

Russian automotive market

Effects of the crisis on the Russian automotive market



Contents

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



Market overview

2008 results

- In 2008 the market grew by 14% in quantitative terms and by 29% in monetary terms.
- Locally produced foreign-branded cars became the most dynamic segment of the market.
- Average price for a car was USD 21,700 and its growth exceeded 13%.

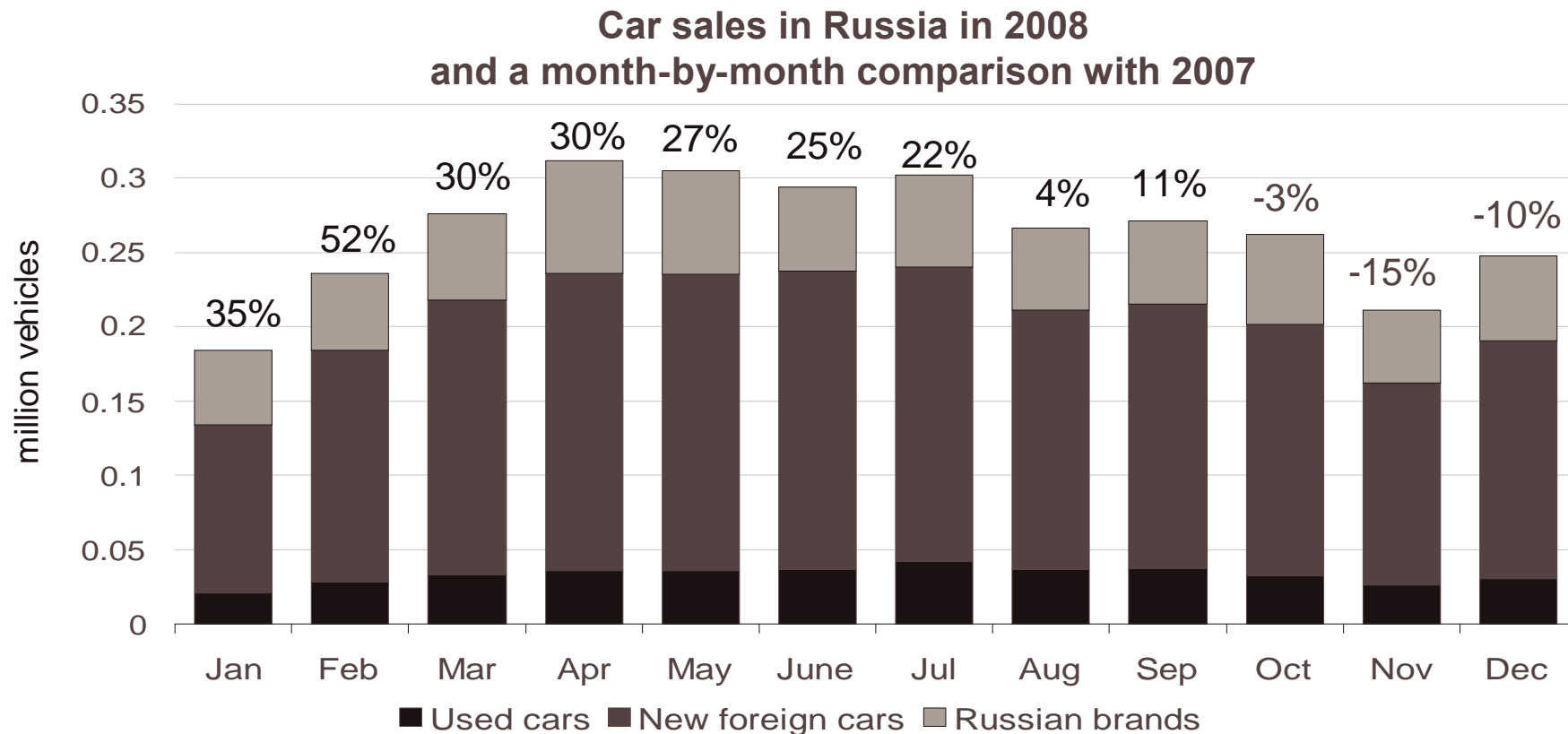
Car category	Thousand vehicles			USD billion		
	2008	2007	Change	2008	2007	Change
Russian brands	700	765	-9%	6.5	6.5	0%
Foreign brands produced in Russia	580	440	32%	10.5	6.7	57%
Imported new cars	1,500	1,205	24%	45	34.1	32%
Imported used cars	395	380	4%	7	6.1	15%
TOTAL	3,175	2,790	14%	69	53.4	29%

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

20 January 2009
Slide 4

The situation is changing rapidly

- 2008 results is a tale of two halves. Sales grew at record levels during the first six months even up to the end of July.
- Then the growth rate dropped dramatically. October showed the first ever decline against a previous year's results in recent memory and November kept that trend.
- In December the decline slowed down. But it may be a temporary effect of a consumer trend to buy a car 1) before higher customs duties on imported cars come into force, 2) before the rise in prices announced by many major car manufacturers or 3) during the seasonal sale.



Source: Autostat, PwC estimates

Top foreign brands

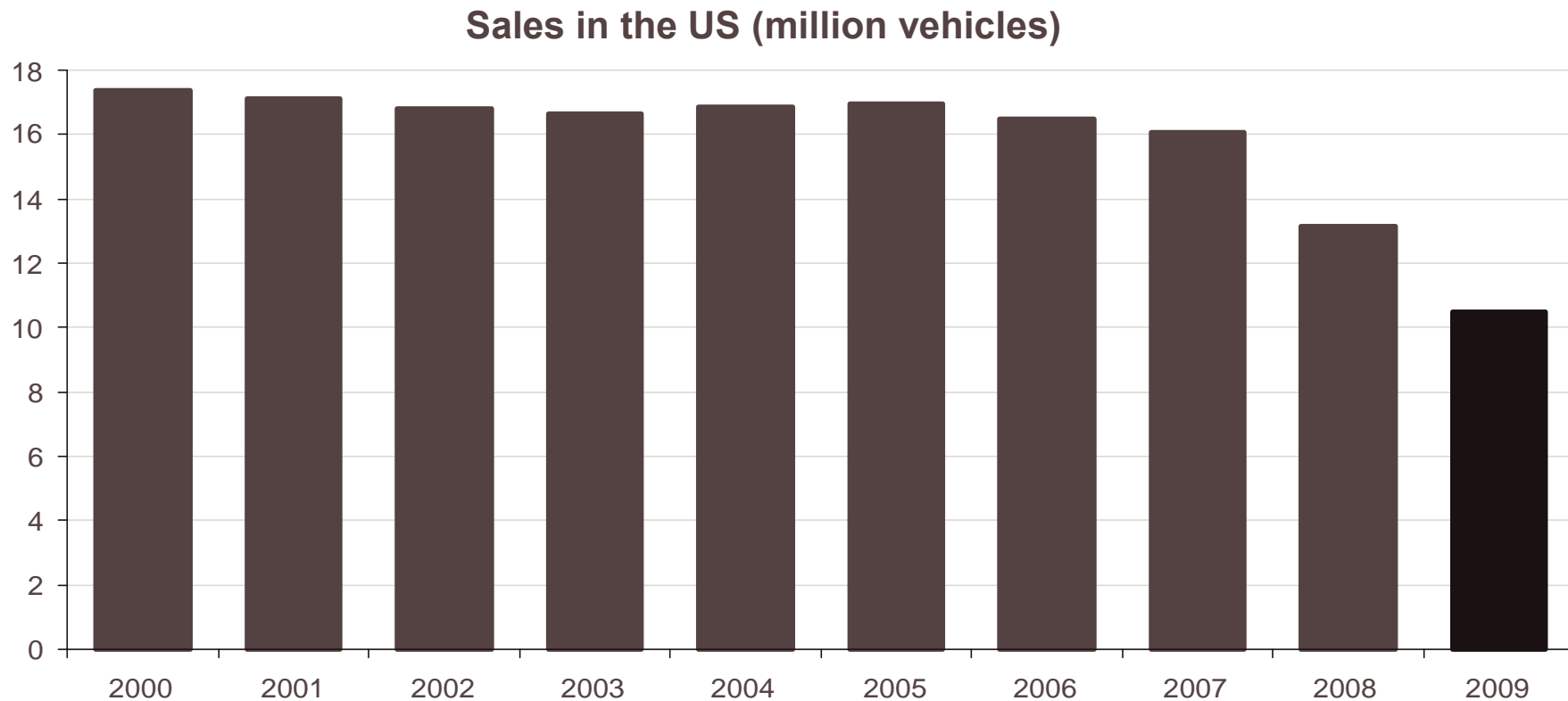
	2008	2007	%
GM Group	337,810	259,896	30%
OPEL	98,800	66,329	49%
CHEVROLET	235,466	190,553	24%
CADILLAC	1,596	1,485	7%
HUMMER	679	772	-12%
SAAB	1,269	757	68%
FORD Group	207,869	196,870	6%
FORD	186,828	175,793	6%
VOLVO	21,041	21,077	0%
TOYOTA Group	204,762	158,626	29%
TOYOTA	189,966	145,478	31%
LEXUS	14,796	13,148	13%
HYUNDAI	192,719	147,843	30%
NISSAN Group	154,340	122,038	26%
INFINITI	7,793	5,540	41%
NISSAN	146,547	116,498	26%
VW Group	131,015	80,992	62%
VOLKSWAGEN Passenger Cars	50,523	31,991	58%
VOLKSWAGEN LCV	10,501	5,905	78%
AUDI	17,076	15,313	12%
SEAT	2,182	248	780%
SKODA	50,733	27,535	84%
MITSUBISHI	111,567	100,609	11%
RENAULT	108,070	10,1166	7%
DAEWOO	95,510	91,302	5%
KIA	88,152	78,616	12%
HONDA	89,152	38,631	131%
MAZDA	73,271	50,592	45%
PSA PEUGEOT CITROEN	60,330	36,157	67%
PEUGEOT	48,085	24,951	93%
CITROEN	12,245	11,206	9%
SUZUKI	38,314	28,597	34%
TOTAL	2,080,818	1,645,130	26%

- Among the major car manufacturers the sales rate was the highest for Honda, Peugeot Citroen, VW and Mazda.
- Hyundai, GM and Toyota showed growth exceeding the average market rate.
- Four out of five top models are produced in Russia (Ford Focus, Chevrolet Lacetti, Renault Logan, Hyundai Accent).

Source: AEB

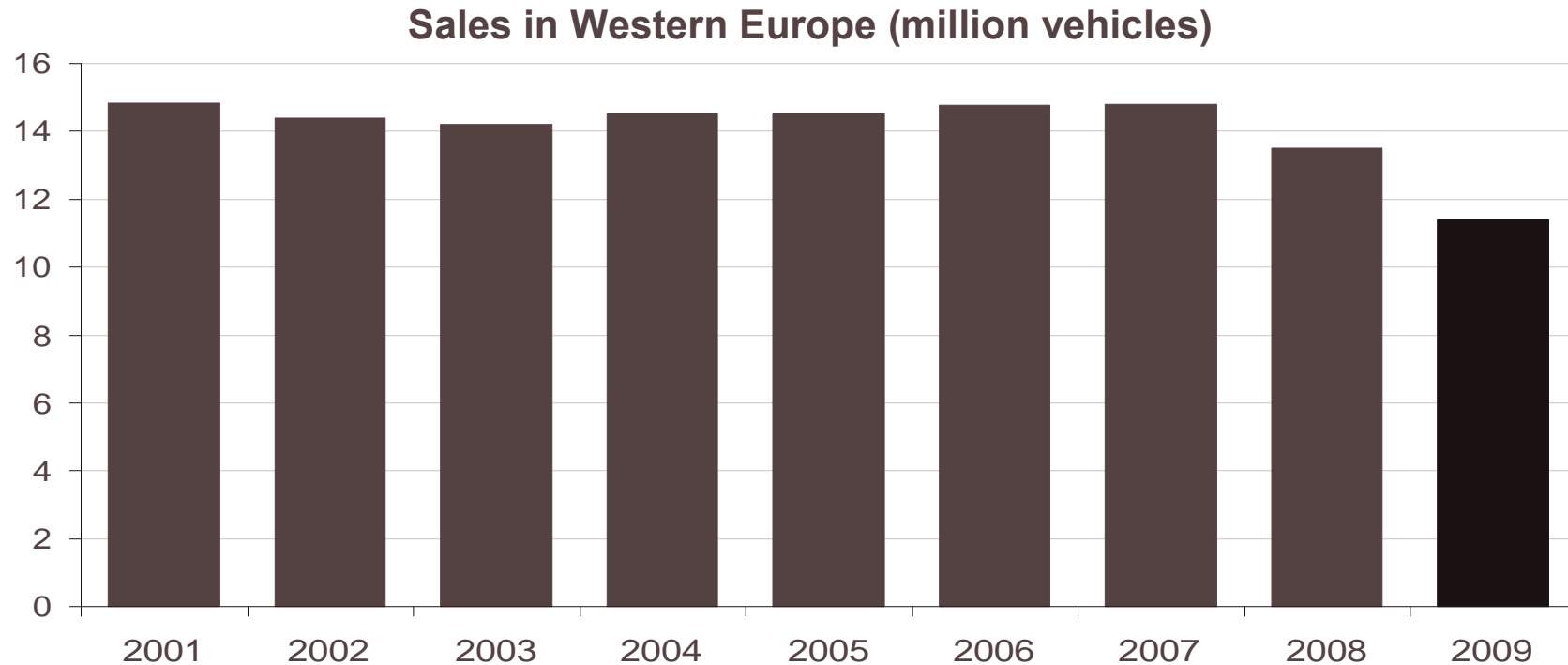
The US automotive market

- In recent years, car sales in the US have been negatively affected by volatile fuel prices, falls in the stock market and real estate market, less available consumer lending and the US economic downturn, which have brought car sales back to the level of the 1980s.
- The Big Three (GM, Ford, Chrysler) are suffering financial hardships and greatly depend on government support.
- In 2009 sales may drop 35% below the 2007 level.



Automotive market in Western Europe

- The European economy has also been hit by the global financial crisis. Passenger car sales in Western Europe have felt the negative effects of drops in the real estate market and stock markets. Although fuel prices have come down from their historical highs in the past few months, sales continue to decline due to unavailable loans and decreasing consumer confidence.
- Sales in 2009 may decrease by 20% compared with 2007.

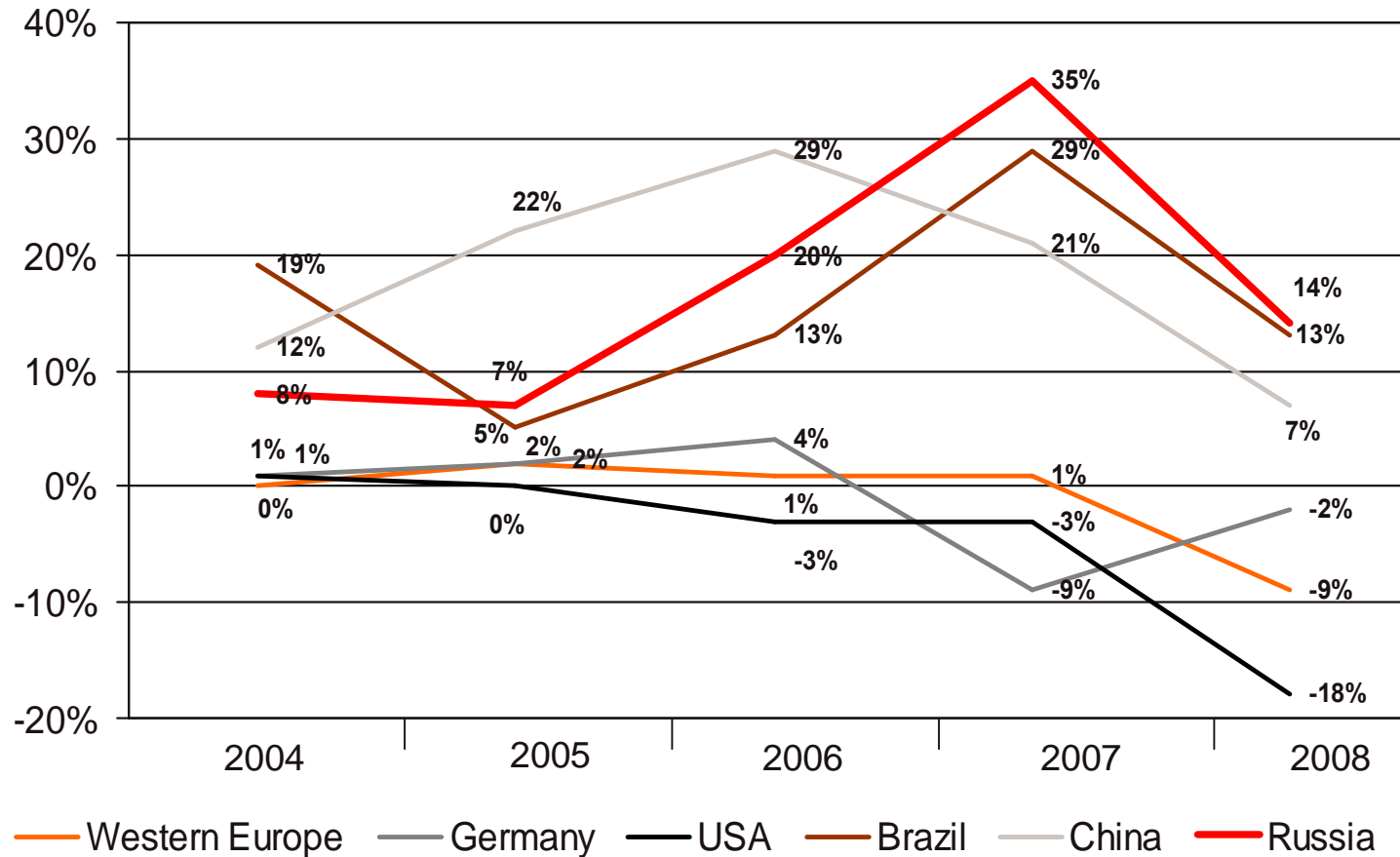


Source: PricewaterhouseCoopers Automotive Institute, JD Power

Dynamics of passenger car sales in major economies

Despite a significant decrease in growth rates, in 2008 Russia showed the most rapid development among the major automotive markets.

Dynamics of passenger car sales in major automotive markets compared with previous years, %



Source: PricewaterhouseCoopers Automotive Institute, PwC estimates

20 January 2009

Unlike the US and Europe, the primary short-term drivers of the Russian economic downturn are loan interest rates and a weak currency

- The fall in capitalisation of both Russian and Western companies has not had an effect on Russia's consumption levels. In the US and Europe consumer confidence has been traumatised by a collapsing property market and a troubled stock market, which is affecting pension funds and savings. In Russia less than 1% of the population invest in the stock market.
- Interest rates are at historical lows of 0% - 0.25% in the US and 2% in Europe – but the Russian Central Bank raised the refinancing rate to 13%.
- While the US dollar and euro are regaining strength, falling oil prices and other key exports and share prices are causing the rouble to lose firm ground.
- On average Russian commercial banks are offering car loans in dollars at 14% and in roubles at 30%. These extremely high rates will slash demand for car loans in the coming months.

Other factors more typical of the situation in the rest of the world will contribute to the downturn over the coming months

- Rise in unemployment. Particularly in the regions and during the first six month of 2009, large enterprises may make significant staff cuts as losses build up due to reduced prices and export volumes, foreign exchange losses on foreign currency borrowings as well as rising interest rates.
- The salaries of those retaining their jobs will not increase significantly over the coming year, leading to a slowing in the growth of personal disposable income.
- In these circumstances, consumers will be less inclined to spend their disposable income on cars as they either save or divert spending to more immediate necessities.



Short-term market
perspectives, development
scenarios

Important factors affecting the development of the car market

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	2004	2006	1H 2008	2008	Base case scenario	Pessimistic scenario
Percentage of personal disposable income (PDI) spent on car purchases	4,2%	4,4%	5,9%	5,4%	5%	4%
Percentage of cars bought on credit (in USD million)	27%	31%	35%	31%	20%	10%
Change in nominal personal disposable income (PDI)	24%	24%	28%	27%	18%	12%
Average selling price for cars (USD)	11,300	16,550	22,350	21,700	20,000	18,000
Average exchange rate (RUB/USD)	28.8	27.2	23.9	24.9	35	37

Source: PwC estimates, EIU, Ministry of Economic Development

From the middle of December Russian rouble weakened by 18% as compared with US dollar and by 17% as compared with Euro.

PricewaterhouseCoopers

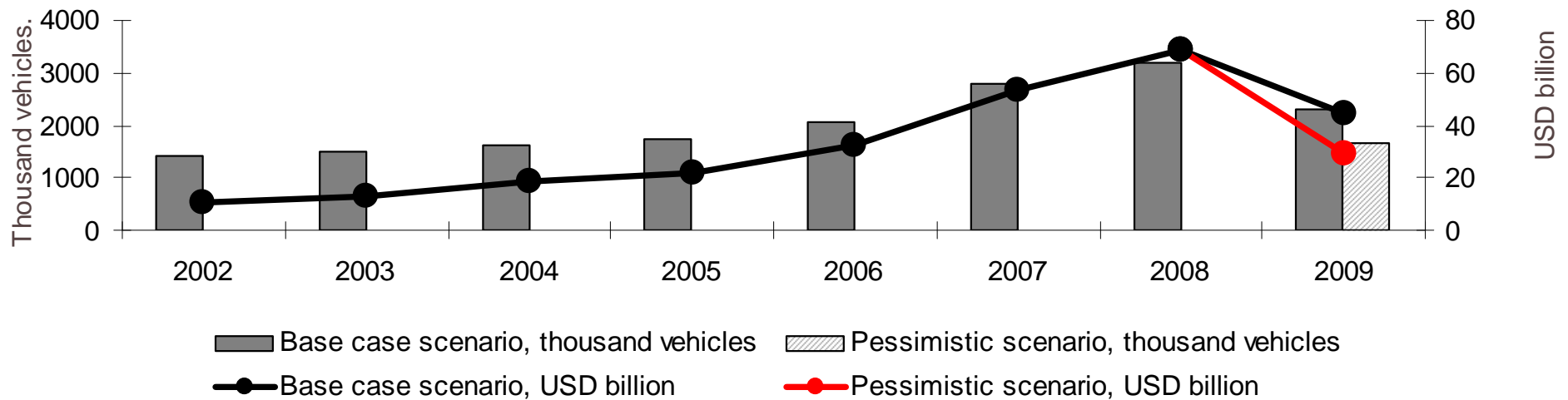
20 January 2009

Slide 13

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

A base case scenario implies a 25% decline in car sales in quantitative terms with a sales volume of about 2.3 million vehicles. A pessimistic scenario implies a decline of up to 50% with the market volume of 1.6 million vehicles.

Development scenarios for the Russian automotive market for 2009 (thousand vehicles and USD billion)



Sources: PwC estimates

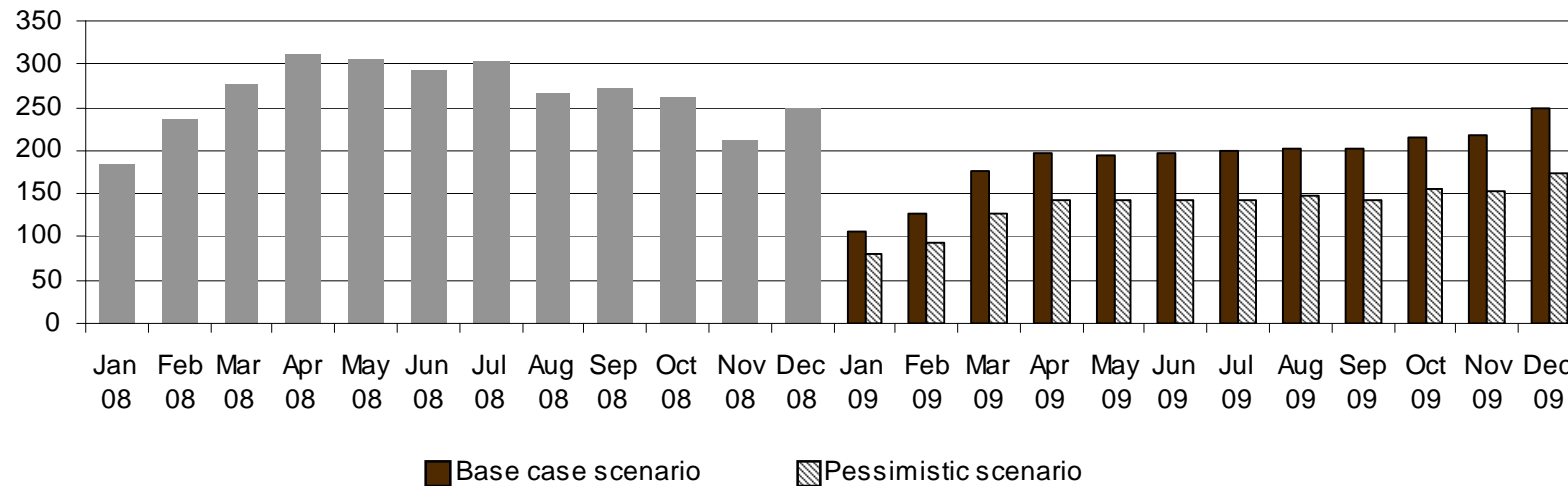
PricewaterhouseCoopers

20 January 2009

Slide 14

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

Car sales for base case and pessimistic scenarios by month*
(thousand vehicles)



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

Source: PwC estimates

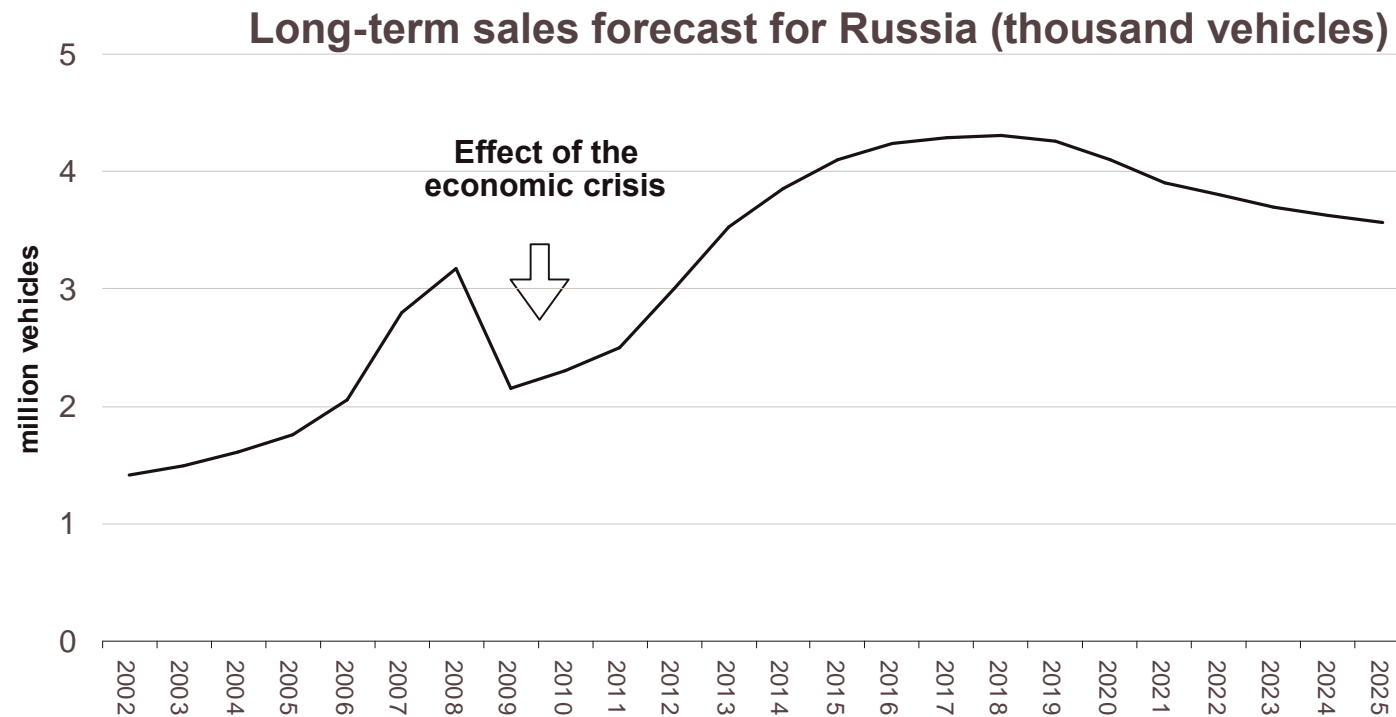
PricewaterhouseCoopers

20 January 2009

Slide 15

A possible development trend for the Russian automotive market through 2025

The economic crisis may influence key growth factors in the Russian automotive market. The estimated saturation level of 400 cars per 1000 people will be reached by 2025 rather than by 2020 (as previously estimated by PwC). The average annual rate of car disposal will be 6%.



Source: PwC estimates

PricewaterhouseCoopers

20 January 2009

Slide 16



Auto dealers and local
production

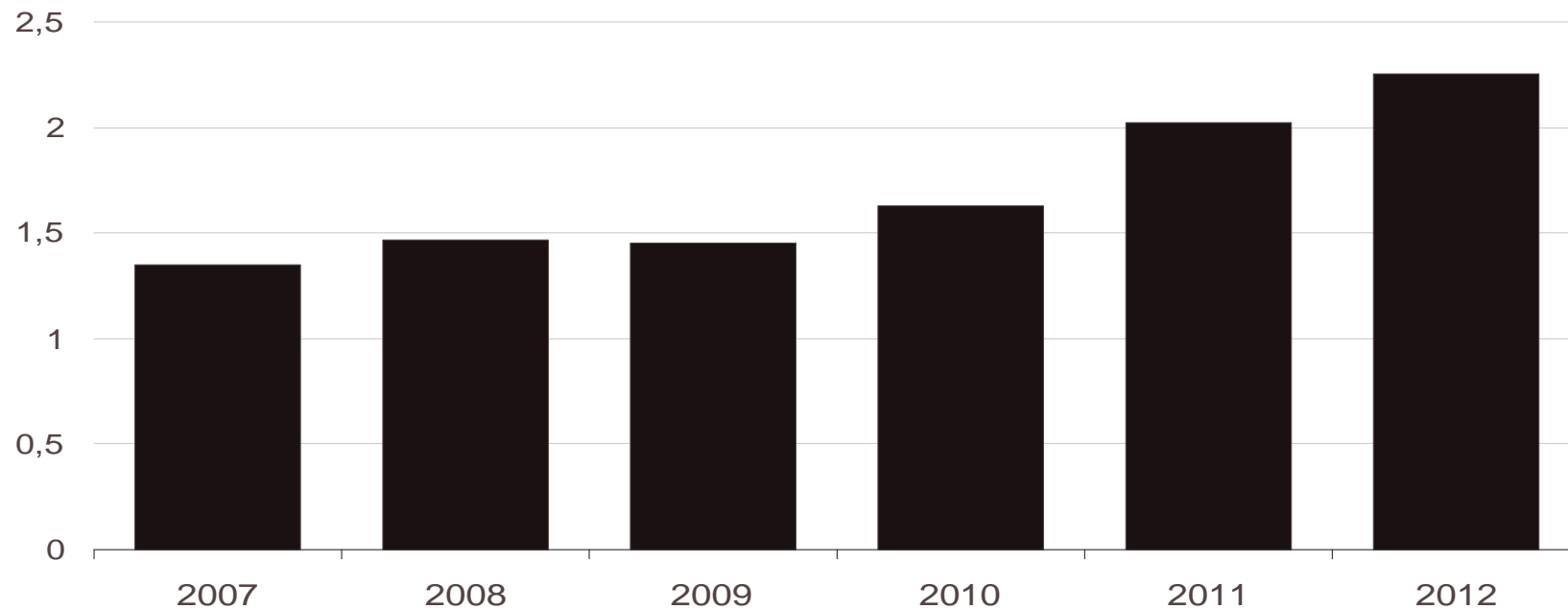
What does this level of uncertainty mean for automotive producers in Russia?

- In 2008, less than 50% of new cars sold in Russia were manufactured internally. Local production has room for growth even during the overall market decline.
- A weaker rouble and higher import tariffs could increase the competitiveness of local production over imported cars.
- Russian car manufacturers will get maximum benefits as the majority of their costs are in roubles.
- Foreign cars assembled in Russia will also benefit to a certain extent, although a significant portion of their costs will still be linked to the import of components that result in the price raising in its rouble equivalent.
- Foreign car manufacturers have come to the Russian market for the long term. The Russian market has the same long-term potential as it had before the crisis. Therefore, foreign car manufacturers will likely slow down, but not abandon their investment plans and will closely monitor how the market weathers the coming period.

Local production

- Despite a potentially significant reduction of sale volumes, in 2009 local production may be preserved at the 2008 level in the base scenario.
- Locally produced cars should increase their market share due to a decrease in the share of foreign brands.
- If the crisis passes in 2009, we expect growth in local production to resume no earlier than 2010.

Local production volume in Russia (million units)



Sources: Automotive institute of PricewaterhouseCoopers, PwC estimates

What does such a level of uncertainty mean for component manufacturers in Russia?

- One of the main factors inhibiting the growth of a modern automotive industry in Russia has been for a long time a relatively underdeveloped auto component supply network.
- New investments in the hundreds of small- and medium-sized businesses that comprise this network has remained slow due to a lack of critical mass in the production of foreign cars.
- Significant growth in the local production of foreign cars could have created the favourable conditions of critical mass for attracting these investments, particularly from well-known global auto component suppliers who have state-of-the-art products and know-how.
- Correspondingly, a lack of growth in production (in the production of foreign brands in particular) will tend to slow investments in this sector and continue to act as a impediment to its further development.

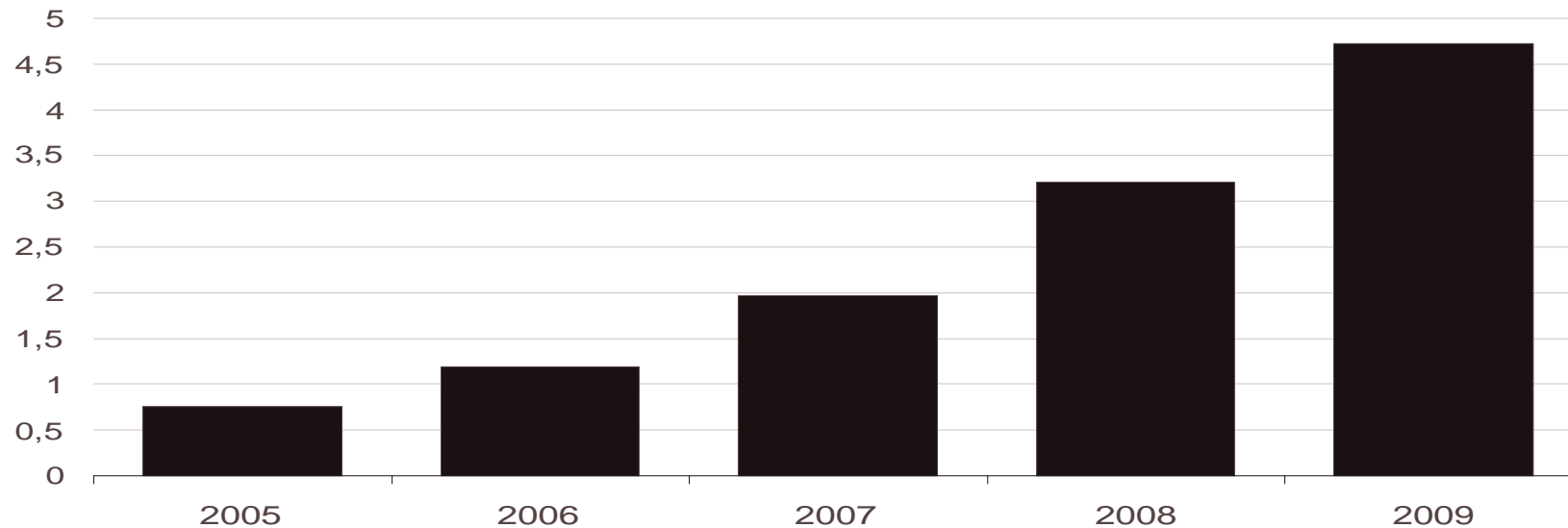
What does this level of uncertainty mean for car dealers in Russia?

- Some dealers have borrowed heavily to finance growth, in particular on higher levels of inventory and expensive capital expenditure in new outlets. Most of these borrowings were short term.
- The structure of the dealership network is relatively underdeveloped compared to Europe and North America. A large proportion of profit is earned from the sale of new cars and a much lower proportion is earned from the sale of second hand cars, repairs and maintenance. This adds to the weakness of dealerships when faced with a sudden fall in the sale of new cars.
- Dealers are now suffering on four fronts: 1) banks are calling in their short-term loans, 2) interest rates are rising rapidly for those lucky enough to renew borrowing, 3) profits are falling as new car sales decline and 4) due to decreasing sales the dealers and distributors have accumulated a lot of unsold stock.
- The same weakening of the rouble and increase in customs tariffs that could benefit local production, will only add to dealers' difficulties.
- 2009 will be a difficult year for some dealers, but a year of opportunity for financially stronger players. We expect to see significant consolidation within the industry.
- Dealers with a diversified portfolio of both Russian and foreign brands will benefit the most.

Warranty services for new cars at authorised centres

A significant increase in new foreign car sales over recent years has resulted in their increased number. The maintenance of these cars (covered under warranty), which is normally conducted by authorised dealers, will help them to compensate for the loss of income from new car sales.

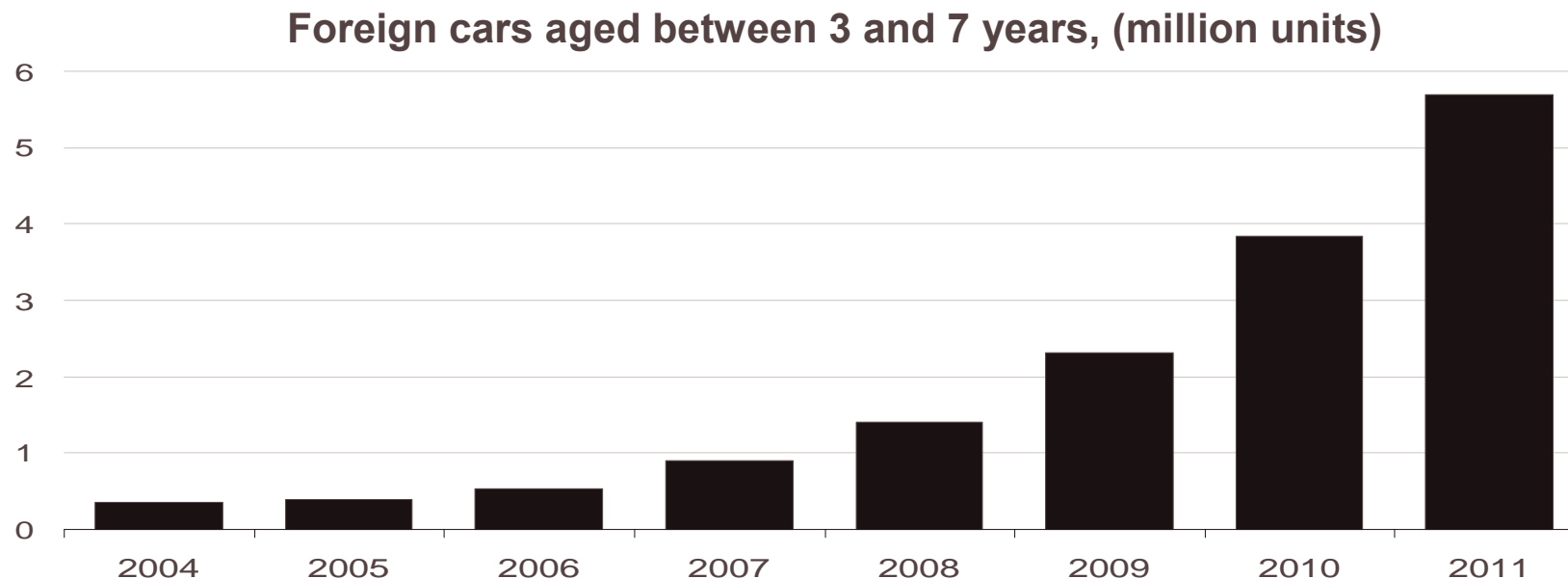
Foreign cars under 3 years (million units)



Sources: PwC estimates. The information presented in the slide is not a forecast. It is based on historical data.

Used car sales through dealerships

- The cancellation of the “double” VAT on the sale of used cars will contribute to an increase in used car sales through dealerships.
- In the coming years, the number of foreign cars aged between 3 and 7 years – the segment of cars with a traditionally high resale rate - will show significant growth.
- It is important to note that in more developed markets the maintenance and sale of used cars is more profitable than the sale of new cars.



Sources: PwC estimates. The information presented in the slide is not a forecast. It is based on historical data.

20 January 2009



Conclusion

Conclusion (1)

- In 2008 the market grew by 14% in quantitative terms and by 29% in cash volume. For the first time the local production of foreign cars became the most dynamically growing market segment.
- Despite a significant slowing in growth, in 2008 Russia was the most dynamically growing major automotive market in the world.
- At present, it is impossible to accurately predict sales for 2009, although the situation should be much clearer after the first six months of 2009. In the long-term, the prospect of rising unemployment, limited wage increases and a falling rouble could combine to reduce 2009 sales by between 25% to 50%.
- These factors could set the Russian automotive market back two years to 2006 levels. At the same time, developed markets could be set back 10-20 years.

Conclusion (2)

- The short-term outlook for local production looks more promising than the market in general. Local Russian cars (both traditional Russian brands and foreign brands assembled in Russia) will increase their market share.
- The maintenance of new foreign cars and an increase in the sales of used cars through dealer networks will help car dealers to compensate for a decline in new car sales.
- Ten years ago the sale of foreign brands in Russia was insignificant and practically non-existent for international car manufacturers. Now Russia has become a leader in the global automotive industry, and has over 20 new production plants that have already been launched or are being constructed, as well as an international dealership network.
- However, Russia continues to possess the same rich natural and human resources, which gives it significant potential for growth in the automotive industry. At the same time, further growth in the sector will depend largely on the global economy overcoming the consequences of the global economic crisis.

Thank you!



Stanley Root
Partner
Automotive Industry Leader
Audit & Assurance services
Tel.: +7 (495) 967 6328
e-mail: stanley.root@ru.pwc.com

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.

© 2009 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

PRICEWATERHOUSECOOPERS 