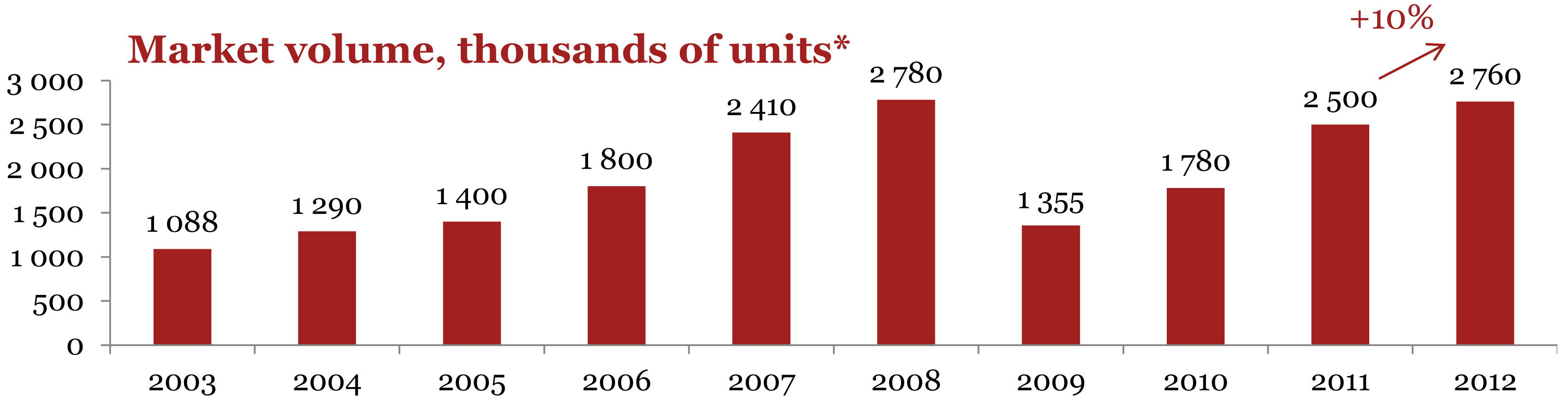
MOSCOW CITY
INVESTMENT AGENCY

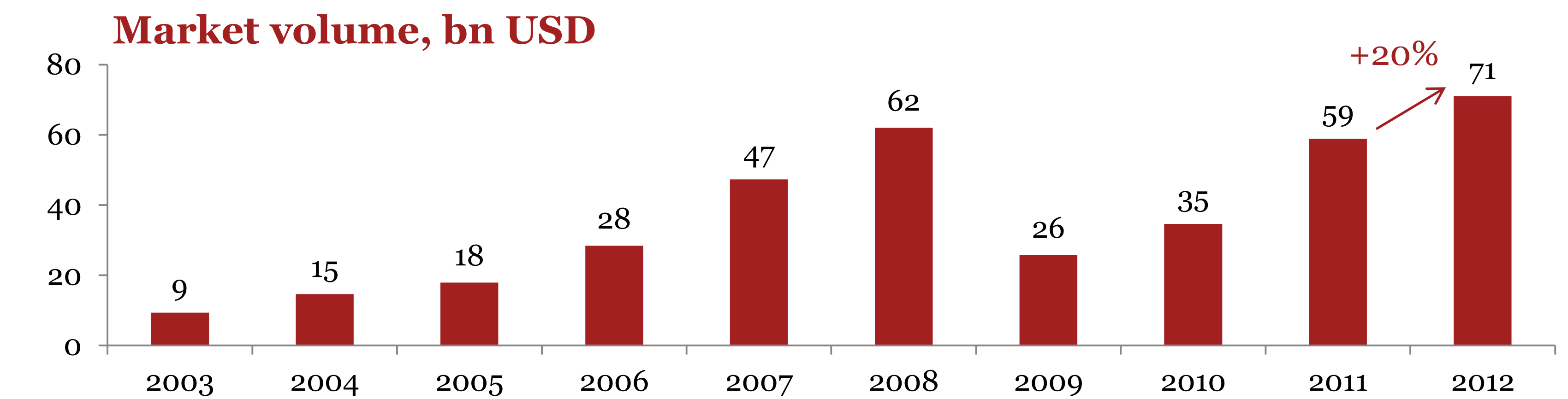
Automotive market in Russia and Moscow

July 2013

Car sales have grown strongly during past decade

- Over the last three years, the automotive market has been recovering post crisis thanks to government support and strong unfulfilled demand.
- Approx. a third of all foreign cars are sold in the Moscow Region



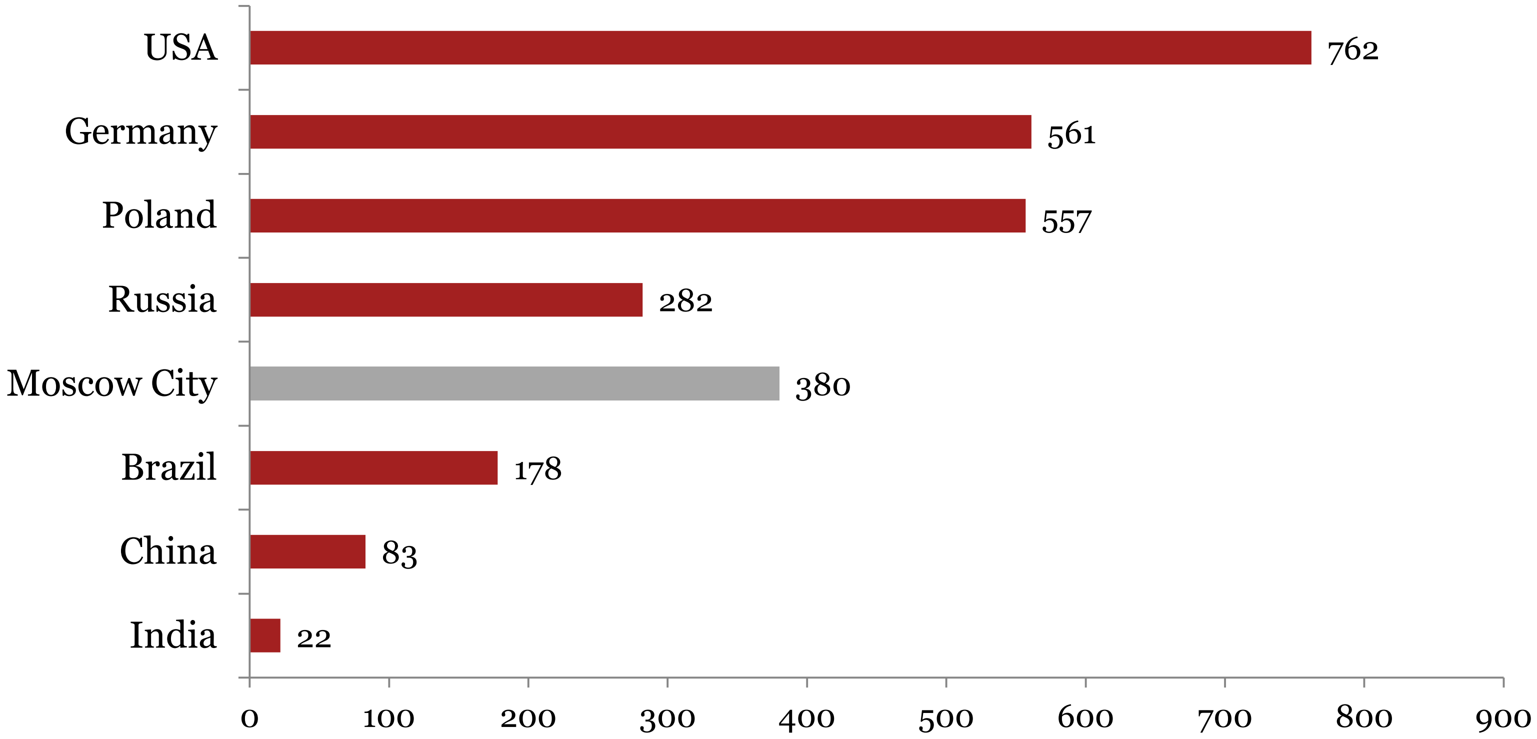


*only new car sales

Source: AEB, PwC data

Light vehicle density

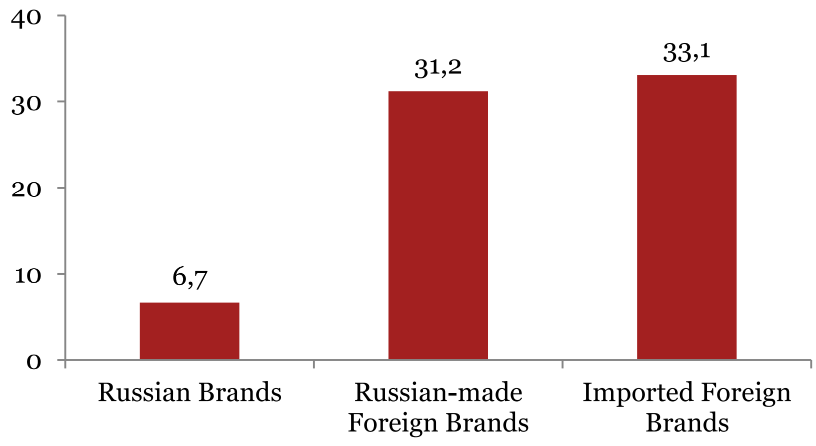
Number of cars per 1000 inhabitants, units



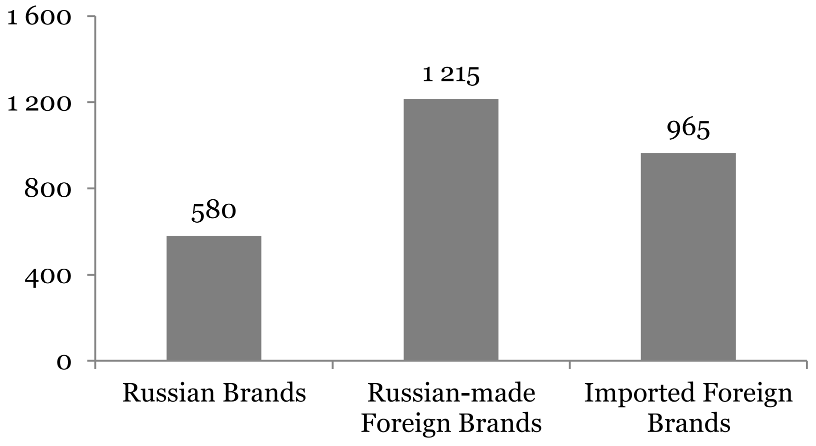
Sales of new cars in Russia in 2012

- After several years of intense sales volatility at car market the signs of stabilization emerged
- At 2012 sales of new cars increase by 10% in unit form and by 21% in USD form compared to previous year.
- Russian-made foreign brands were leaders among other types of cars and raise its market share up to 44%.

Sales of new car in 2012, bUSD



Sales of new car in 2012, '000 units

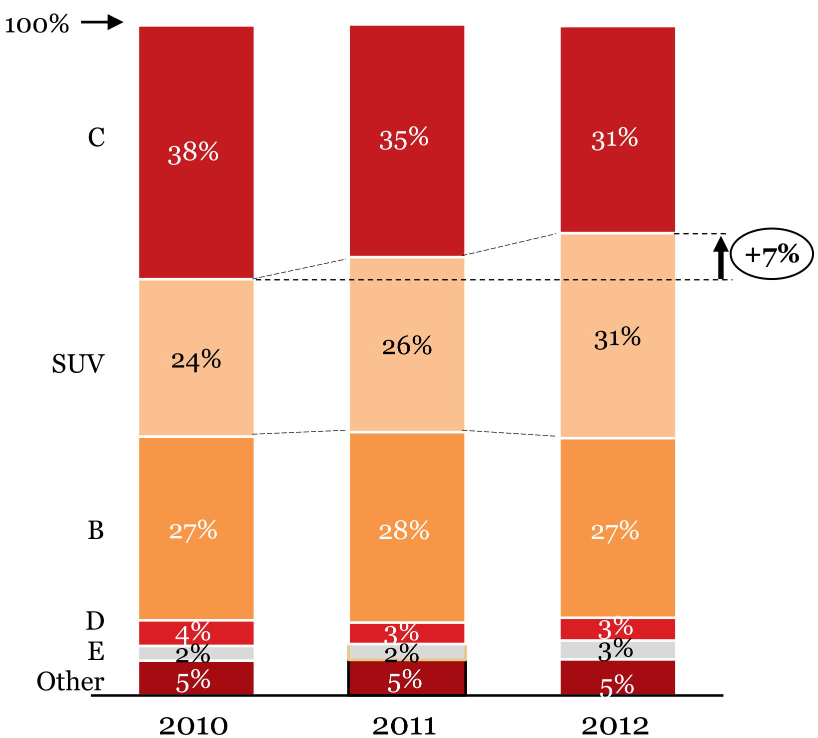


Source: АЕБ, Автостат, АСМ-Холдинг, PwC

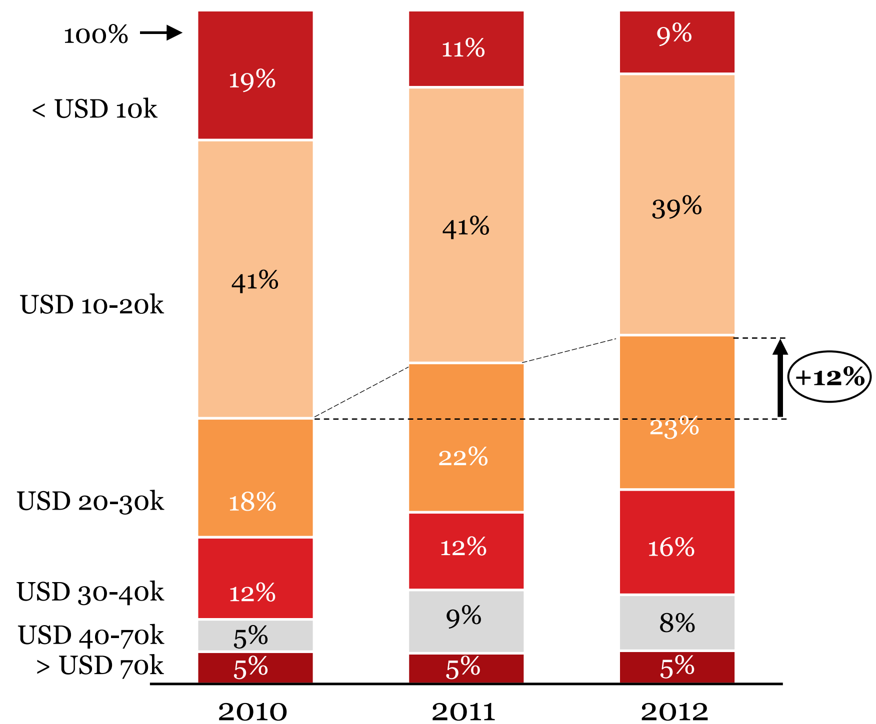
Share of cars sales by price segment

- During 2010-2012 the share of more expensive cars (>$20k) exceeded 50% of the market (increase from 40% to 52% over the period).
- The share of SUVs is growing, both in premium segment (all the major premium brands introduced smaller SUVs, e.g. RR Evoque, Audi Q3, BMW X1, etc.) and lower price segment (Renault Duster).

New car sales by class



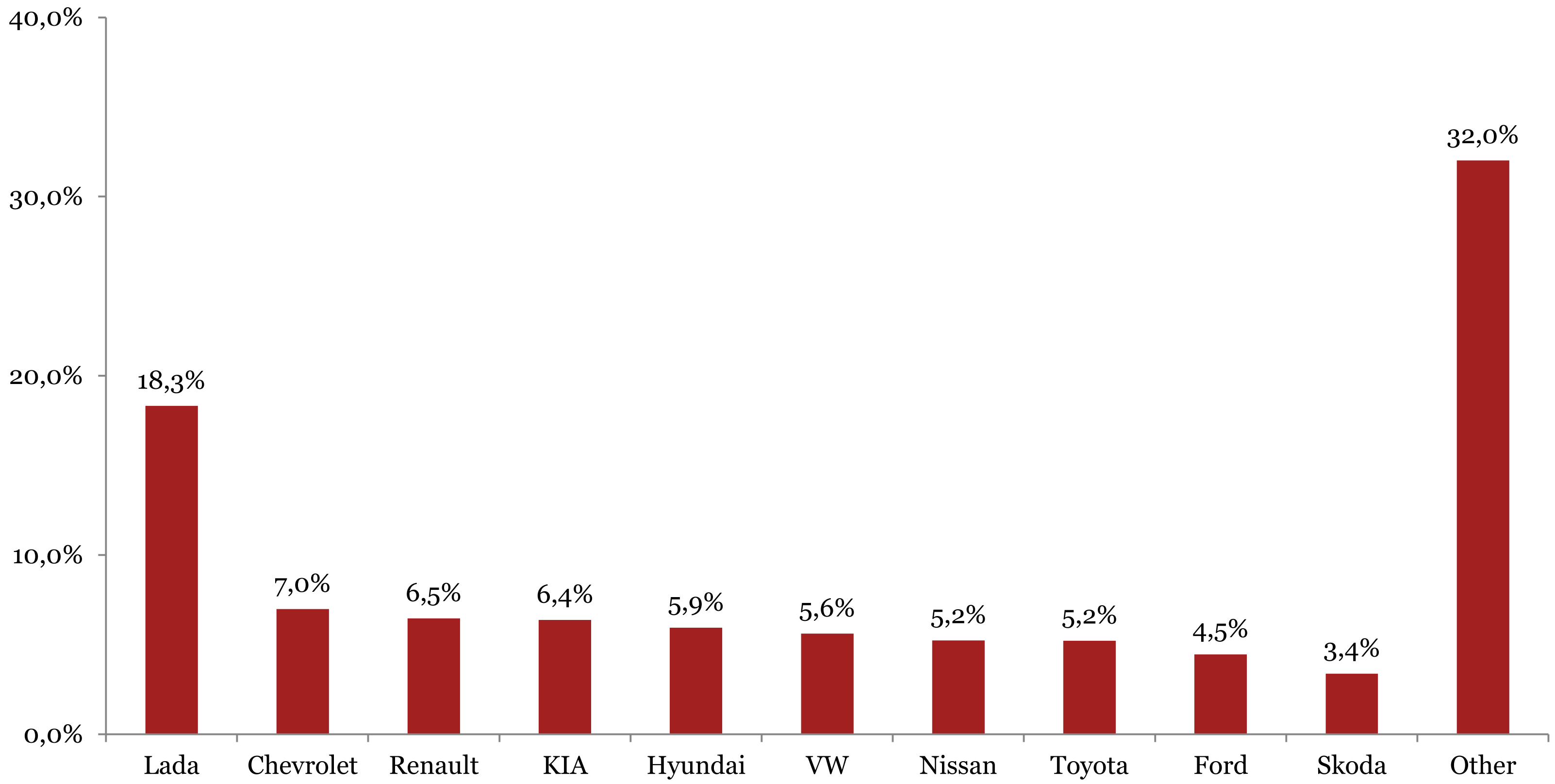
New car sales by price segment



Source: Autostat

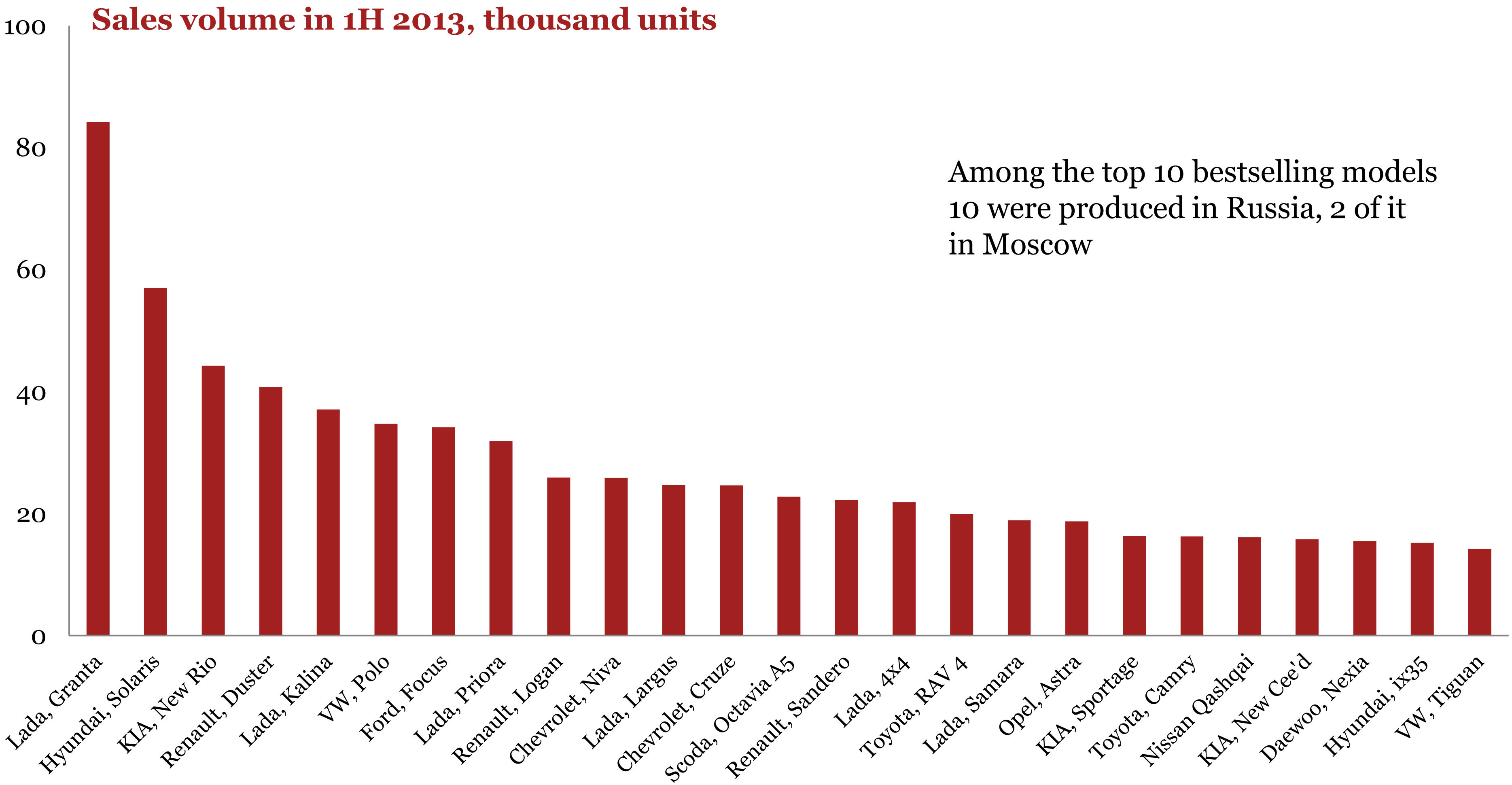
New Car and LCV sales by brand in Russia in 2012

Breakdown of market share by brand of new car and LCV in 2012, %



Source: AEB

25 top sold models in 1h 2013



Among the top 10 bestselling models 10 were produced in Russia, 2 of it in Moscow

Source: AEB

New car sales in Russia in 5 months of 2013

- In March 2013 the market declined for the first time in the last three years (-3% y-o-y). In April and May the downward dynamics continued (decline by 8% and 12%, respectively).
- In response at the end of June 2013 the Russian government announced the introduction of subsidised loans to support the market (but likely only for cars with the price under 23k US dollars).

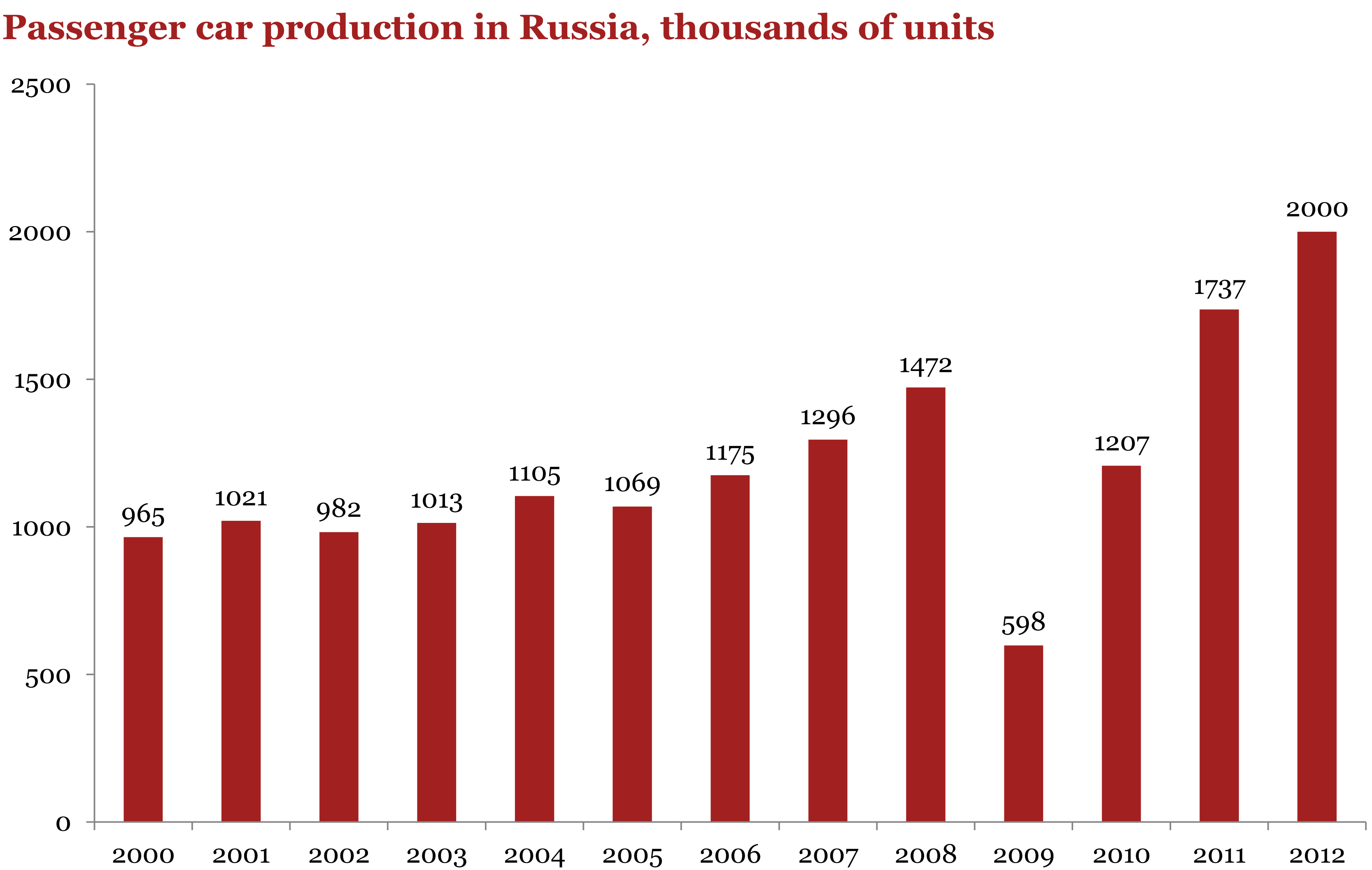
Car category*	Sales of new cars, thousands of units		
	5 months 2013	5 months 2012	Change
Domestic brands	202	221	-9%
Locally assembled foreign cars	473	467	+1%
Imported cars	352**	385	-9%
TOTAL	**1027***	**1073***	**-4%**

*Net of LCV

** PwC estimate

Sources: AEB, Federal Customs Agency, PwC

Passenger car production in Russia



More foreign brand cars produced in Russia than imported

- Almost all growth in Russian market during past 10 years has come from foreign brands.
- From 2011 internally produced foreign brands outperform imported foreign brands in unit terms.
- The share of imported cars in monetary terms is constantly declining.
- We do not expect these trends to change in the medium term.

Market share of foreign brands vs. imported, %

Source: PwC data

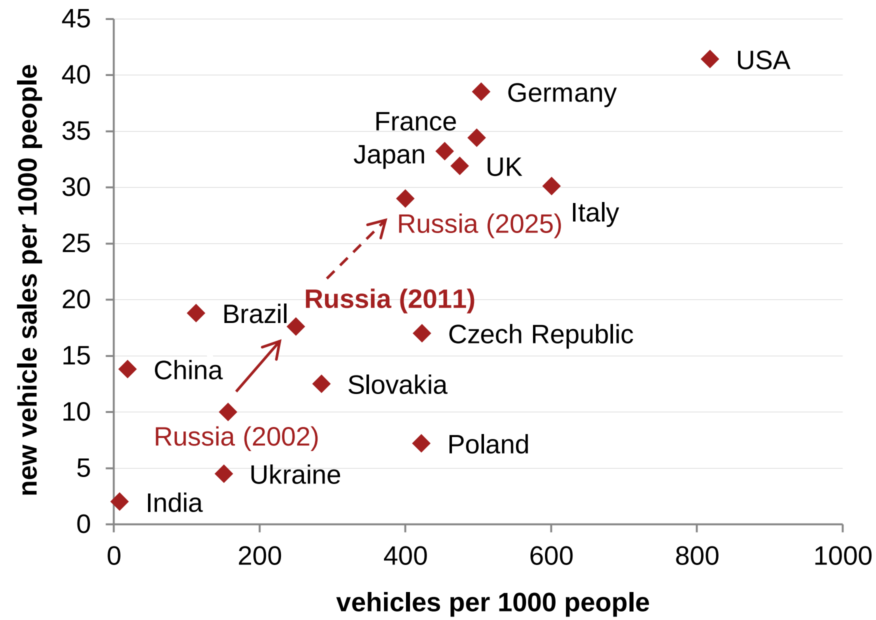
Despite short-term fluctuations in the market, there is long-term growth potential

Short-term perspective

- Factors having a negative impact on the results of the first 5 months in 2013 tend to be short-term:
    - decline in special offers for cars assembled in 2012 and disappointment of customers with prices for new cars assembled in 2013;
    - uncertainty about prospects of economic situation in Russia and Europe;
    - depreciation of the ruble;
    - high interest rates on car loans;
    - reduced number of working days in May.

Long-term perspective

Car ownership level in different countries

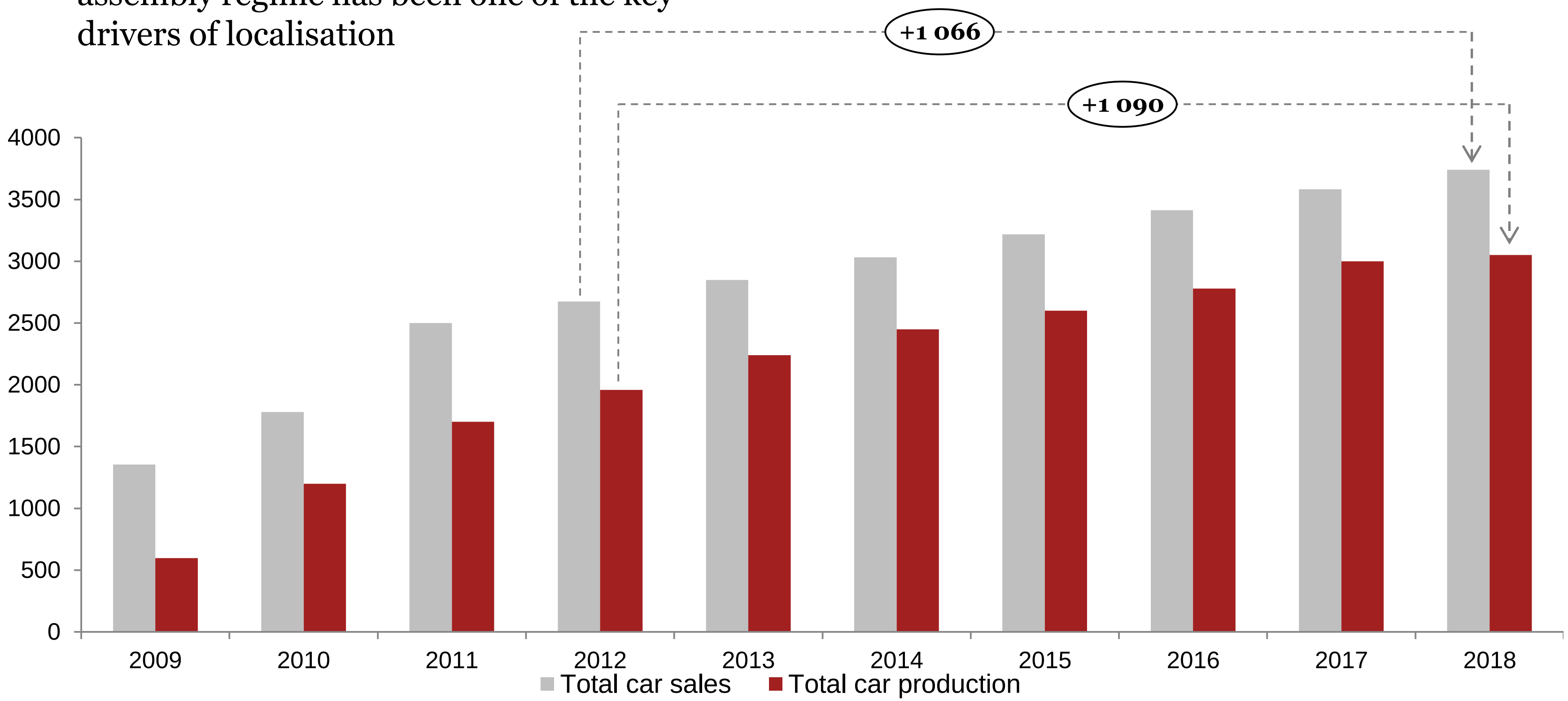


Source: Autostat, PwC estimates

Car sales and production forecast

Estimate of total car sales and production in Russia in 2009-2018, ‘000 units

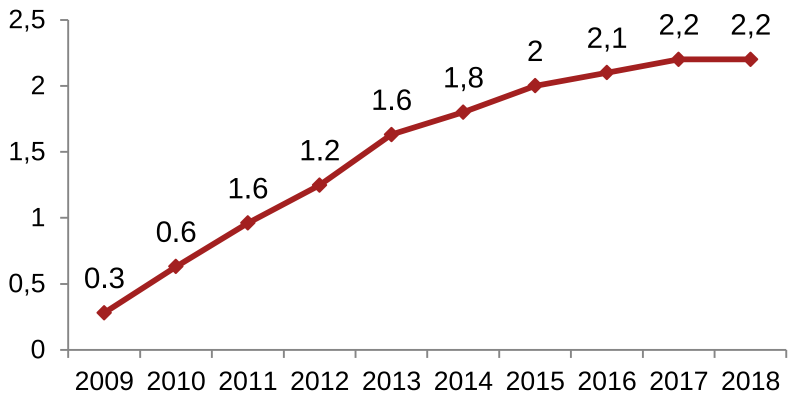
The introduction in 2005 of the industrial assembly regime has been one of the key drivers of localisation



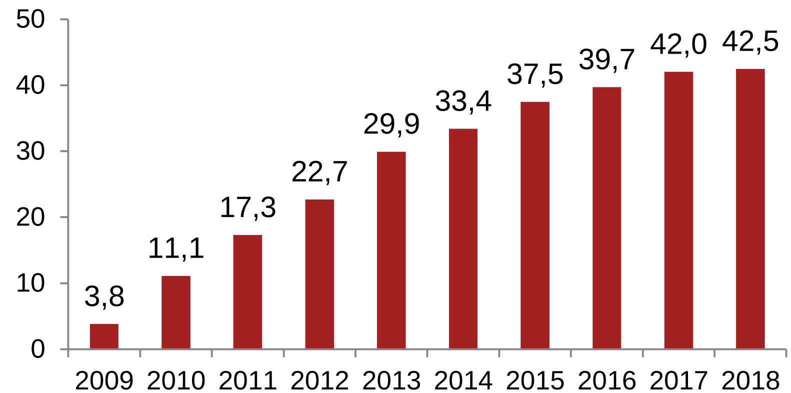
Sources: Autostat, PwC estimates

Primary market of components for foreign car model assembly

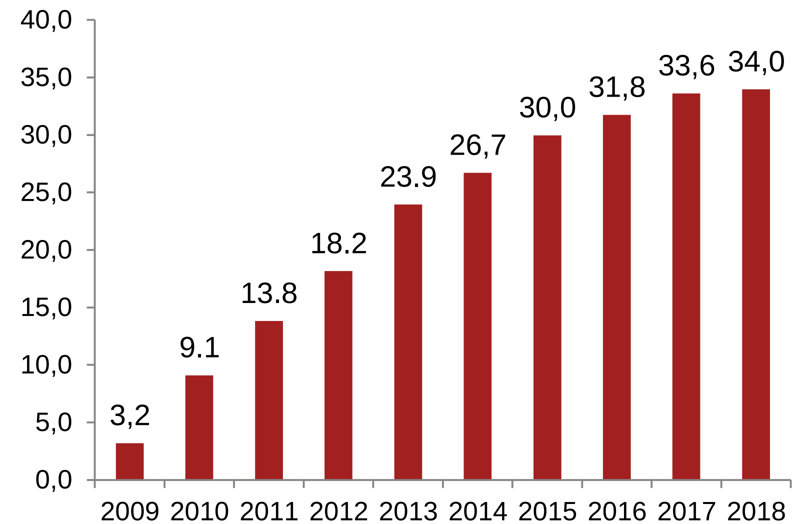
Estimate of production of foreign light vehicle models, millions of units



Estimate of the production cost of foreign light vehicle models, USD billion



Volume estimate of the primary market of auto components for foreign car model assembly, USD billion

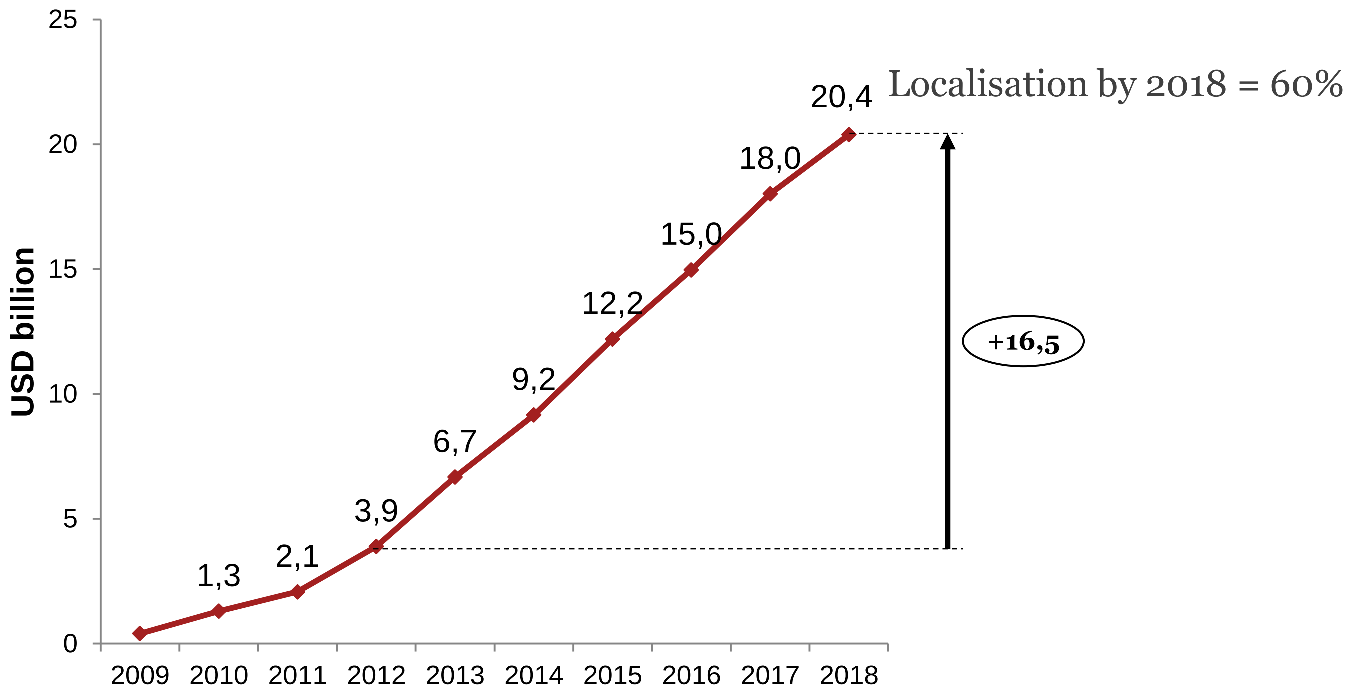


✓ Precondition: auto components represented 80% of overall cost in 2011-2018.

Source: PwC data

Potential development of a primary market for locally made auto components for foreign car assembly

Development scenarios for a primary market of locally made components for assembling foreign cars in Russia



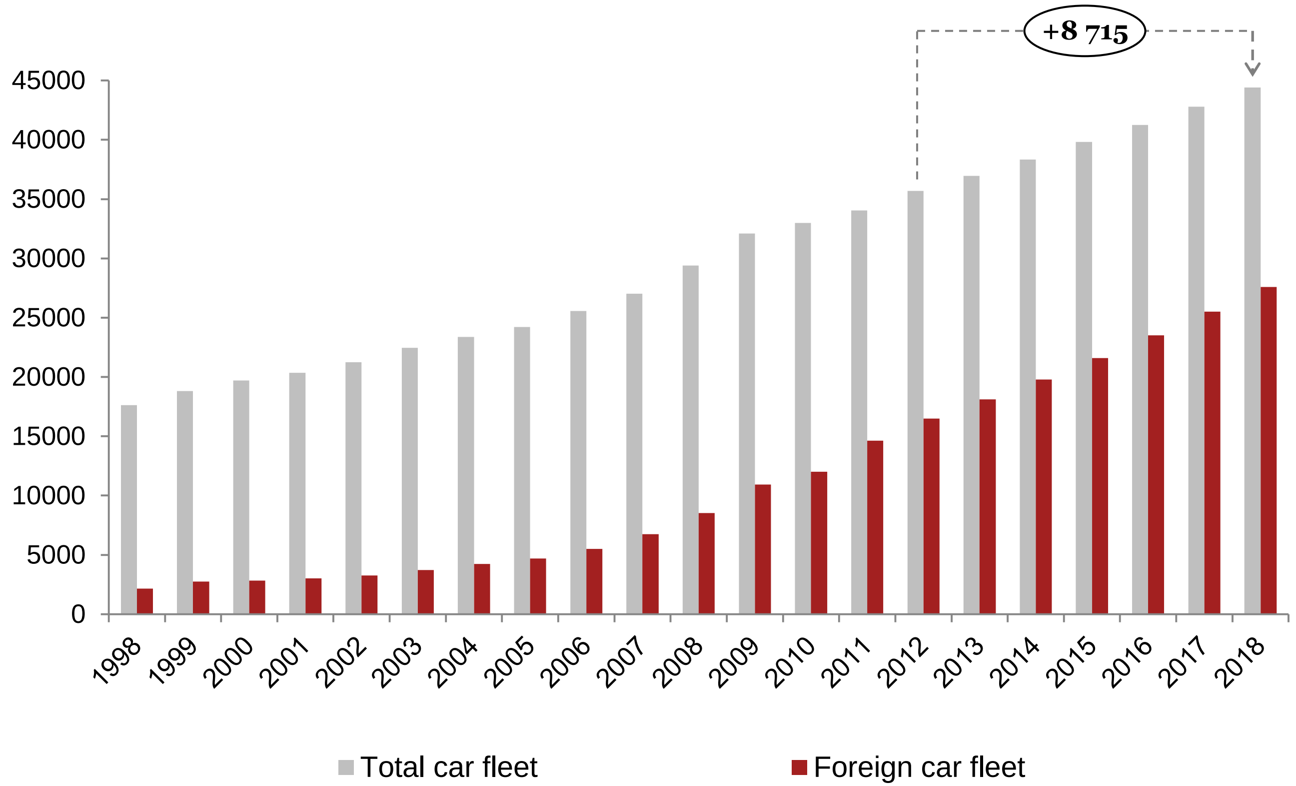
- ✓ Given the achievement of 60% localisation by 2018, the volume of the primary market for locally made auto components for foreign car assembly could increase 10 times versus 2011.

Source: PwC data

Car fleet forecast

Doubling the number of foreign cars by 2018 versus 2011 and, thus, growth of the secondary auto components market

Estimate of the total number of cars and number of foreign car models in Russia in 1998-2018, millions of units

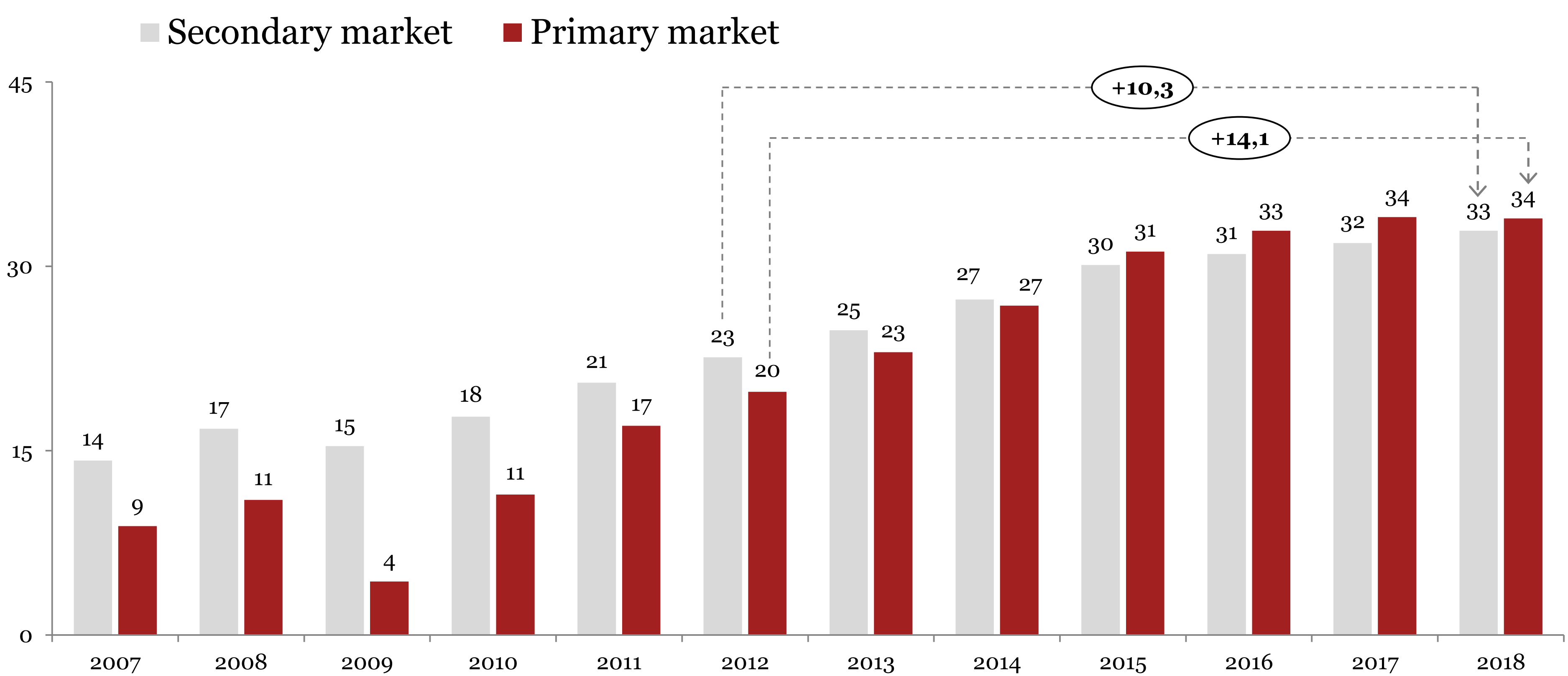


- Car fleet of the Moscow region is more than 7mln units
- The share of foreign car models within the total car fleet could triple over the period 2009-2018, which in turn would lead to a corresponding increase in the size of the secondary components market

Sources: Autostat, PwC estimates

Automotive component market

Russian automotive component market, bUSD



Sources: Autostat, GAZ Group

OEM clusters

Production in 2012 (‘000 units)

Kalininggrad Cluster
Avtotor (BMW, GM, KIA), 250

United Cluster of St.Petersburg and Leningrad Region
GM, 85
KIA-Hyundai, 244
Ford-Sollers, 108
Nissan, 43
Scania
Toyota, 28

Nizhniy Novgorod Cluster
GAZ-Volkswagen, 111, 6

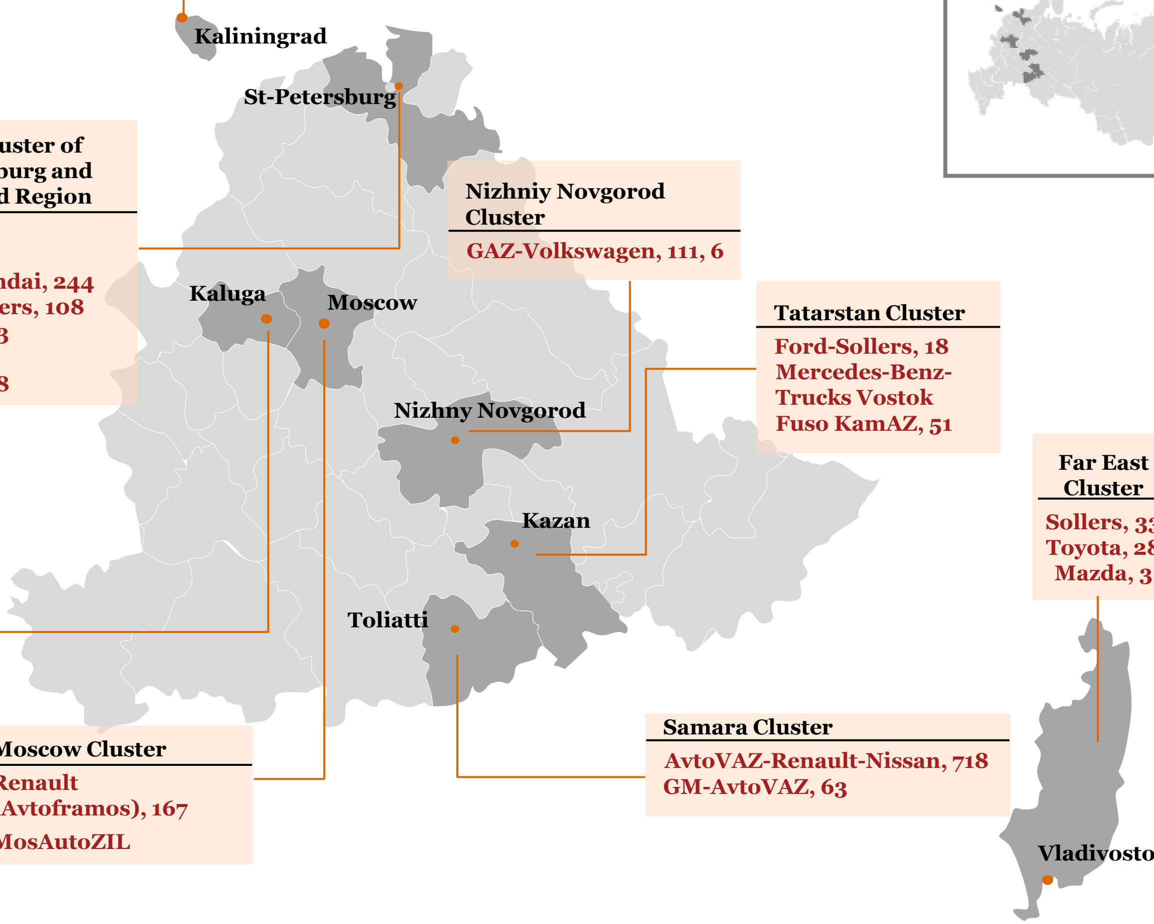
Tatarstan Cluster
Ford-Sollers, 18
Mercedes-Benz-Trucks Vostok
Fuso KamAZ, 51

Far East Cluster
Sollers, 33
Toyota, 28
Mazda, 3

Kaluga Cluster
Volkswagen, 180
Volvo Trucks
Mitsubishi-Peugeot-Citroen, 40

Moscow Cluster
Renault (Avtoframos), 167
MosAutoZIL

Samara Cluster
AvtoVAZ-Renault-Nissan, 718
GM-AvtoVAZ, 63

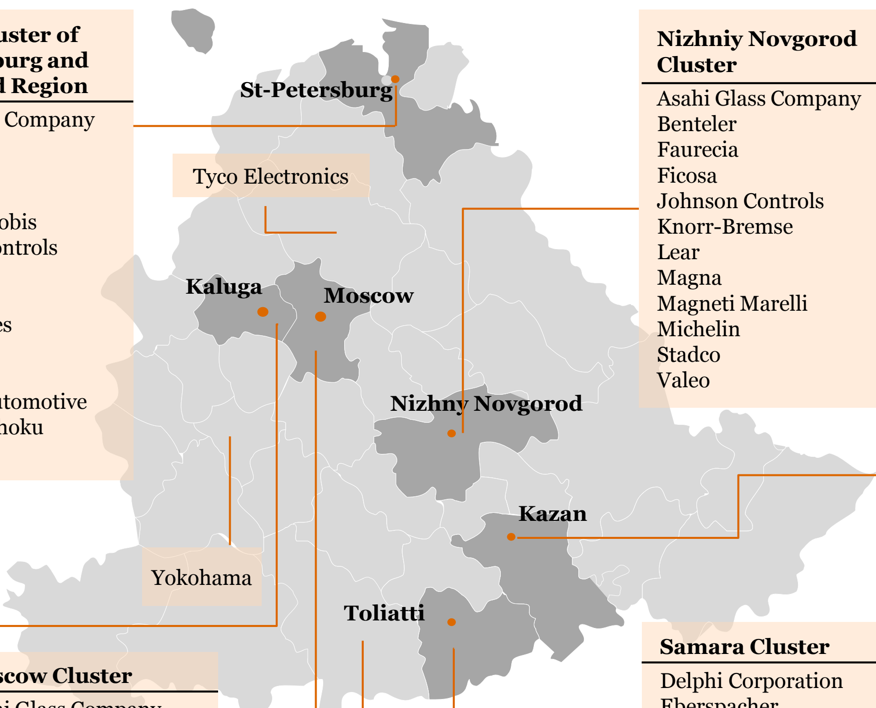


*The list is not exhaustive

Note: major vehicle manufacturers that do not have production facilities in Russia - Honda, Suzuki, Subaru, Lexus, Volvo, Seat

OES clusters

Overview of automotive component clusters in Russia



United Cluster of St.Petersburg and Leningrad Region

Asahi Glass Company
Doowon
Faurecia
Gestamp
Hyundai Mobis
Johnson Controls
Lear
Magna
Nokian Tires
NVH Korea
Stadco
Tenneco Automotive
Toyota Boshoku
Yura

Tyco Electronics

Nizhniy Novgorod Cluster

Asahi Glass Company
Benteler
Faurecia
Ficosa
Johnson Controls
Knorr-Bremse
Lear
Magna
Magneti Marelli
Michelin
Stadco
Valeo

Tatarstan Cluster

Cummins
Daido Metal
Leoni AG
Magna
Continental AG
Stadco
Sigit
Weigl
ZF

Kaluga Cluster

Benteler
Bosal
CIE Automotive
Continental
Faurecia
Fuyao Glass
Gestamp
Lear
Magna
Siemens VDO
Sitech
Visteon

Yokohama

Moscow Cluster

Asahi Glass Company
BASF
Hella
IHI
Knorr-Bremse
Lear
Magneti Marelli
Michelin

Robert Bosch

Samara Cluster

Delphi Corporation
Eberspacher
Faurecia
Federal Mogul
Gestamp
Johnson Controls
Magna
Siemens VDO
Tenneco Automotive
Woco

*The list is not exhaustive

Note: major vehicle manufacturers that do not have production facilities in Russia - Honda, Suzuki, Subaru, Lexus, Volvo, Seat

Renault

$590m invested in Moscow automobile Industry → Largest investor of Russian automobile industry

1998 — Formation of joint venture of Renault with Moscow Government

1999 — SKD assembly plant: Renault Megane and Renault 19

2000 — Assembly of Clio Symbol

2003 — Beginning of construction of CKD assembly plant with production of Renault Logan with $250m of investments

2006 — Renault Logan is top seller foreign brand in Russia

Capacity with 60 000 cars

2007 — Signing general agreement with Moscow Government on capacity extension to 160 000 vehicles and production of new models

2012 — Getting 100% control under Avtoframos.

167 406 cars produced (+19% y-o-y)

Achieving the capacity with 188 000 vehicles

2013 — Producing 7 models: Logan, Sandero, Fluence, Duster, Latitude, Koleos, Megane

2013-2020 — Investing $700m in procurement of equipment, production extension and assembling new models

Increasing production at least to 336 000 vehicles

Key figures 2013	
Personnel	
Total	6 000
Manufacturing	4 600
Localization*	
Logan & Sandero	74%
Duster	70%

*stamped details, bumper, dashboard, seats, glasses, exhaust system, accumulator, chassis, window regulator etc

MosAutoZIL

Conclusion the agreement between Sberbank and Moscow Government

Acquisition of Chimex Group, the holder of 166 Agreement

Construction of DKD assembling facility with the capacity of 15 000 LCV per year

2012 2013 2014 2015

Submission of business plan to Sberbank

Reaching the agreement with OEM1 on assembling LCV1

OEM2 expressed interest in assembling LCV2

Signing MoU with OEM3 on assembling range of CV

Construction of CKD assembling facilities with the capacity of **50 000** units per year

Old ZIL medium trucks production volume (units per year)	
1992	205 000
2012	2 000

Federal incentives of OEMs: industrial assembly agreements

Custom duty reduction (3-5%) or exemption on import of automotive component in exchange for investment in construction or modernization of facilities for automotive assembling

Key requirements of 166 Agreement
• Expiration of agreement at 2020
• Commitment of minimal volume production of 300 kUnits (for greenfield) and 350 kUnits (for brownfield) per year
• Creation or modernization of R&D center
• Commitment to produce in Russia not less than 30% of total production of engines/transmissions or not less than 200 000 if production of vehicles exceeds 1 mUnits
• Minimal localization* (greenfield): ✓ At 4th year from the date of Agreement inception – 30% ✓ At 5th year from the date of Agreement inception – 40% ✓ At 6th year from the date of Agreement inception – 60%
• Joint implementation of 166 Agreement by companies of one Group
• Submission of statement once a year

31 OEMs signed the 166 agreement**

*Localization = incremental value created in Russia

** 11 OEMs have committed to production of not less than 300 kUnits, the rest have 25 kUnits commitment

Federal incentives of OESs: industrial assembly agreements

Custom duty reduction (3-5%) or exemption on import of automotive component in exchange for localizing production

Key requirements of 566 Agreement
• Localization* rate at 15~45% (depends on the group of component)
• Strict list of technological operations
• Submission of statement once a year
• Commitment to procure of certain components made in Russia

Nearly of **70** OESs signed the 566 agreement

*Localization = incremental value created in Russia

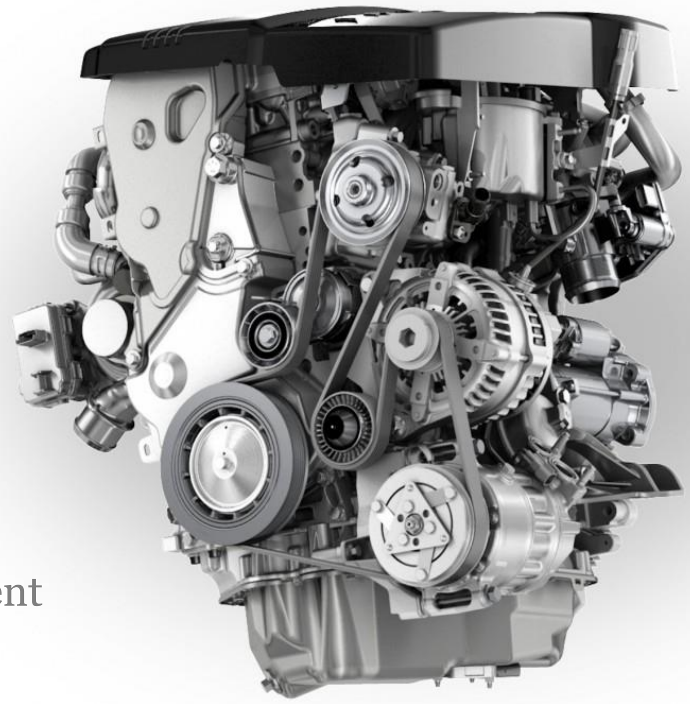
Ways to earn custom duty exemption or reduction

Passing the Agreement between companies within one Group	✓
Cooperation with OEM, holding active 166 Agreement	✓
Industrial cooperation with OES, holding 566 Agreement	✓
Acquisition of company, holding Agreement	✓
Formation on JV with holder of Agreement	✓

*Localization = incremental value created in Russia

Summary

- Russian market is volatile, but not more than many others. The challenge is to focus on future growth while being ready to respond quickly to short term market downturns.
- Critical mass has been achieved for localization.
- Moscow region offers both a huge market and production opportunities.
- There is supportive attitude to automotive investment in Russia at Federal and Moscow level, as well as interesting potential partners to talk to.



Thank you!

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