

Main trends of automotive industry

Effects of the Crisis on the Russian Automotive Market



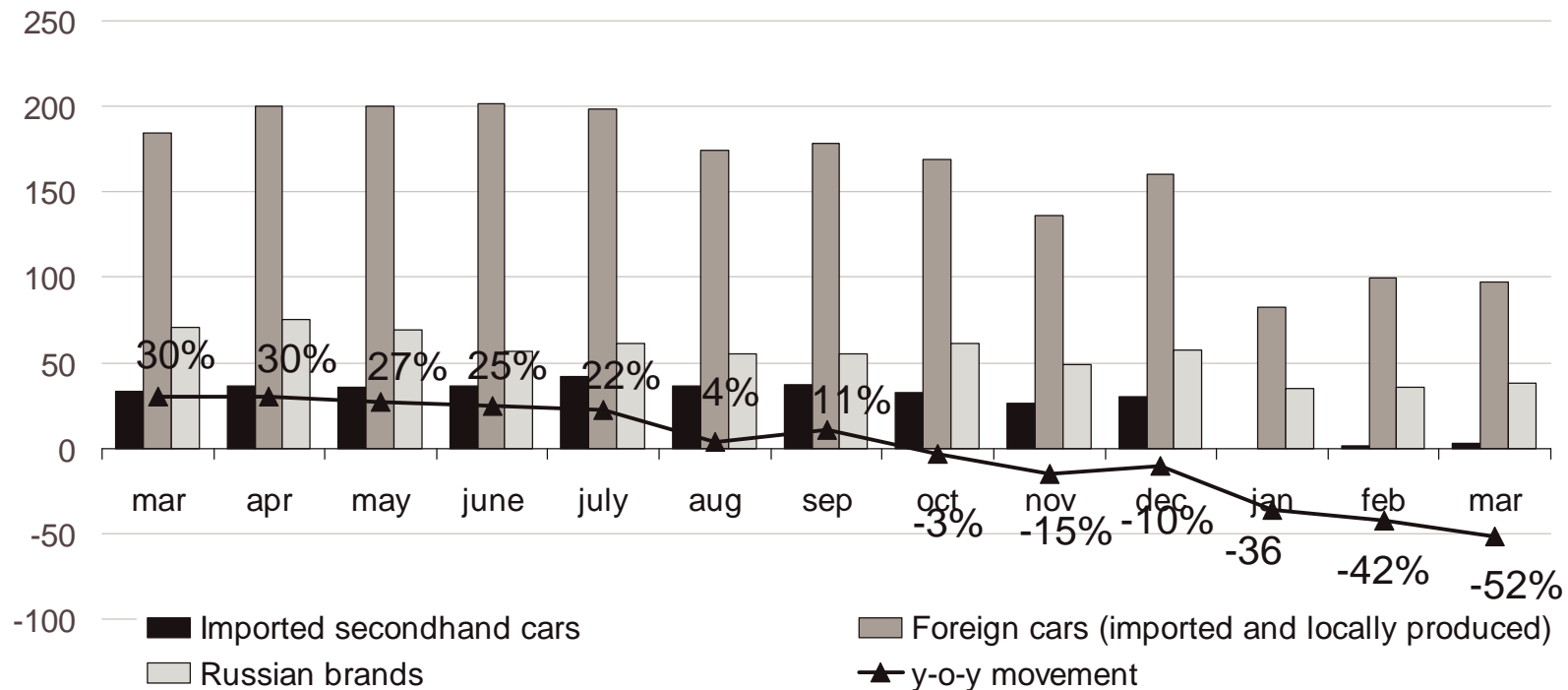
Agenda

- Latest trends of the Russian automotive market
- Comparison with developed and emerging markets
- Government measures to support automotive industry
- Market forecast

Sales

Sharp decline in demand beginning in August 2008 continues to March, automobile sales in the 1-st quarter 2009 fell by approximately 44%.

Car sales in Russia 2008-2009, thousand units, %



Source: AEB, PwC estimates

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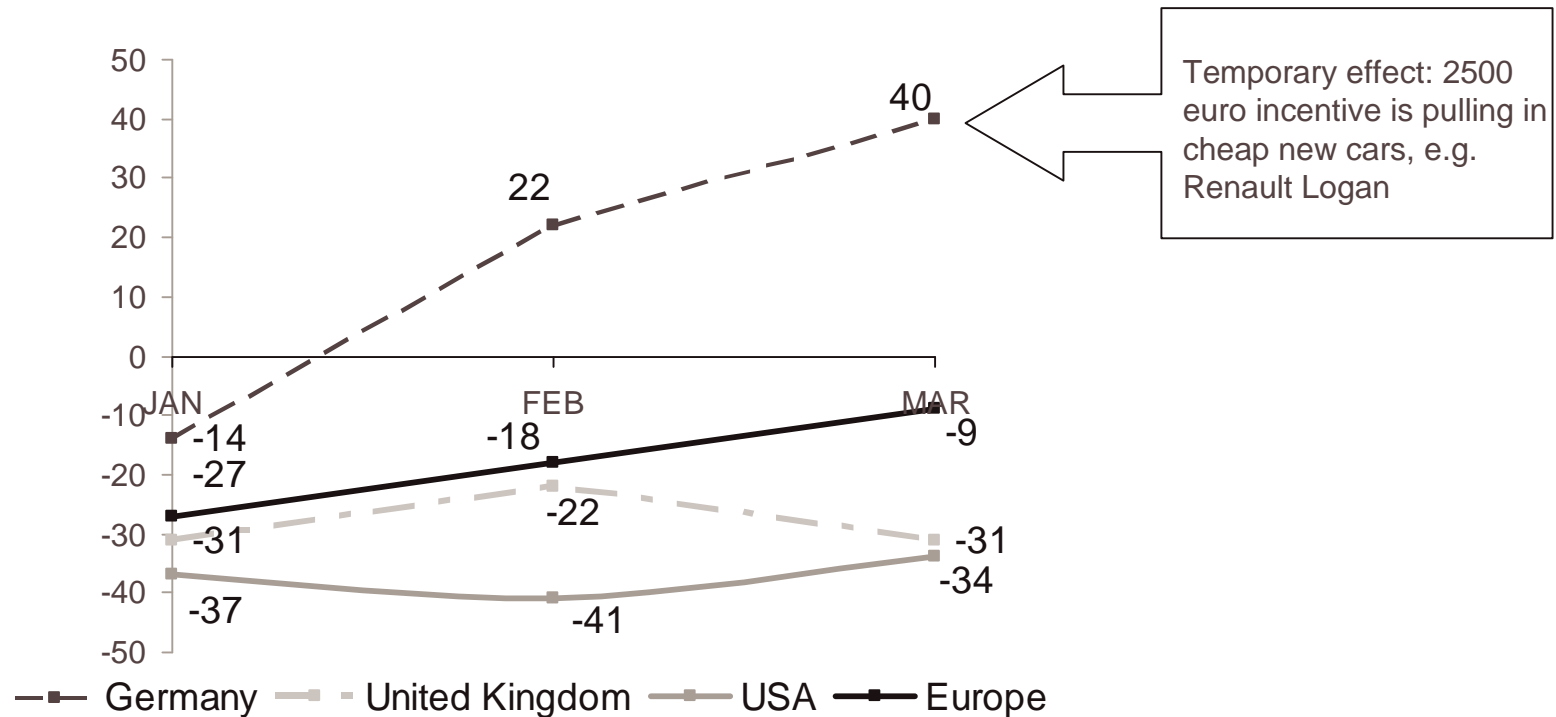
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Comparison of the 1-st quarter with developed markets Europe & USA

- As can be seen from the previous slide the Russian market was 44% down y-o-y in the 1-st quarter, Europe was 17% down, USA 38% down.
- But in Europe figures vary by countries, e.g. in Germany there was an increase by 18%, in Iceland a decrease by 91%.

Car sales in US and Europe in the 1st Q 2009
compared to the 1st Q 2008, year-on-year, %



Source: ACEA, www.autonews.com

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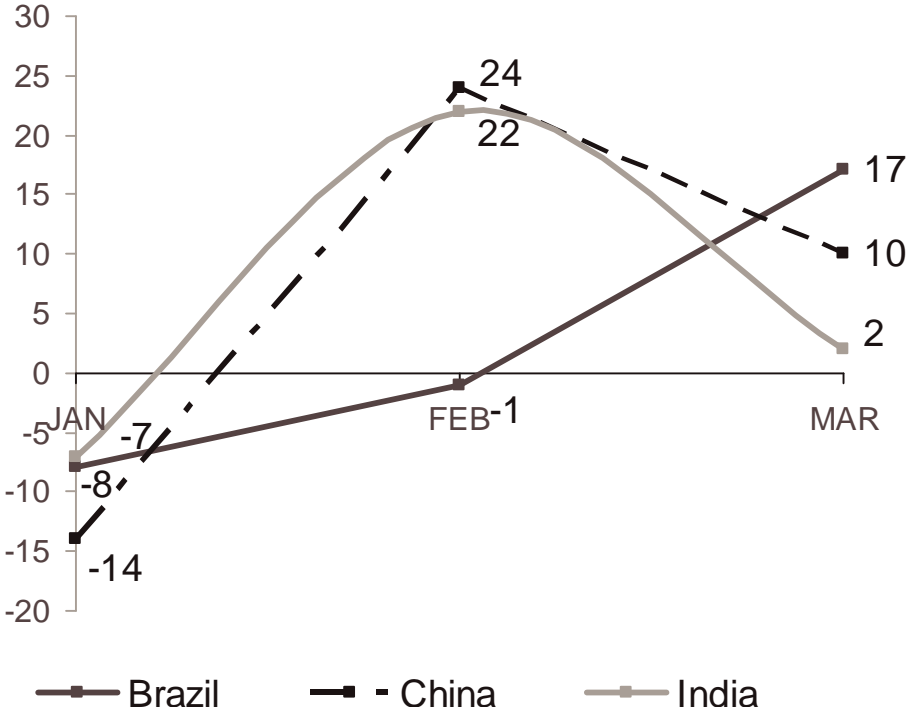
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Comparison with developed and emerging markets

BRIC - sales

Better performance – but nevertheless high level of volatility – difficult to predict future development.

Car sales in Brazil, China and India* in the 1st Q 2009 compared to the 1st Q 2008, year-on-year, %



Source: CAAM

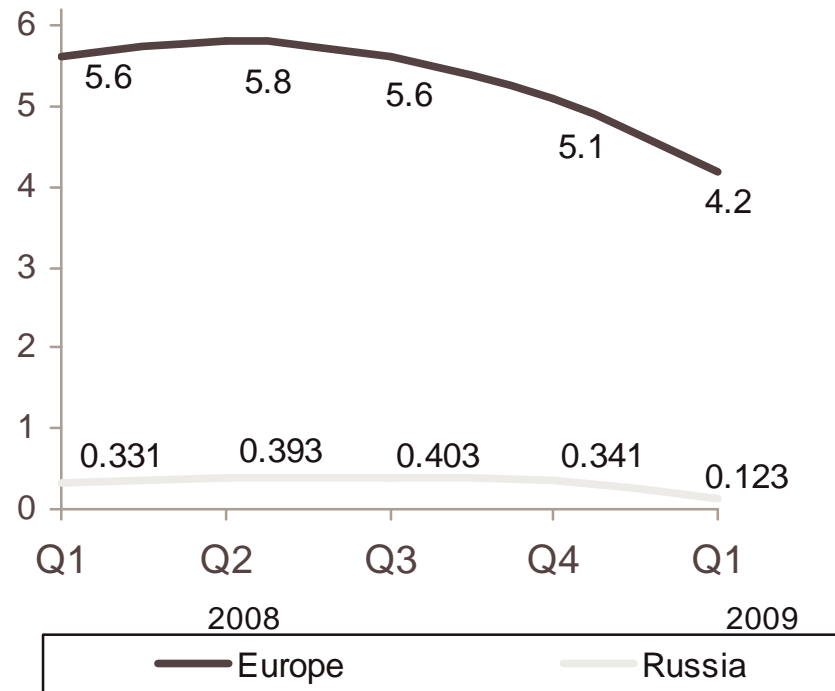
*data on China and India is approximate
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Comparison with developed markets

Europe - Production

Sharp decline in production, e.g. Russia was down 63% in the 1-st quarter y-o-y, Europe 25% down.

European automotive production during the period from Q1 2008 till Q1 2009,
mln units



Source: ACEA, Johnson Controls, ASM Holding

Government measures in BRIC countries: China

- China taxes CBU's at a rate of 25% while imported parts/components are taxed at a rate of 10% if they amount to less than 60% of the total vehicle value. In other words, if finished vehicles made from the parts fail to meet the 40% local content requirements, China taxes imported auto parts equal to the tariff on complete automobiles i.e. 25%.
- On the consumer front, it has lower vehicle purchase tax from 10% to 5% on cars under 1.6L and allocate CNY 5 billion (\$730 mln) in scrappage schemes to provide one-off allowances to farmers to upgrade 3-wheelers and low speed trucks to mini trucks / vans under 1.3L.
- China has also increased subsidies for people to scrap old cars and cancel regulations that restrict car purchases.
- Beijing also aims to improve the existing credit system for car loans to boost sales. At this, none of these schemes contain any clauses which restrict the benefits to Chinese brands. Though the engine displacement range and vehicle type are typically where the Chinese automakers have a strong presence.
- The government initiates consolidation amongst the ranks of the Chinese automakers. Through mergers and reorganizations, China aims to rationalize the current 14 major automakers to less than 10. The plan aims at creating 2 to 3 domestic automakers capable of sustaining annual volumes above two million units and about 4 to 5 domestic automakers capable of sustaining annual volumes above 1 million units. Cumulatively these automakers would account for 90% of domestic brand sales and about 40% of overall passenger vehicle sales. In 2008 Chinese brands accounted for nearly 29% of the market.
- Beijing will aid these new larger domestic players in research and development efforts to create fuel efficient and safe vehicles capable of competing in the global markets. China has allocated a CNY 10 billion (\$1460 mln) fund to support Chinese automakers to upgrade technologies & develop new alternative energy engines.
- Beijing will also offer financial support to promote the use of energy-saving autos and those fueled by alternative energies, and support automakers to develop independent brands and build auto and parts export bases.

Government measures in BRIC countries: Brazil and India

Brazil (unique position, no national auto companies to protect, focus on protecting Brazilian auto manufacturing jobs):

- Elimination of the 7% industrialized product tax from the sales of most vehicles
- State-guaranteed order for \$1.8 bln,
- \$85 mln of government credits to around 8 000 autodealers specializing in second hand car sales

India

- India has maintained a significantly higher custom duty on imports of vehicles and components. A CBU import is charged a 100% import duty while components are charged at about 10%.
- The Indian government has reduced the Central VAT by 4% and Central excise duty by 2% across the board. It does not discriminate against origin of product or local content of product. However there are differences between final excise duties levied on automobiles based on their segment, overall size and engine displacements.

Government measures in developed markets

USA

- Large credits for automakers in order to restructure their debts, e.g. Chrysler, GM.
- Tax preferences for auto consumers: Those who buy a new car this year may be able to deduct state and local sales and excise taxes on the purchase in their 2009 tax returns next year. The deduction is limited to the state and local sales and excise taxes paid on up to \$49,500 of the purchase price of a qualified new car, light truck, motor home or motorcycle.

Germany

- The extension of the scrappage scheme by the German government. This entails a further €3.5bn of funds, bringing the total to €5bn, to be available until the year end. This is due to the fact that the original scheme was so popular (German regs up by 21.5% in Feb and 40% in March) the original funds of €1.5bn have already almost been used up.
- Government allocates \$660 mln for the development of more efficient engines.

Italy

Introduced a scrappage scheme in Feb, offering up to €5,000 for alternative fuelled vehicles - Italian sales were flat in March but likely to grow strongly in April. Gas fuelled cars and LCVs have seen strong growth in sales under the scheme.

UK

The UK has not yet made an announcement. However, there is increasing expectation that a scrappage scheme offering £2,000 will be announced in the budget.

Main factors determining market development

We have tried to model the factors affecting the development of the Russian passenger car market. Assuming the possible trends of these factors, we have assessed their total impact on the automotive market.

Factor	2006	2007	2008	Base case scenario	Pessimistic scenario
Percentage of personal disposable income (PDI) spent on car purchases	4.3%	5.5%	6.3%	5.0%	3.8%
Percentage of cars bought (in USD million)	32%	34%	28%	13%	9%
Change in nominal personal disposable income (PDI)	21%	22%	16%	15%	5%
Average selling price for cars (USD)	16	19	22	20	17
Average exchange rate (RUB/USD)	27.2	25.6	24.9	33.0	38.0

Source: PwC estimates, EIU, Ministry of Economic Development

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Revising assumptions

Changed macroeconomic situation and market's dynamic in the latest months made us to reconsider both scenarios' assumptions

Factor	2008	Base case scenario	Base case scenario	Pessimistic scenario	Pessimistic scenario
		January 09	April 09	January 09	April 09
Percentage of personal disposable income (PDI) spent on car purchases	6.3%	5.0%	5.0%	4.0%	3.8%
Percentage of cars bought on credit (in USD million)	28%	20%	13%	10%	9%
Change in nominal personal disposable income (PDI)	16%	18%	15%	12%	5%
Average selling price for cars (USD)	22	20	20	18	17
Average exchange rate (RUB/USD)	24.9	35	33	37	38

Source: PwC estimates, EIU, Ministry of Economic Development

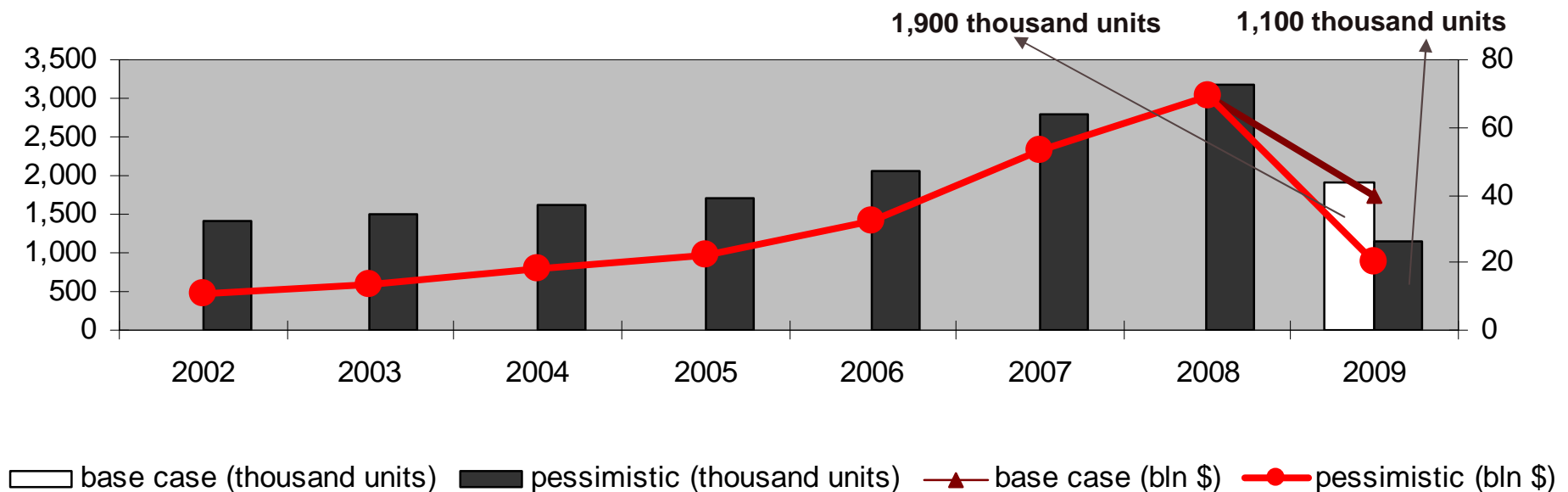
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It is extremely difficult to predict reliably even 2009 sales given the current levels of uncertainty

- A base case scenario implies a 40% decline in car sales in quantitative terms with a sales volume of about 1.9 million vehicles. A pessimistic scenario implies a decline of up to 65% with the market volume of 1.1 million vehicles. As recently as December we were estimating 15% and 45% decrease correspondingly
- We expect the 2-nd quarter to be tougher than the 1-st quarter. Increased customs duties and weakening ruble haven't yet had their full impact on the market demand especially for imported foreign cars. Additionally the results of the 1-st quarter were effected to a large extent by significant sales discounts and liquidation of old stocks in last year ruble prices.

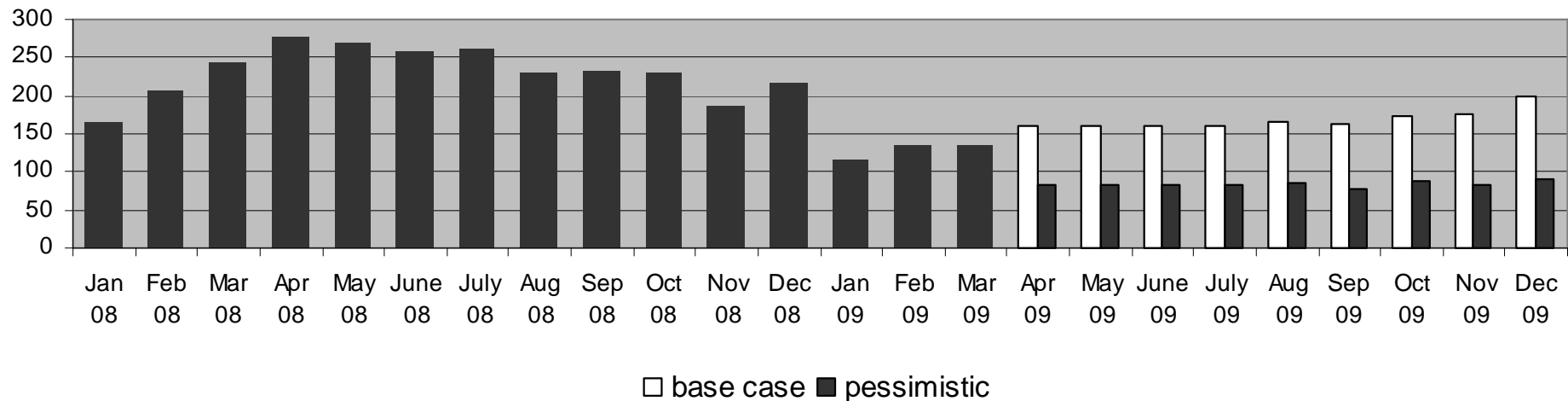
Development scenarios for the Russian automotive market for 2009, thousand units and USD billion



Taking into consideration the high degree of uncertainty, we are following the market on a month-by-month basis to capture its development trend

Both scenarios (base case and pessimistic) take into account the seasonal factor

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



Source: PwC estimates

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Summary

- Global crisis made one of the hardest hit of all sectors on the automotive industry, because it involves capital-intensive mass production and its products are among the most expensive of household expenditures.
- The scale of the crisis is a huge challenge, and not just for individual companies, no matter how large – it is testing the economic understanding and collective financial strength of world governments.
- Governments all over the world took a variety of measures to support this vital industry.
- The Russian government was as quick as any to respond to the immensity of the crisis, including increased import duties on foreign vehicles, a commitment to place large state orders for locally produced vehicles, direct loans and loan guarantees for Russian manufacturers, subsidizing of auto credits, etc.
- At the same time as we are witnessing these dramatic and painful developments in the sector there are a number of important tax issues and legislative changes that will affect the automotive industry.

Thank you!



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