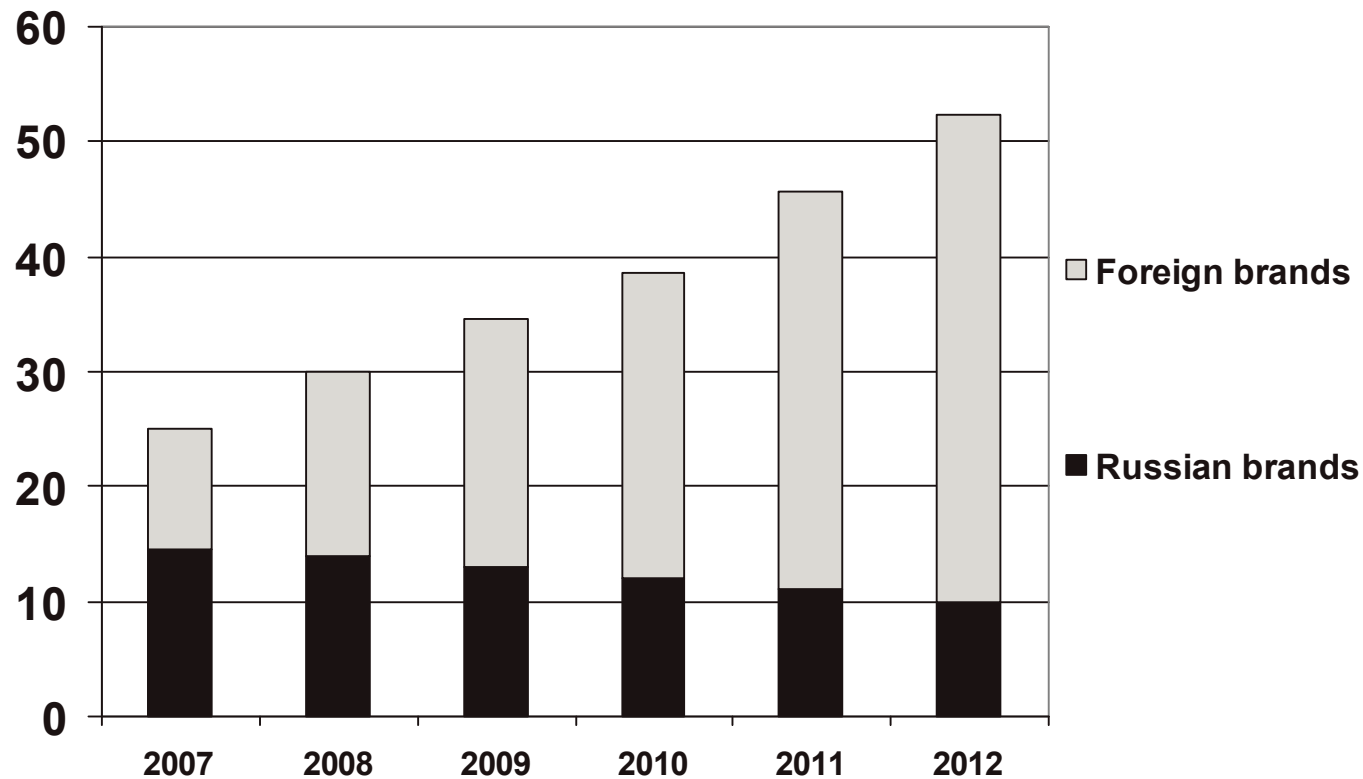
Primary market: production of car components for Russian-made foreign brands (USD, billions)



Secondary market dynamics for auto components

Due to the dramatic increase in foreign cars in the national fleet, growth in the secondary market for foreign-brand components is expected

**Secondary auto component market volume
(USD, billions)**



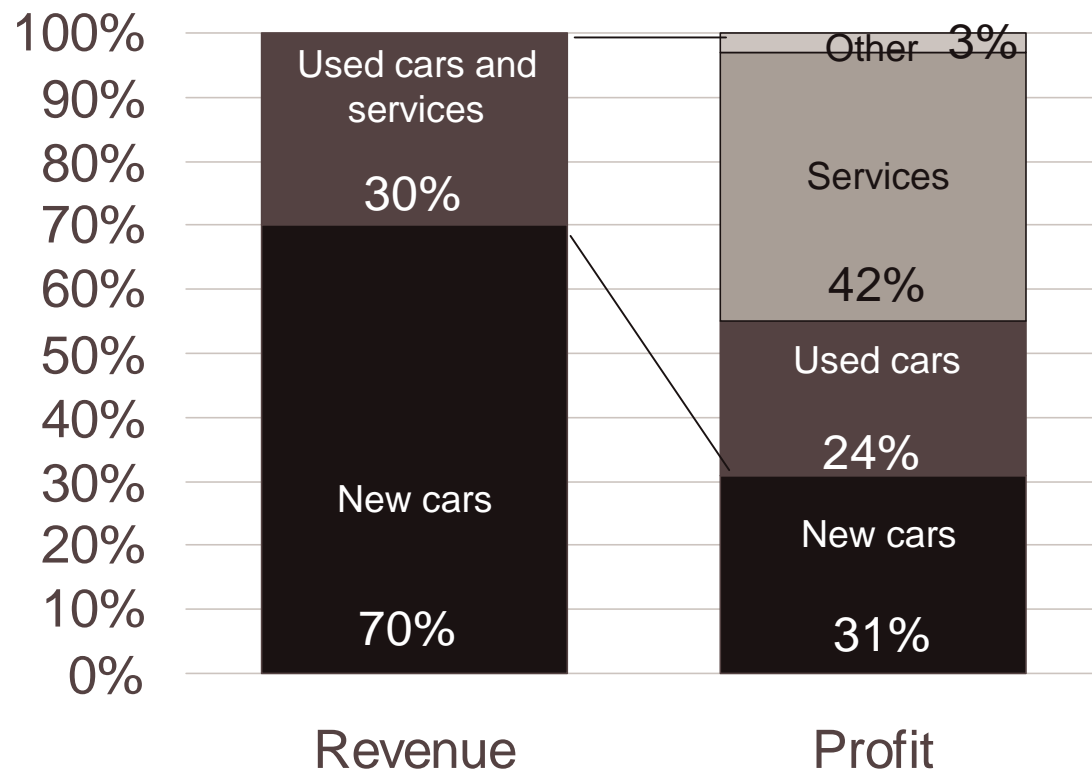
Source: AutoStat, PwC estimates

Used car sales

- “Double” VAT continues to prevent the Russian used car market from becoming transparent and civilised. The overwhelming majority of used vehicles are sold on “grey” automotive markets, through newspapers or the Internet, etc., rather than through dealerships.
- In this complex situation, Russian dealers try to incorporate used car sales in their business through agents and agency firms.
- Recently the prime minister announced plans to amend the law on VAT charged on used car sales.
- Upon enactment of said amendments, we expect fast growth in the transparent and civilised sales of used cars through dealerships.
- If we bear in mind that in Western Europe for every new vehicle sold two used cars change hands, and that used car sales are more profitable* for dealers, used car sales through dealerships have strong potential in Russia.

*Thanks to additional services and the absence of OEM-side restrictions.

Used cars and post-sale services are major sources of profit for dealerships in Western Europe

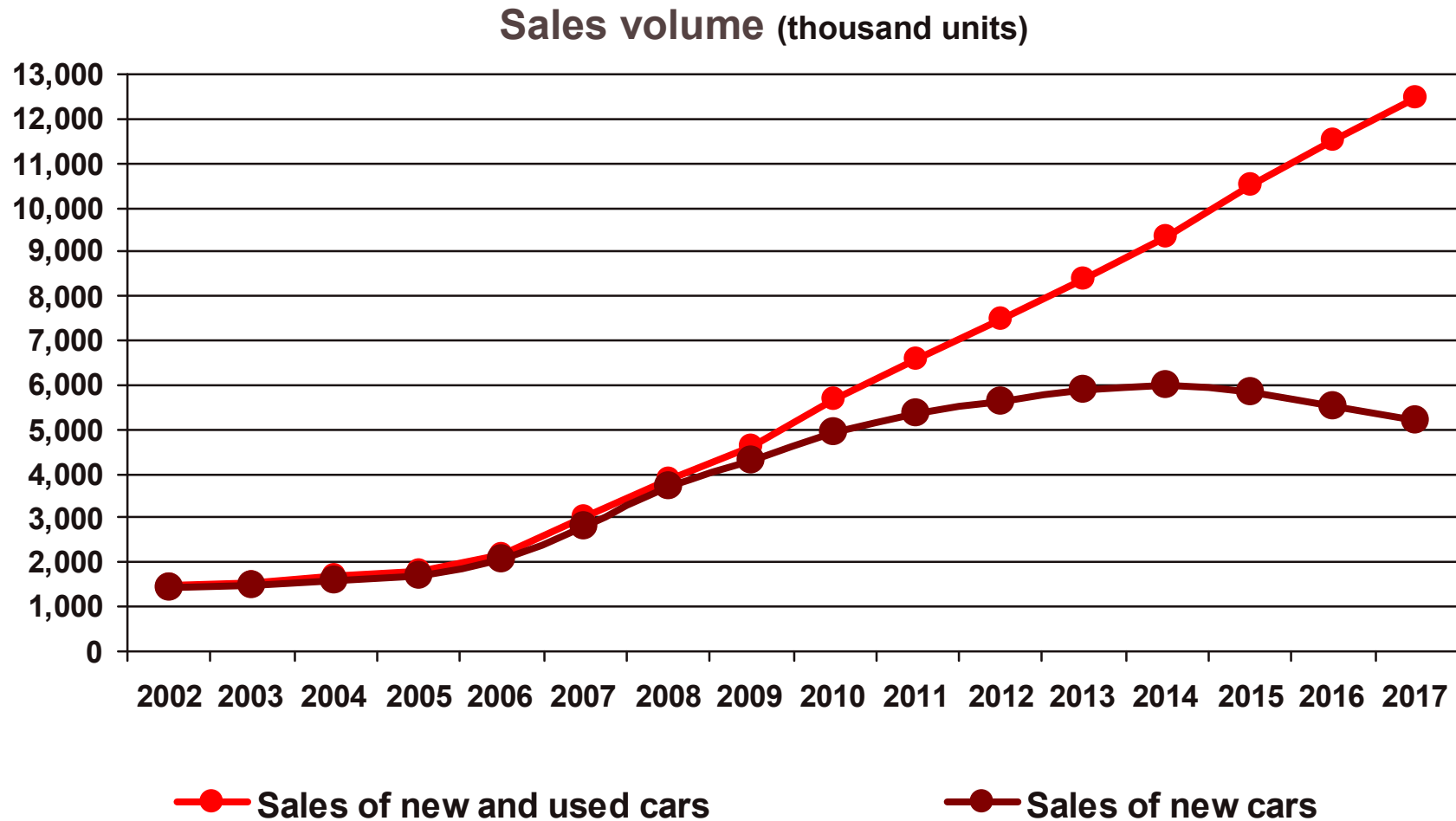


- Increasing global competition between car sellers and greater sophistication of technology trigger changes in profits structure.
- Car dealers in mature markets (along with printer manufacturers, mobile operators, etc.) derive most of their revenues from post-sale services.
- In comparison: Russian dealers earn most of their profits from new car sales.

Source: PwC estimates based on data for the top 10 car dealers in Western Europe.

Potential market growth: sales of new and used vehicles through dealerships

We based our estimates on the assumption that in 10 years, for every 10 new cars sold in Russia 14 used cars will be disposed through car dealerships (the current UK level).



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Conclusion

Conclusion

- The Russian auto market is still witnessing an astonishing growth;
- Russia potentially could contribute over 30% of the growth in monetary terms in the BRIC auto market over the next eight years;
- Strong sales could drive a significant increase in local production, which may reach 3.2m cars by 2015;
- This in turn could lead to the emergence of a powerful component production industry for foreign brands;
- Thanks to key changes in the legislation regarding VAT on used car sales, we could also expect fast growth in transparent and civilised used car sales through dealerships;
- Following the results of the first half of 2008, Russia's automotive market overtook Germany's in quantitative terms to become the largest in Europe.

Thank you for attention!

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