

Market Report



Russian Automotive Market: Passenger Cars, Components and Spare Parts

2006 - 2010

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Globis GmbH
Möllendorffstr. 52, 10367 Berlin
Germany
T.: +49 (0)30 4005 4914 (Sales)
F.: +49 (0)30 4005 4928

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1 Summary

Russia is, with a population of over 140 mio., a large attractive market, measured by the number of potential consumers. With a nominal GDP per capita of 6.854 USD in 2006, growing at almost 7% annually, consumers are able to make investments on a constantly increasing scale. The automotive market is one of the most eye-catching sectors to reflect these positive trends.

The consumer potential together with increasing income makes Russia today one of the most attractive markets for the world automotive industry. Already by 2009, Russia is going to overtake Germany in terms of new cars sold, and most of the vehicles will be of foreign origin. 2006 became the first year in which Russians bought more foreign cars than those of domestic brands. New car sales reached 1,8 mio. in 2006 – a huge increase from less than 1 mio. in 2002 – and will continue to grow at a rate of 21% until 2010. This rapid development is, apart from growing income, driven by a comparatively old Russian car parc, better access to car loans, increasing local production of foreign cars and expanding dealership networks:

Growing income allows many consumers to buy their first car ever today. Especially in urban areas, there is a trend to own a second car.

The Russian car parc is very old today, with 50% of cars being 10 or more years of age. With a growing focus on quality and comfort, this leads to a high demand for newer and better cars.

Car loans appeared widespread in 2003 on the Russian marketplace and have been developing rapidly since then. In 2006, already 45% of purchases of new cars were financed through various credit schemes.

Currently, there are numerous local car production projects in the pipeline, which will reduce prices for foreign models and increase consumer demand. However, the Russian demand for new cars in 2010 can only be partly (50%) fulfilled through local production.

Outside major cities, access to new cars is still limited. However, all major brands currently expand their dealership networks and hence ease access to new cars countrywide.

Alongside with the car parc, the market for components and spare parts is growing fast as well, at a rate of 24% and 14% until 2010, respectively. The major growth will take place in the sector of components and spare parts for foreign car brands, whereas the market for Russian brands will almost stagnate over the next years. In 2008 and 2009, the primary (components) and secondary (spare parts) market for foreign brands will overtake the same markets for Russian brands, respectively.

The market for automotive parts is influenced especially, apart from the car parc growth, by bad road conditions (as a result, shock-absorbers are among the top-five part markets), harsh climate and a tendency among car holders to fix a car by themselves. Faked parts are a major problem, which is, however, affecting domestic brands more heavily than foreign brands. Fake substitutes and independent aftermarket parts dominate, whereas OEM parts are mainly used for critical car elements and if available.

Currently, several international component and spare parts manufacturers are already active in Russia; many others have announced their plans to launch production in the next few years. The distribution system for spare parts to the consumer is still developing, alongside with the system for car service. Service centers account at present for only about one-third of the spare parts sold.

The main challenge in Russia today is access to consumers. Russia is divided into 86 regions, with a population density of 8,3 on average, and in some areas as low as 0,08 inhabitants per sq. km. About 15 regions account for over 50% of GDP and over 50% of total retail consumption. The 50 biggest cities comprise about one-third of total population. Moscow is the outstanding region in Russia, representing an attractive starting point. Hence, it is easy to have a quick entry into the market through major cities but difficult to be present all over Russia. Due to huge distances logistics is a hassle and costly investments into warehouse capacities

are needed. However, to realize the full market potential, a broad regional presence is essential. Major car makers are currently about to expand their presence in Russia, but are still far away from a good coverage.

In total, the Russian market for passenger car vehicles and respective components and spare parts is highly attractive. The main challenges are setting up an effective distribution system in order to access customers countrywide, coping with falsification of parts and handling regulatory uncertainties of still developing legal and administrative systems.

To prepare this market report, we used primary and secondary research methods: expert interviews and consumer surveys – in particular for the market of automotive parts, which is not covered yet by any substantial statistical data – and standard analysis of secondary information available on the topic. Based on our experience and developed competencies we have built proprietary market models to forecast future market development. The report was compiled in the period from March to June 2007 and hence includes statistical data from Q1 2007, if available.

Globis is a Germany-based consulting company with broad international coverage regarding strategy development, especially entry strategies into new markets.

2 Country Basics

Population (mio.)	142,2
Area (1.000 sq. km.)	17.075
Territorial arrangement	86 Regions 7 Federal Districts
Population density (inhabitants / sq. km.)	8,3
Life expectancy at birth (years)	Male: 59,6 Female: 72,9
Birth rate	1,3
No. of households (mio.)	50

The Russian Federation is, with a territory of approx. 17 mio. sq. km., one of the largest countries in the world. The main expansion is from East to West, with the Russian territory stretching over 11 time zones. With 142,2 mio. inhabitants, Russia is scarcely populated. There are 11 cities with over 1 mio. inhabitants. Moscow (10,4 mio.), the Russian capital, and St. Petersburg (4,6 mio.) are the biggest cities by far, followed by Novosibirsk (1,4 mio.). Outside the cities the population density can be as

low as 0,1 people / sq. km., for example in the Far East.

Russia is divided into 86 regions, with the cities of Moscow and St. Petersburg enjoying independent status. These regions are grouped into 7 larger areas, called Federal Districts (see *Figure 2*). For detailed information about districts and regions, area and population see the Appendix (chapters 5.1 to 5.3, p. 73). As known mainly from developed countries, the Russian population is decreasing overall, at a rate of approx. 0,4% (see *Figure 3*).

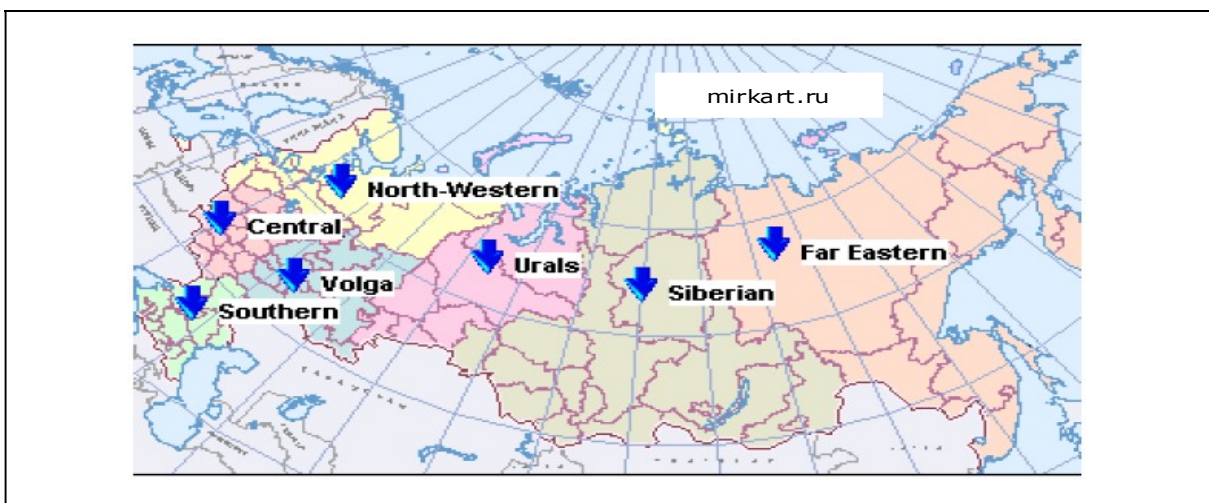


Figure 2: Russian Federal Districts

Besides Moscow, there are positive trends in population growth in regions with- in Siberia and Far East, because of the growing importance of the oil and gas sec- tor. Life expectancy at birth especially for men is, with 59,6 years, quite low (fe- male 72,9 years). This value is supposed to grow slowly. According to the Russian Statistics Service, the average live expectancy at birth is considered to increase to 68 years (average of men and women) by 2025 from 66 in 2006.

The birth rate at present accounts for 1,3 children born to each woman at fertili- ty age or 10,4 new births per 1.000 inhabitants.

	2005	F2009	Change
Russia overall	143.103,1	141.035,2	-0,36%
Central	37.451,1	36.775,4	-0,45%
North-Western	13.679,6	13.486,7	-0,35%
Southern	22.805,6	22.719,8	-0,09%
Volga	30.599,9	30.016,7	-0,48%
Urals	12.261,7	12.169,2	-0,19%
Siberian	19.735,2	19.440,3	-0,38%
Far Eastern	6.570,0	6.427,0	-0,55%

Figure 3: Population development, in 1.000, 2005-2009

Source: Russian Federal Statistics Service

2.1 Economic Development

The Russian economy has seen stable growth over the last years, driven on the one hand by high international demand and surging prices for Russia's natural resources and raw materials like oil, gas, coal and steel, on the other hand by high domestic demand, both from business and private households. Since 1999, GDP has been growing at 6,7% on average and reached 978,7 bn. USD in 2006 (see *Figure 4* and *Figure 5*). Forecasts on future economic development predict the economy to expand further in the next few years, though on somewhat lower growth rates.

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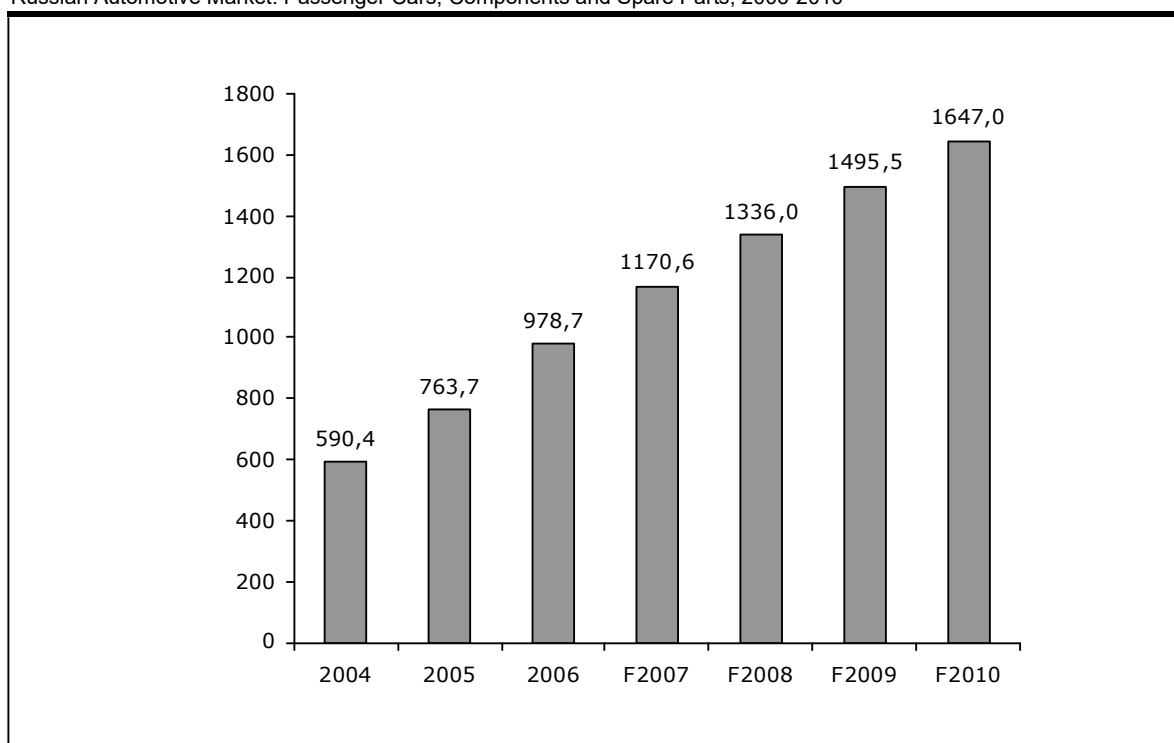


Figure 4: Development of Nominal GDP, USD bn., 2004-2010

Source: Russian Federal Statistics Service, Ministry for Economic Development

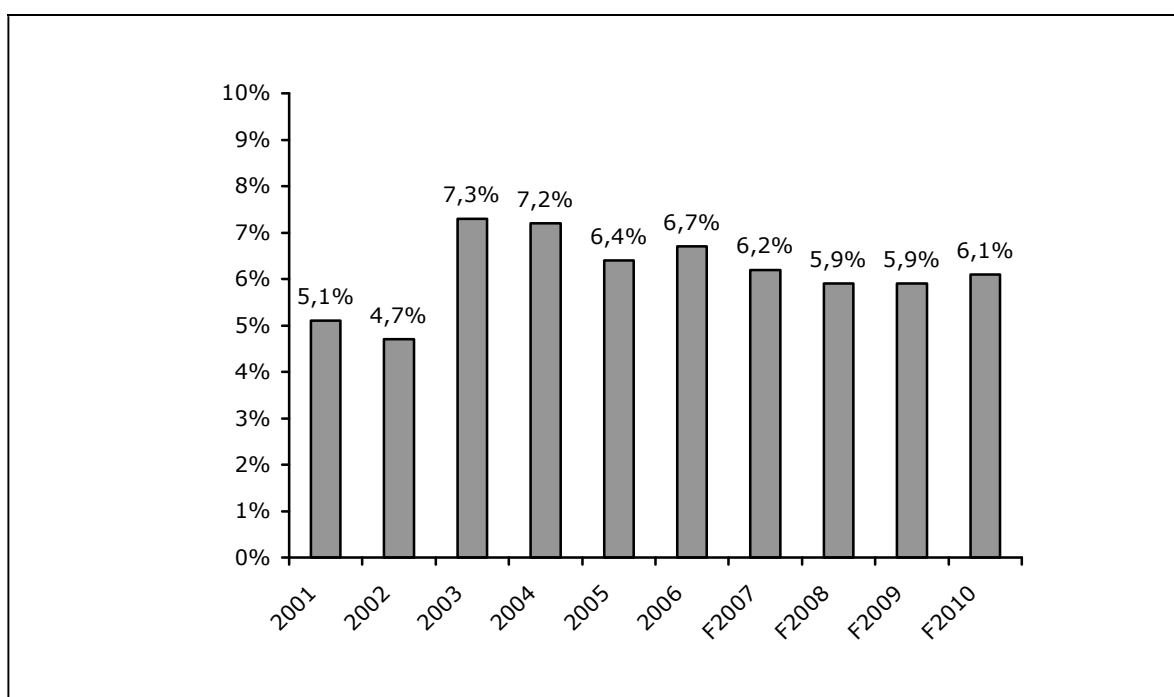


Figure 5: Development of GDP Growth Rates, Change in % to Previous Year, 2001-2010

Source: Russian Federal Statistics Service, Ministry for Economic Development

Real income has been growing even faster than GDP, at a rate of 11,7%, and has almost doubled in 2006 compared to 2000 (see *Figure 6*). Real wages have increased more than 2,5 times for the same period. This trend is expected to continue over the next years, with real income growing at a slightly softer pace of 9,7% p.a. until 2010. However, there are strong differences among the development of regions.

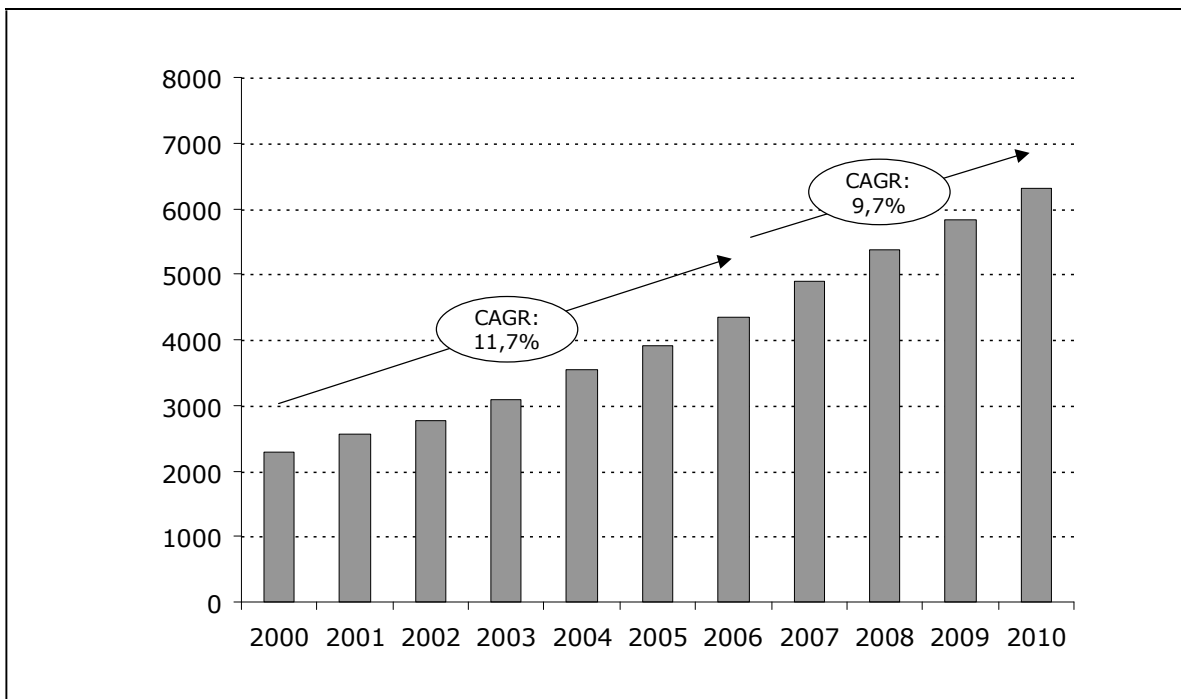


Figure 6: Development of Real Income / Capita, in Rouble, 2000-2010

Source: Ministry for Economic Development

2.2 Comparison with European Union

In order to better understand the Russian economy, a short comparison with the European Union is helpful (see *Figure 7* for an overview). The numbers show the immense potential for the Russian economy over the next decades: with a third of the population Russia's GDP is still far away from one third of that of the EU, not even reaching 10%. The comparison clearly points out, that infrastructure will be one of the main issues for the development of Russia, which is far less densely populated than the EU. Also, health issues especially for the male popula-

tion will be a driving factor for the development of Russia's economy. The relatively short life expectancy is very costly for the economy.

Russia and the EU are important trade partners. The share of the European Union in Russian foreign trade accounts for about 50%, representing 43,2% of the total Russian imports and 51,5% of the exports (2005). Traditionally, machinery and transport equipment are among the main export items of the European Union – their shares are 31% and 10%, respectively, in Russian imports from the EU. Russia is a major supplier of natural resources like oil and gas, covering over 25% of the European Union's energy needs, though the total share of Russia in the EU foreign trade is less than 10%.

	European Union	Russia
Population (mio.)	492,9	142,8
Area (1.000 sq. km.)	4.325	17.075
Time zone	GMT 0 – +2 hours	GMT+2 – +12 hours
Population density (inhabitants per sq. km.)	114	8,3
Life expectancy at birth	75,8	65,3
Number of households (mio.)	165	50
GDP (USD bn.)	14.527	978.7
GDP per capita (USD)	29.473	6.854
Exports, total (€ bn., 2005)	1.062	191
Imports, total (€ bn., 2005)	1.176	78

Figure 7: Comparison of Key Figures EU / Russia, 2006

Source: Eurostat, Russian Federal Statistics Office

2.3 Regional Economic Development

Russia, with its widespread territory, can not be viewed as one market. The Federal Districts and regions differ widely in their status and development. A main element to better understand these markets is to better understand access possibilities to potential customers. The Appendix (chapters 5.2 and 5.3, p. 74 and p.77, respectively) gives a good impression on how easy it is to access customers in respective regions: regions with no large cities and a rather low population density will be difficult to access and vice versa. Hence, Moscow, St. Petersburg and other larger cities are very good starting points to access a high share of potential customers with relatively low effort. This Russia-specific access topic has to be kept in mind when interpreting economic indicators in districts or regions. This holds also true for all groupings of regions in terms of their economic development. The Appendix (see chapter 5.4, p. 82) shows such a grouping of the Ministry of Economic Development and Trade, which is helpful – but only a starting point – to understand the attractiveness of individual regions.

Looking at regions, 11 among all 86 regions account for over 50% of Russia's GDP (see *Figure 8*).

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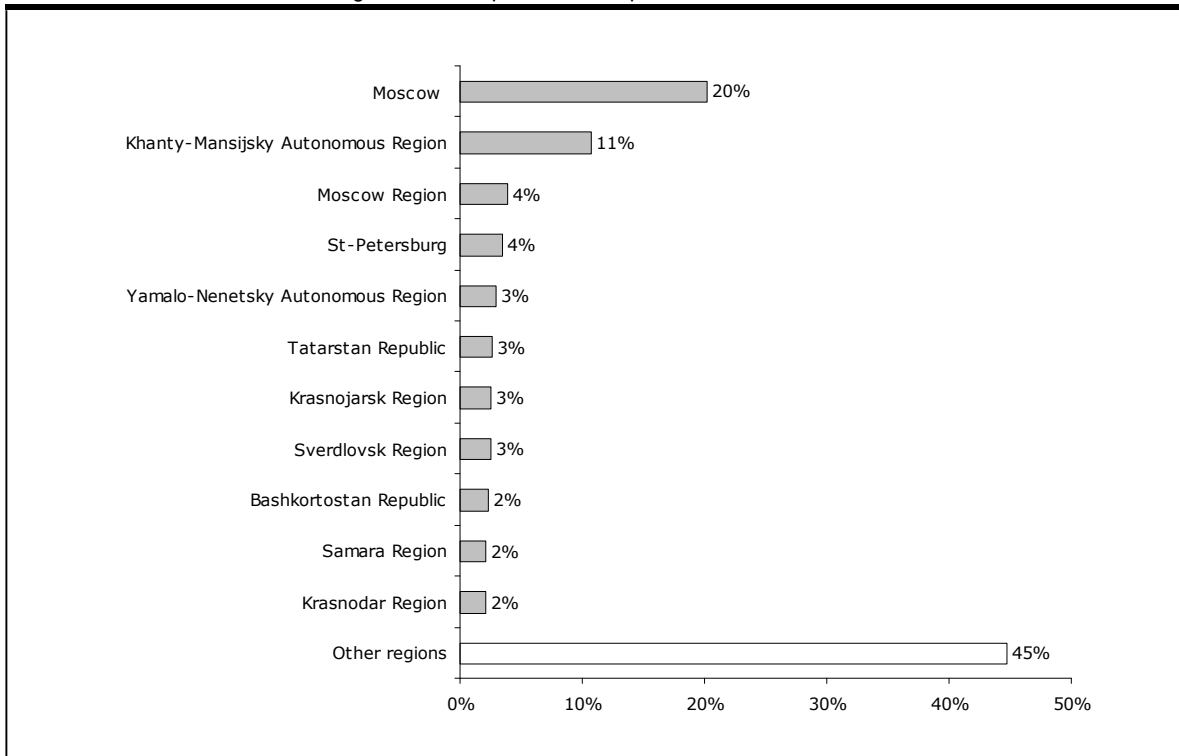


Figure 8: Share of Leading Regions in Total GDP, 2006

Source: Ministry for Economic Development

Also, real income differs widely among districts and regions. Even within districts there are considerable differences of real income of a magnitude often more than 300%. This emphasizes, that thinking in Federal Districts can be very misleading in preparing entry strategies. *Figure 9* gives an overview of real income in Federal Districts and selected regions.

Federal District	Growth of real income 2005/06	Region (highest / lowest income)	Income / capita 2006 (Rouble)
Central	14,6%	Moscow	25.943,9
		Ivanovo Region	4.727,6
North-Western	8,4%	Nenetskiy Autonomous Region	15.203,4
		Pskov Region	6.690,9
Southern	16,8%	Volgograd Region	9.521,7
		Ingushetia Republic	2.995,8
Volga	14,3%	Samara Region	11.544

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		Mordovia Republic	4.602,3
Urals	13,4%	Yamalo-Nenetskiy Autonomous Region	26.895,8
		Kurgan Region	6.537,3
Siberian	10,5%	Taymyrskiy Autonomous Region	10.352,9
		Ust-Ordynskiy Autonomous Region	3.474,6
Far Eastern	7,5%	Sakhalin Region	15.930,9
		Amur Region	6.968,7

Figure 9: Income per Capita in Regions, 2006

Source: Ministry for Economic Development

Consumer spending in terms of retail expenditure per capita is also growing at a high pace, in accordance with the growth of GDP and income (see *Figure 10*). The Urals district, coming from the second highest level among the districts, is expected to experience the highest growth. The leading regions in terms of share of total retail trade differ slightly from those in terms of share of total GDP (see *Figure 11*), suggesting as one reason, that money is not always spent where it is earned. By results of 2006, almost 50% of retail trade were concentrated in nine regions: Moscow and Moscow Region, St. Petersburg, Tyumen, Sverdlovsk, Samara, Krasnodar, Rostov and Bashkortostan Republic. Among the regions, retail expenditure will experience the fastest growth in Astrakhan and Moscow regions, St. Petersburg, Sverdlovsk, Chelyabinsk, Kursk, Kemerovo, Novosibirsk, Sakhalin Regions, Yamalo-Nenetskiy Autonomous Region and Tuva Republic.

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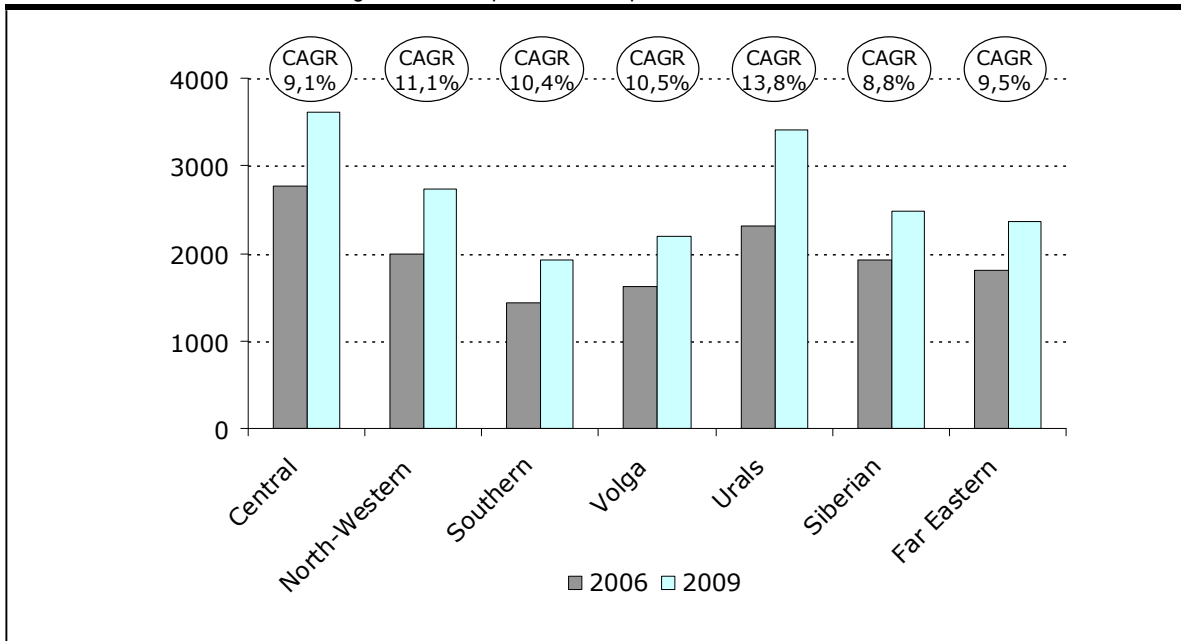


Figure 10: Growth of Retail Expenditures per Capita, 2006-2009

Source: Ministry for Economic Development

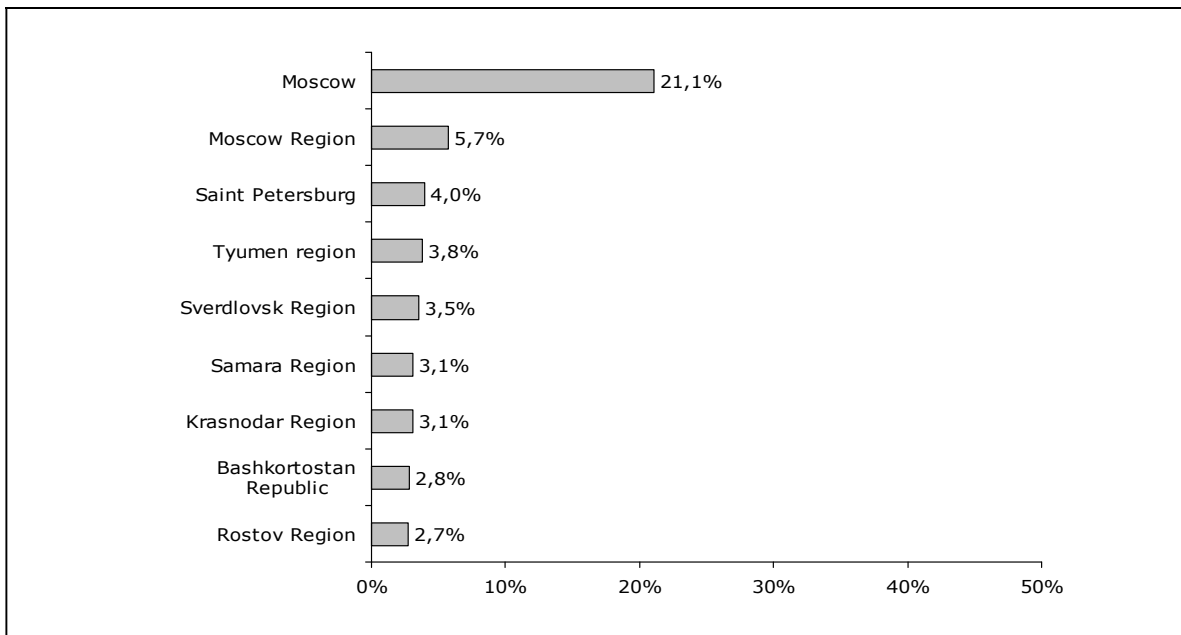


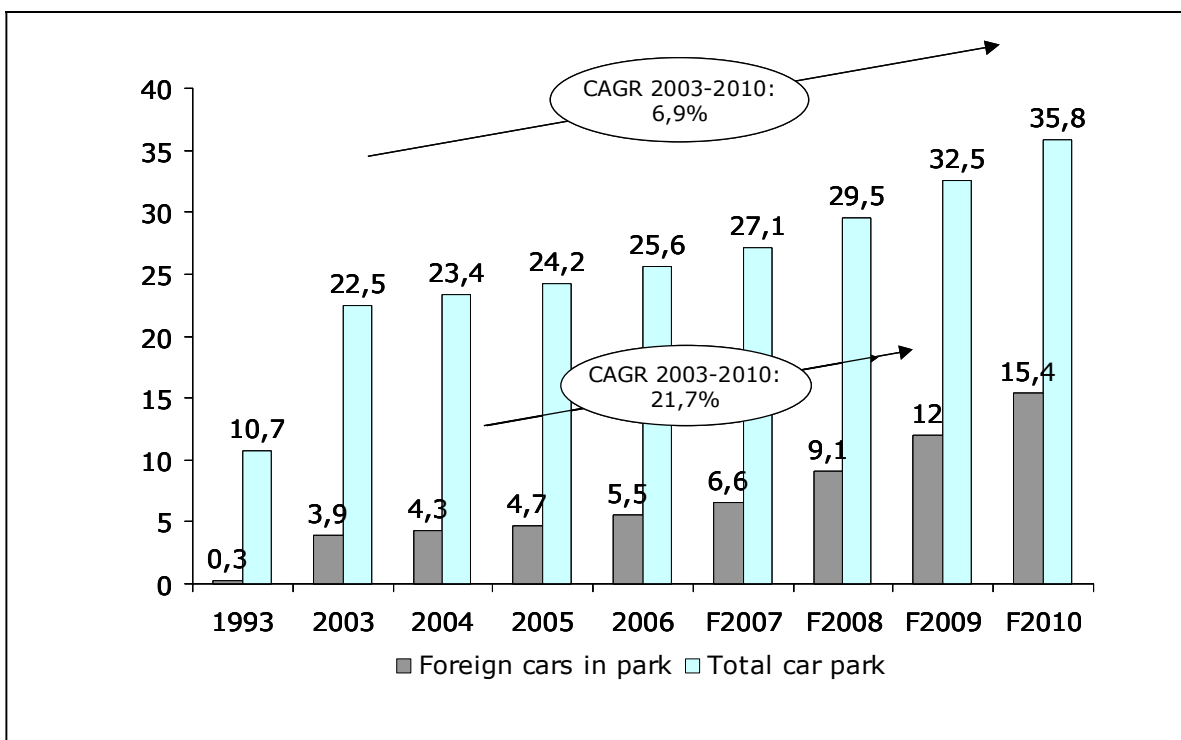
Figure 11: Leading Regions by Share in Total Volume of Retail Trade, 2006

Source: Ministry for Economic Development

3 Russian Passenger Car Market

3.1 Russian Car Parc

The passenger car parc in Russia is growing fast. The total number of passenger cars has increased from 10,7 mio. in 1992 to more than 27 mio. at the beginning of 2007. Over the last four years, the car parc grew at a rate of 4,5% annually. In comparison, the growth rates in Western European markets reached 1-2% annually. This rate will even increase over the next years. We estimate a growth rate of 6,9% annually from 2003 to 2010 (see *Figure 12*). In 2010 there will be 35,8 mio. cars in Russian parc.



*Figure 12: Development of Passenger Car Parc, Total and Foreign, in mio., 1993-2010**

Source: State Auto Inspection, Globis analysis

* Here and further the data on car parc is on the 1st January of the respective year.

The share of foreign cars in parc is increasing faster than the total and has grown from 2,8% in 1993 to 24,5% in 2007. In 2010, 40% of the cars in Russian parc will be from foreign brands. The numbers show, that the sale of Russian brands will stagnate over the next years.

Looking at the car parc, one has to bear in mind that it is and will be quite old. Write-offs in the parc are relatively low and hence the parc is rejuvenating slowly. Nevertheless, sale of new cars makes Russia one of the top markets in the European context.

By results of 2006, total sales reached 2,06 mio. cars, and for the first time in history sales of foreign brands exceeded those of Russian brands (see chapter 3.2, p. 32, for more details on sales). With these new sales of passenger cars, Russia is one of the world's largest car markets. *Figure 13* shows a comparison of Russia's car sales with selected European countries. Russia will outpace Europe's biggest market, Germany, in 2009.

Country / sales in mio. items	2005	2006	F2007	F2008	F2009	F2010
Germany	3,3	3,2	3,3	3,4	3,5	3,6
Italy	2,1	2,4	2,4	2,4	2,5	2,6
Great Britain	2,4	2,3	2,4	2,4	2,5	2,6
France	2,1	2	2,1	2,1	2,2	2,2
Russia	1,75	2,1	2,7	3,1	3,6	3,9

Figure 13: Passenger Car Sales in Russia and Selected European Countries, 2005-2010

Source: ACEA, Globis analysis

3.1.1 Structure of Car Parc by Age

A major characteristic of a car parc is its age. Not surprisingly, the Russian car parc is quite old (see *Figure 14*). More than 50% of Russian passenger cars are 10 years and older. Almost 25% of passenger cars are between 7 and 10 years of age. These numbers are to be expected in an economy with a relatively low income level, historically almost no opportunities for financing and a relatively small production capacity for cars. Cars are run till they can not be fixed any more.

The "Rules of Technical Inspection for Transport Vehicles", last amendments of which went into effect on January 1st, 2006, provide for cars to be checked regularly: by this provision, cars with an age older than 7 years have to be checked annually. Cars with an age between 3 and 7 years have to be checked every sec-

ond year. Only cars passing the test get a permission to be run. The inspection comprises basic function test, for example of the brake and the steering system. Many old cars in the Russian parc would not pass this test. These cars are not used any more (or rarely, especially in the country-side) but remain registered. This mainly concerns old domestic brands like Moskwich, ZAZ, and partly VAZ vehicles. Through this effect, the age distribution as well as the size of the car parc is slightly distorted.

This provision mostly is an effective mechanism to force the owner of old cars to abandon the use of a vehicle. Registration numbers, however, remain comparatively high. Under these conditions the parc officially rejuvenates quite slowly and it will take decades for the car parc to reach Western European level.

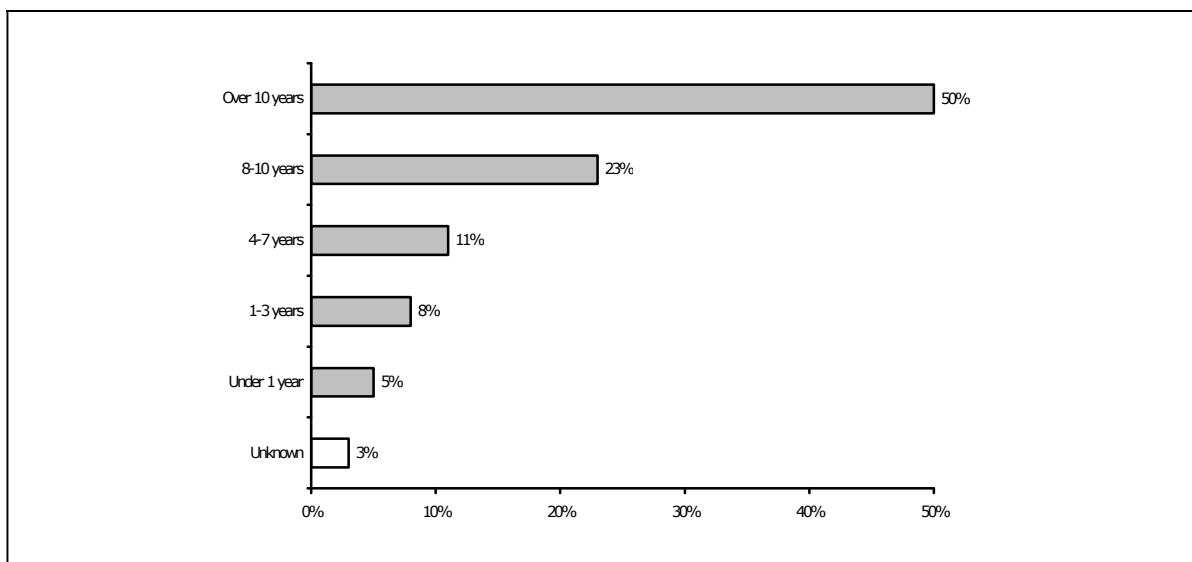


Figure 14: Structure of Russian Car Parc by Age in 2006

Source: State Auto Inspection

3.1.2 Structure of Car Parc by Models

The Russian car parc is dominated by domestic brands (see *Figure 15*). With a share of the current car parc of almost 49%, VAZ is the clear leader. Comparatively low prices, large dealer network, established brand name and familiar image were the key to success. However, 30% of the VAZ cars are from outdated series. The share of VAZ will reduce in the future. People more and more favourite foreign cars – mostly with better quality and technique, accompanied by the effect of a

narrowing price gap between domestic and foreign brands. The price gap is narrowing on the one hand because of more foreign producers ramping up production capacity in Russia, hence saving customs duty, cost of logistics and benefiting from low wages. VAZ, on the other hand, is consistently increasing prices. Second by number of cars in parc is GAZ, also a domestic brand. Most of these cars are different models of Volga – the traditional Russian E class car. Third in car parc is Moskwich, a domestic brand. The production of these vehicles stopped in the 90s and the company officially went bankrupt in February 2006.

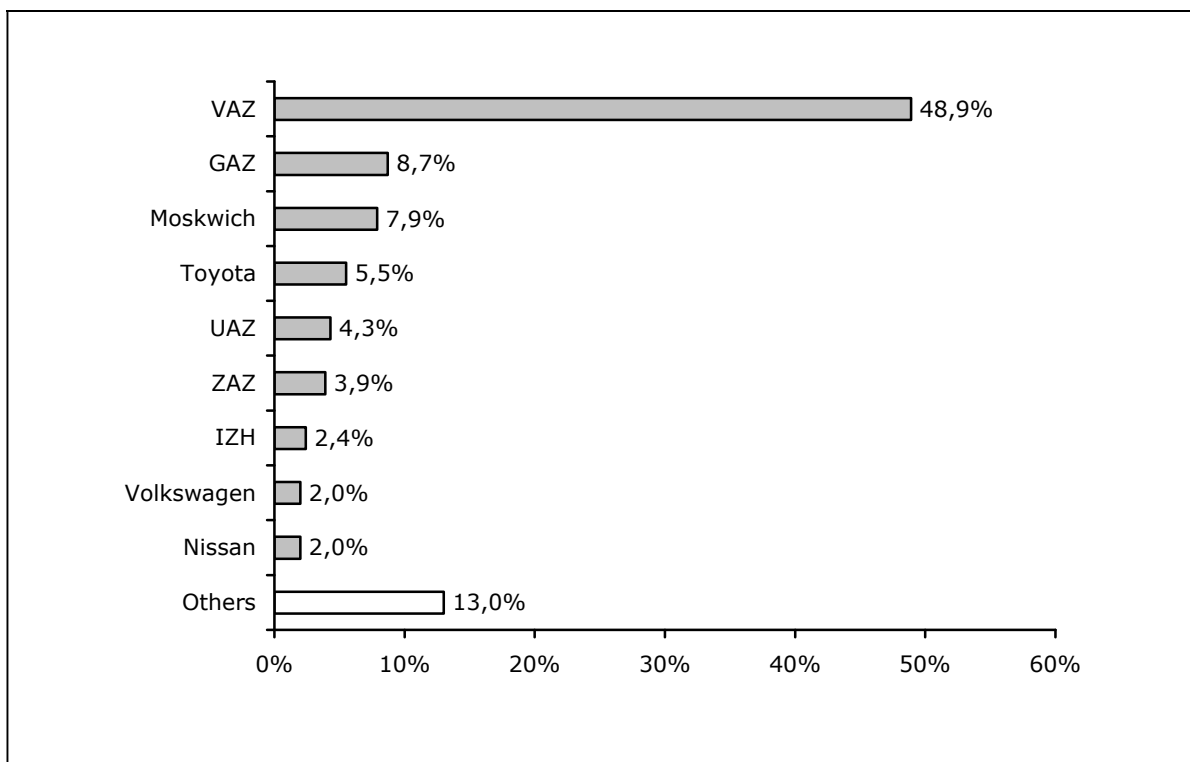


Figure 15: Top-Ten Brands in Russian Car Parc, 2006

Source: State Auto Inspection

With 5%, Toyota has the fourth largest car parc in Russia, then again followed by Russian and Ukrainian brands. Some of these brands, like ZAZ, are fairly outdated models, which show up more in official lists than on Russian roads. Volkswagen as the second foreign brand is ranked 8th in terms of car parc. However, it is a head-to-head-race with Nissan that will overtake Volkswagen in 2007.

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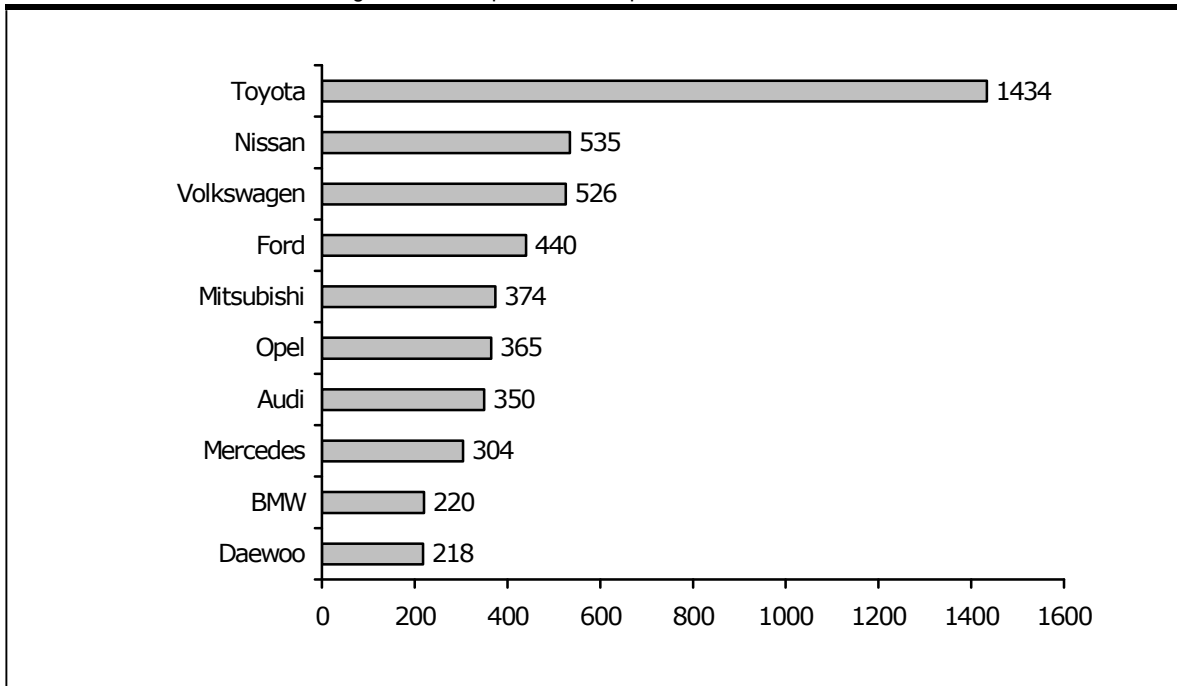


Figure 16: Car Parc of Foreign Brands in Russia, in 1.000, 2007

Source: State Auto Inspection, Globis analysis

The share of Toyota is especially high in the Far East – a fact that can be explained through the geographical proximity to Japan. There is a lively second-hand trade with Japanese cars in this region and cars from Toyota are favoured because of their quality. But it is not only second-hand imports that contribute to the dominant position of Toyota in the Russian car parc: at least since 2000, Toyota has always been among the 4 leading companies in terms of sales of new cars. Toyota has, in comparison, a well developed dealer network in Russia. In addition, Toyota's reputation as a very reliable, high-quality car, contributes to the success. By models, Corolla has been the most popular model in Toyota's Russian car parc, especially among the second-hand imports.

Through the active second-hand imports from Japan, there is a large number of 1,5 mio. "right-wheeled" cars in Russia. Again, these cars are concentrated in the Far Eastern and Siberian Federal districts.

Volkswagen and Nissan are the second and third largest foreign brands in Russia. Nissan in 2007 will overtake Volkswagen, according to our estimates. Volkswagen with over 525.000 cars is the largest German brand in Russian passenger car parc. Most cars are registered in the Western part of Russia, in Central

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and North-Western Federal Districts. For example, in Kaliningrad – the closest region to Europe – the share of Volkswagen in total parc accounts for 15%. For a long period, Volkswagen Passat was the most prevalent foreign model in Russian regions. The Golf is also strong in Russia. *Figure 17* gives an overview over the most popular models of leading foreign brands in Russian car parc.

Brand	Parc in 1.000	Popular models
Volkswagen	526	Passat, Golf
Audi	350	Audi 80 and 100, A4, A6
Mercedes	304	C-class
BMW	220	BMW3, BMW5, X5
Daewoo	218	Nexia

Figure 17: Popular Models among Foreign Brands in Russia, 2007

Source: Respective dealers, Globis analysis

3.1.3 Car Parc in Regional Markets

There are substantial differences in size and cars-to-population ratio among parcs of Federal Districts (see *Figure 18*). Over 30% of all vehicles are concentrated in Central Federal District, where there are 213 cars per 1.000 people – this indicator is considerably higher than in Russia on average. Also the North-Western and Far-Eastern Districts are in the forefront by this indicator.

Inside the Federal Districts, there are outstanding regions which to a big extent influence the picture of the whole region:

Moscow city and Moscow Region of Central Federal District represent together 18,3% of the whole Russian parc. The share of foreign cars and new cars there is much higher than in other regions of Central Federal District. Within Southern Federal District, the regions of Dagestan and Ingushetia have, with 60 cars per 1.000 people, the lowest ratio in Russia overall, strongly influencing the ratio of the whole district. In Volga Federal District, the heart of Russian automotive industry where VAZ factory is located, the share of domestic cars is the biggest in Russia. In Ulyanovsk Region of Volga District the share of foreign brands is

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only 3,6%. The share of foreign cars is highest in the border regions Primorskiy (Far Eastern District), Sakhalin (Far Eastern District) and Kaliningrad (North-Western District), with over 80% of the whole parc.

Federal District	Car parc (in 1.000)	Share of Russian parc	Cars/1.000 people
Central	7.966	31,1%	213
Volga	4.841	18,9%	158
Southern	3.507	13,7%	154
Siberian	3.175	12,4%	161
North-Western	2.642	10,3%	193
Urals	2.239	8,7%	183
Far Eastern	1.260	4,9%	192
Russian Federation	25.630	100%	180

Figure 18: Passenger Car Parcs of Federal Districts, 2006

Source: State Auto Inspection, Globis analysis

The 15 regions with the largest car parcs are listed in *Figure 19*. For ratings of all regional parcs see Appendix, chapter 5.5, p. 84.

Region	Federal District	Car parc, items	Change to 01.01.2005 (in %)	Population, in 1.000	Cars/1.000 people
Moscow	Central	3.096.661	7,7	10.415,8	297
Moscow Region	Central	1.593.606	12,9	6.628,9	240
St. Petersburg	North-Western	1.063.479	9,7	4.590,3	232
Krasnodar	Southern	1.047.412	3	5.098,4	205
Bashkortostan	Volga	775.913	10,4	4.071,1	191
Sverdlovsk	Urals	748.979	11,4	4.419	169
Rostov	Southern	728.462	4,8	4.318,9	169
Samara	Volga	691.630	4,8	3.195,1	216
Chelyabinsk	Urals	585.070	5,5	3.541,3	165

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Region	Federal District	Car parc, items	Change to 01.01.2005 (in %)	Population, in 1.000	Cars/1.000 people
Tatarstan	Volga	536.012	6,7	3.765	142
Novosibirsk	Siberian	523.162	20,6	2.656,1	197
Nizhny Novgorod	Volga	511.988	3,5	3.428,2	149
Stavropol	Southern	500.248	3,7	2.714,1	184
Krasnojarsk	Siberian	491.315	11,1	2.859,2	172
Voronezh	Central	445.297	5,5	2.323,9	192

Figure 19: Rating of Regional Car Parcs by Number of Vehicles, 2006

Source: State Auto Inspection, Russian Federal Statistics Service, Globis analysis

As to the age, the “youngest” parcs have Moscow, Tatarstan Republic and Khanty-Mansiyskiy Region – the share of cars older than 10 years there is less than 30%. On the opposite, the oldest parcs have Smolensk, Magadan and Kaliningrad – the percentage of cars older than 10 years there is 70%, 90% and 80%, respectively.

3.1.3.1 Passenger Car Parc of Moscow

As by many other economic and social indicators, also by car parc characteristics Moscow is ahead of other regions. The car parc in terms of cars-to-population in Moscow is increasing fast, from 0,297 in 2006 (Russian average 0,179) to 0,317 at the beginning of 2007. On average, almost every third metropolitan has his own car. The trend to own a second or third car per household is strongest in Moscow.

The total number of passenger vehicles has reached 3,3 mio. cars at the beginning of 2007. Each year the Moscow parc is increasing by over 200.000 cars (with new registrations of almost 300.000 cars) and the number of foreign cars is constantly growing: it has more than doubled from 2001 and is now over 1.5 mio. cars, almost 50% of the total car parc in Moscow. We expect the Moscow parc to

grow up to over 4 mio. cars in 2010, with more than 50% of these cars being foreign brands.

The most popular foreign models are Volkswagen Passat (1,7% in parc), Daewoo Nexia (1,2%), Ford Focus (1,2%), BMW X5, Nissan Almera, Mitsubishi Lancer (each of them 0,9%), Volkswagen Golf (0,8%), Hyundai Accent (0,7%), Toyota Corolla (0,7%) and Mercedes E-class (0,6%). Though the German cars are traditionally very popular, lately the Japan brands have increased their shares in the Moscow parc, with very good sales of over 20.000 new cars p.a. of Toyota, Nissan and Mitsubishi, respectively. Nissan and Mitsubishi, for example, now have overtaken the German brands Audi and Opel (see *Figure 20* for the most popular foreign brands in Moscow car parc).

Concerning age, the share of cars under 3 years old in Moscow parc is at 25% in 2006; the cars between 3 and 7 years old accounted for 16% while cars over 7 years old accounted for the remaining 59% of the parc. In comparison, the Moscow car parc is much younger than the Russian average and this trend is set to continue.

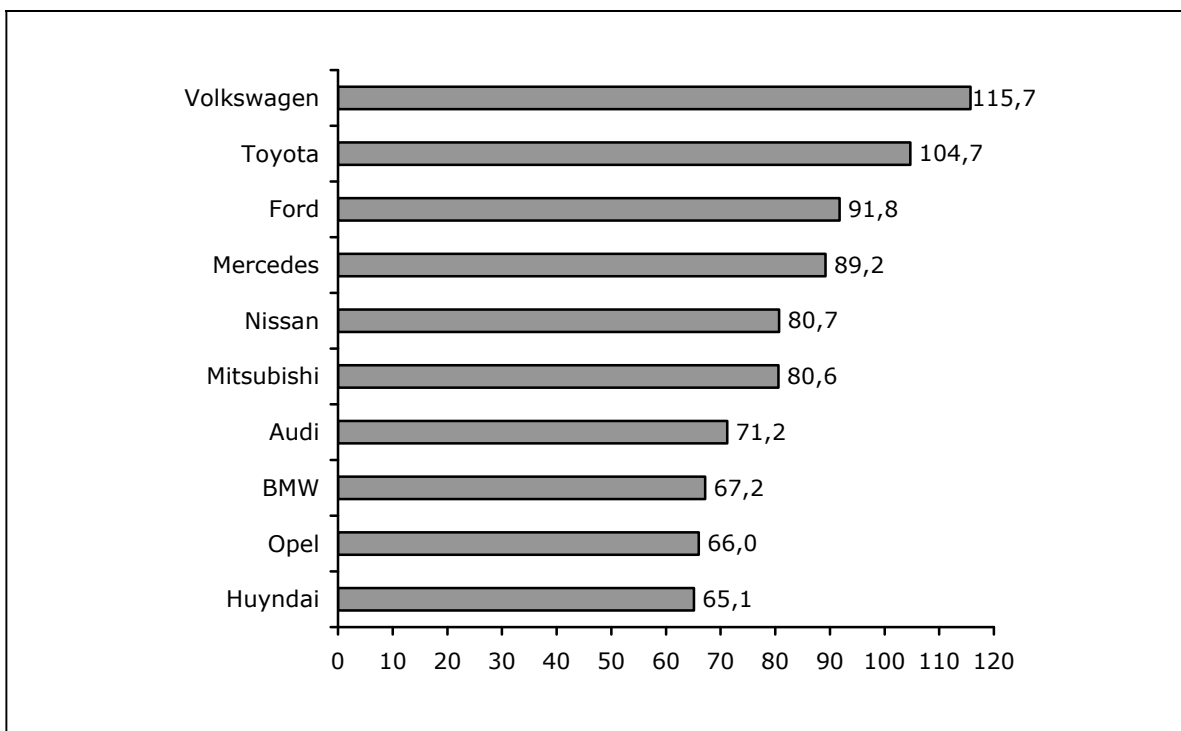


Figure 20: Moscow Car Parc: Top 10 Foreign Brands, in 1.000, 2006

The growth of the Moscow car parc causes a serious traffic problem for the city, where the infrastructure is not sufficient to cope with the increasing traffic. However, at least in the near future, we do not expect this situation to reduce car sales. For most people public transportation is still not an alternative.

3.1.3.2 Passenger Car Parc of St. Petersburg

In the Northern capital of Russia – as St. Petersburg is often called – the cars-to-population-ratio in 2006 was at 232 per 1.000 residents. The share of foreign cars reached 43% and today exceeds 500.000.

By models, Volkswagen Passat (2,4% of the parc), Volkswagen Golf (1,6%), Opel Vectra (1,2%), Audi-80 (1%), Opel Kadett (0,9%), BMW 5 (0,9%), BMW 3 (0,7%), Ford Focus (0,7%), Toyota Corolla (0,6%) and Mercedes of E-class (0,6%) have been the most numerous foreign cars in 2005 (see *Figure 21* for the most popular foreign brands in St. Petersburg car parc).

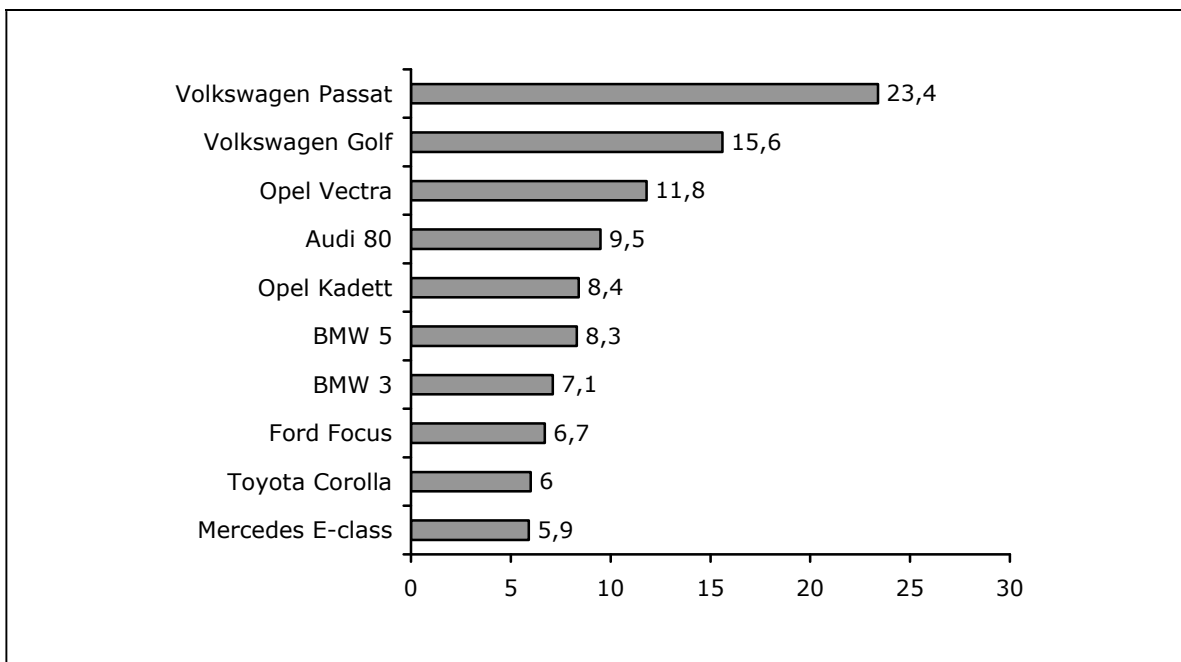


Figure 21: St. Petersburg Car Parc: Top 10 Foreign Models, in 1.000, 2005

Source: State Auto Inspection

3.1.3.3 Passenger Car Parc of Krasnodar Region

Krasnodar Region with 1,05 mio. cars at the beginning of 2006 has the fourth largest parc after Moscow city, Moscow region and St. Petersburg. Over 50% of the parc are VAZ models. 18% of the total parc are foreign brands, led by Toyotas: Toyota (2,5%), Volkswagen (1,8%), Opel (1,8%), Ford (1,4%), Mercedes (1,4%), Nissan (1,2%), Audi (1,1%), BMW (1,0%), Mitsubishi (0,7%) and Honda (0,5%) (see *Figure 22* for the most popular foreign brands in Krasnodar car parc).

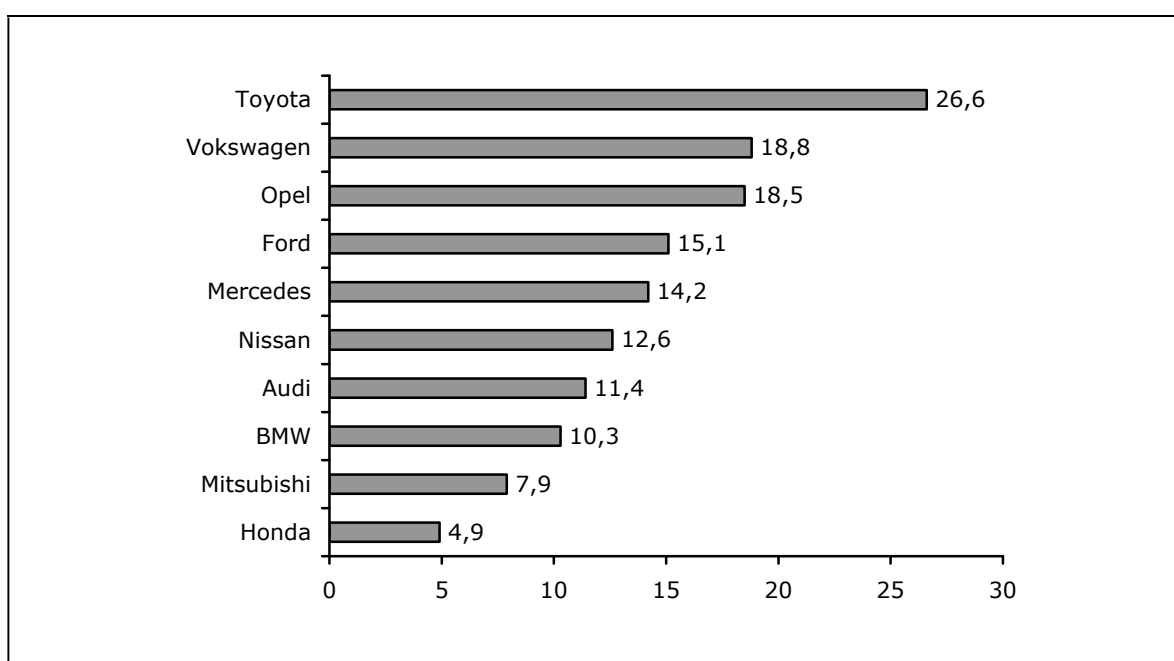


Figure 22: Krasnodar Region Car Parc: Top 10 Foreign Models, in 1.000, 2006

Source: State Auto Inspection

Only 11% of the foreign cars are less than 3 years old. About 80% of foreign cars are over 7 years old. Most popular models are Volkswagen Passat, Volkswagen Golf, Audi 80, Toyota Corolla, BMW 5, BMW 3, Opel Kadett, Opel Vectra, Audi 100, and Hyundai Accent.

3.1.3.4 Passenger Car Parc of Kaliningrad Region

With 250 cars per 1.000 people in 2005, Kaliningrad is well supplied with cars. Major characteristics of its parc are one of the highest shares of foreign cars across the country and high age of cars.

Due to the geographical location of Kaliningrad the share of foreign cars is over 80%. The top-10 models are Audi 100 (6,5%), Volkswagen Passat (6,2%), Volkswagen Golf (5,2%), Audi 80 (3,6%), Opel Ascona (3,2%), Opel Kadett (2,9%), Mercedes 200-series (2,2%), Mercedes 300-500 series (2,1%), Ford Sierra (2%) and BMW 5 (2%) (see *Figure 23* for the most popular foreign brands in Kaliningrad car parc).

The series indicate the age-structure of the car parc: over 95% of cars are older than 7 years, making this parc one of the oldest in the country.

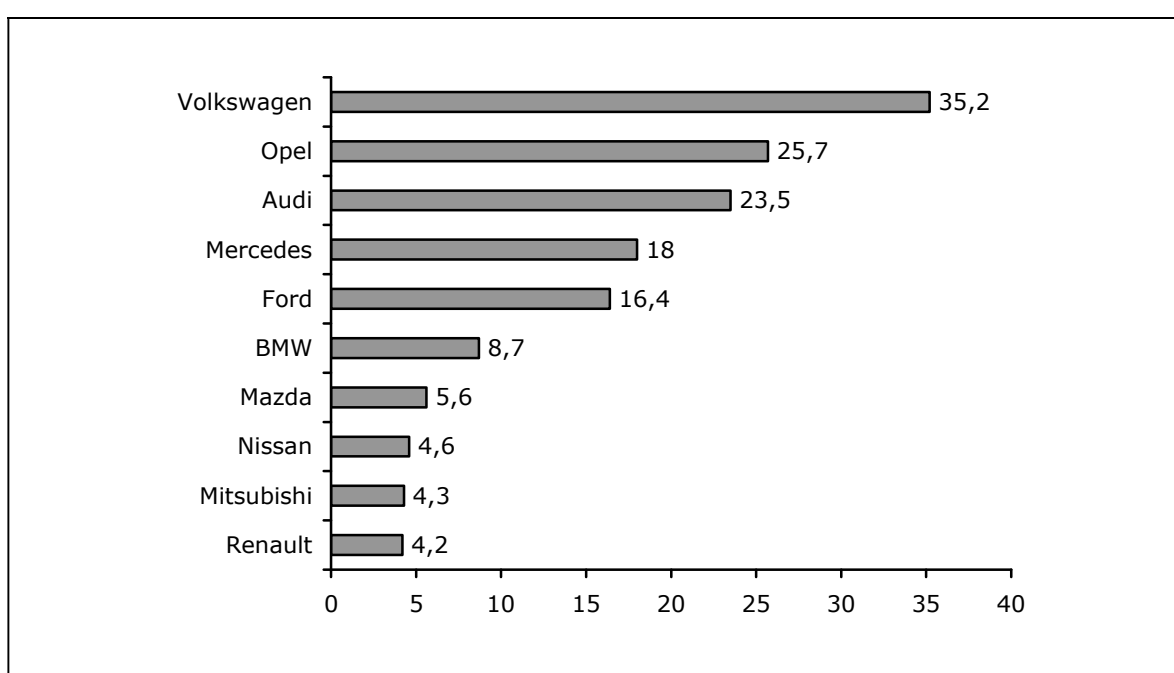


Figure 23: Kaliningrad Car Parc: Top 10 Foreign Brands, in 1.000, 2005

Source: State Auto Inspection

3.1.3.5 Passenger Car Parc of Primorskiy Region

Primorskiy Region also has a high share of foreign cars (84%) due to its location at the very South-East. Most of these cars are second-hand imports from Japan. Toyota represents 46% of the parc; second in parc is Nissan with 13%. Almost 80% of all foreign cars are right-wheeled. Mercedes as the first European brand ranks 15 with only a few hundred cars in this region (see *Figure 24* for the most popular foreign brands in Primorskiy car parc).

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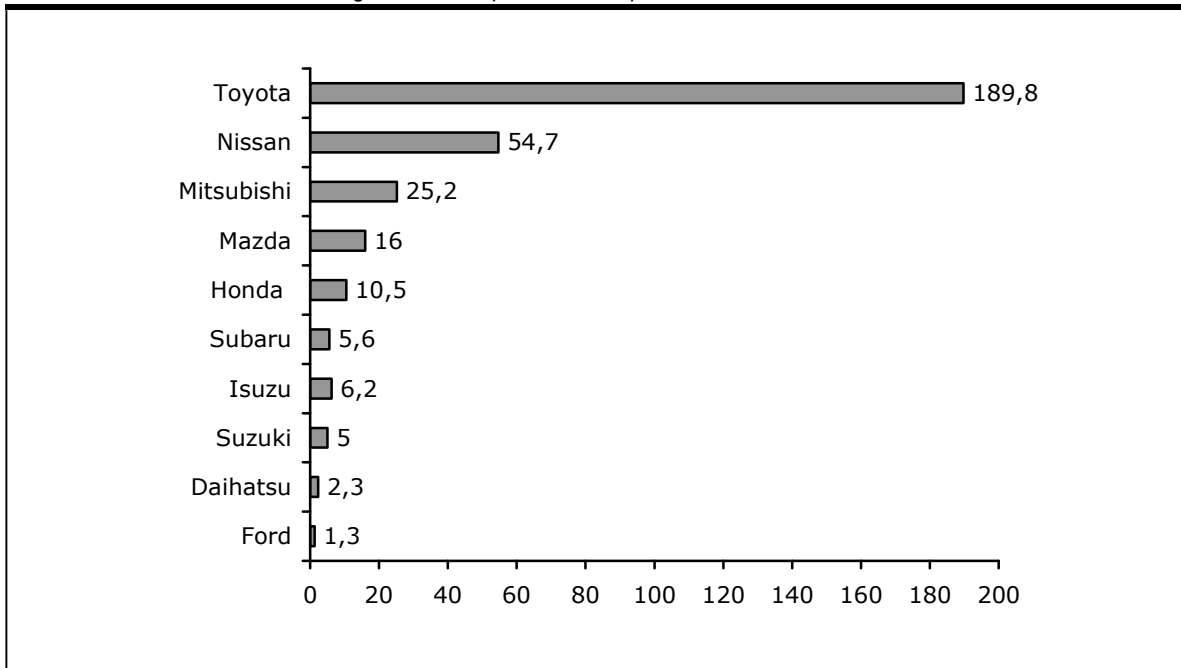


Figure 24: Primorskiy Region Car Parc: Top 10 Foreign Brands, in 1.000, 2006

Source: State Auto Inspection

The geographical location will also be the driving factor for the future. A rise in Chinese cars can be expected, with the Chinese automotive industry developing rapidly.

3.1.3.6 Passenger Car Parc of Novosibirsk Region

Together with a rapid growth of production and disposable incomes – based on a solid industrial development – the passenger car parc in this region is enjoying a rapid development. From 2005 to 2006 it has grown by over 20% and the number of cars per 1.000 people has increased from 158 to 197.

The fleet is dominated by Russian cars, with Toyota being the largest foreign brand in the fleet: Toyota (12%), Nissan (2,4%), Honda (1,3%), Mitsubishi (1,1%), Mazda (0,6%), Mercedes (0,5%), Ford (0,5%), Suzuki (0,4%), Audi (0,4%), BMW (0,4%), Opel (0,3%) and VW (0,3%) (see *Figure 25* for the most popular foreign brands in Novosibirsk car parc).

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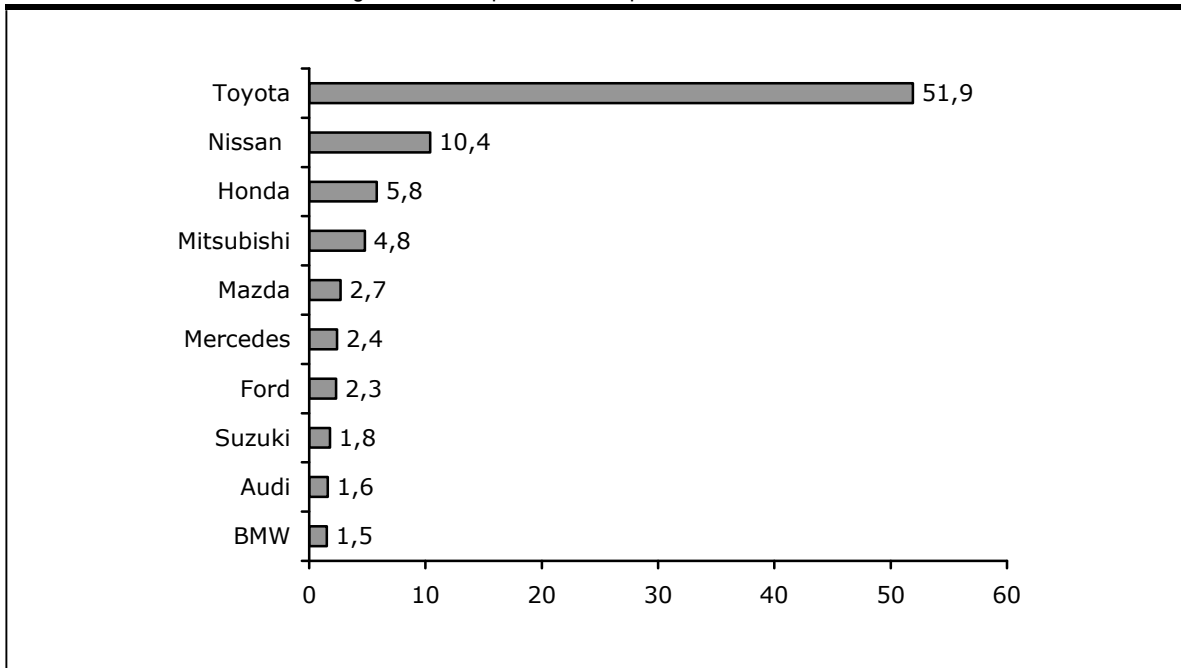


Figure 25: Novosibirsk Car Parc: Top 10 Foreign Brands, in 1.000, 2005

Source: State Auto Inspection

3.1.3.7 Passenger Car Parc of Rostov Region

Rostov region has one of the largest car parcs in the country (over 700.000 cars). However, in terms of cars-to-population-ratio, it is behind country average with 169 cars per 1.000 residents. The share of foreign cars in the parc of Rostov Region is relatively small (about 18%; see *Figure 26* for the most popular foreign brands in Rostov car parc). Also, in terms of age of cars, Rostov is behind country average with 76% of the car parc being older than 7 years.

The improvement of the economic situation in the next years will have an influence on the car parc: The Southern part of Russia is getting more in the focus of the automotive industry, which today is in the process of establishing new dealership centers in these regions. This will further increase the cars-to-population-ratio as well as the share of foreign brands.

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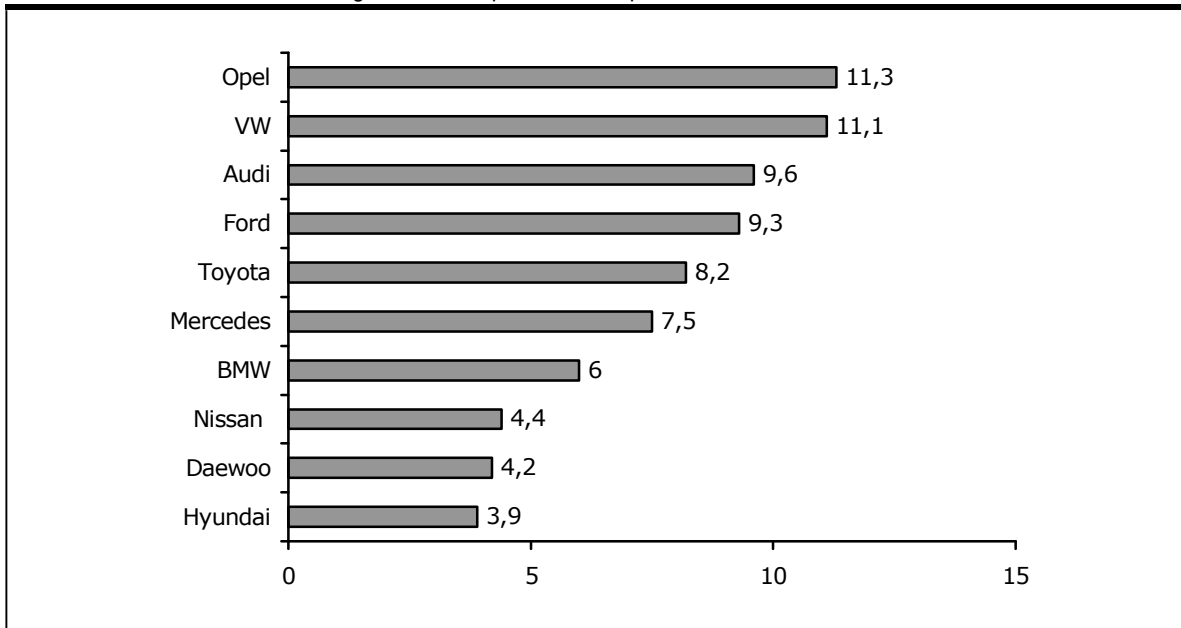


Figure 26: Rostov Car Parc: Top 10 Foreign Brands, in 1.000, 2005

Source: State Auto Inspection

3.2 Passenger Car Sales and Imports

3.2.1 Size of Market

Car sales and imports in Russia follow a certain trend (see *Figure 27*): at the end of the last century, the vast majority of new cars in the parc came from domestic car-makers, with imports of used foreign brands being second as a supply source. With an increase in income and new production capacity of foreign car makers in Russia, second-hand imports of foreign cars are beginning to be replaced through either imports of new cars or domestic sales of foreign cars. A few years later, Russian domestic car makers lose their share in new sales to new cars of foreign brands. This trend is set to continue, if Russian manufacturers do not find a defense strategy. Today, we expect the total number of car sales from domestic brands to be almost stable over the next years.

The sale of new cars grows at a rate of 21% from 2006 to 2010. Foreign car sales grow substantially faster at a rate of almost 34%. In 2010, sale of locally produced foreign brands will be at 1,1 mio. units, which is about total capacity. By then the production capacity of foreign car makers in Russia will be able to serve

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about 30% of the Russian market, against about 20% of domestic car makers (see *Figure 28*). The biggest supply source, however, will be imported new cars. Total local production capacity will only be sufficient to supply 50% of the market.

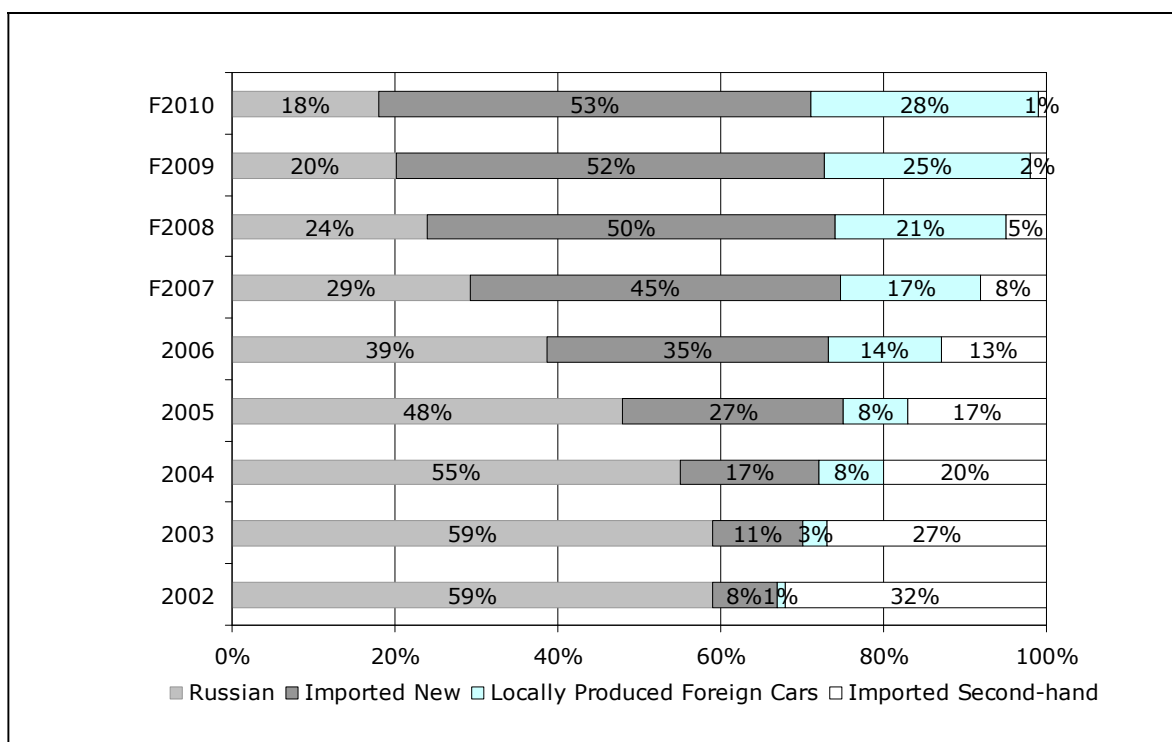


Figure 27: Relative Sales and Import Structure of Car Market, 2002-2010

Source: AEB, ASM-Holding, State Statistics Office, Globis analysis

Year	Total sales	Foreign "second-hand" imports	New foreign		Russian
			Imported new	Locally produced	
2002	1.420.000	450.000	120.000	10.000	840.000
2003	1.490.000	400.000	160.000	50.000	880.000
2004	1.610.000	320.000	280.000	130.000	880.000
2005	1.750.000	300.000	470.000	140.000	840.000
2006	2.060.000	260.000	720.000	280.000	800.000
F2007	2.650.000	220.000	1.200.000	450.000	780.000
F2008	3.110.000	150.000	1.560.000	650.000	750.000
F2009	3.560.000	80.000	1.860.000	900.000	720.000
F2010	3.940.000	40.000	2.100.000	1.100.000	700.000

Figure 28: Sales and Import Structure of Car Market, 2002-2010

Source: AEB, ASM-Holding, Russian Statistics Office, Globis analysis

There are many reasons for Russian brands to loose their position. Most Russian producers face increasing production costs and are not well equipped to create attractive models with good quality as fast as the consumer demand develops. In addition, spare parts for foreign cars become increasingly available, although there are still shortages today. Hence, the Russian brands serve the low end market of price-sensitive customers. This market, however, is growing much slower than the higher-class segments since financing is becoming widely available and the income of consumers increases. Today, the market for cars with prices below 10.000 USD accounts for 46% of all sales, the market for cars with prices between 10.000 and 15.000 USD for around 20%. The relations between both markets are expected to change in favour of the latter one. The development of the average car price, which, according to RBC, rose from 13.100 to 15.600 USD in 2006, gives an indication for this development.

In addition, Renault has already introduced its low-end model Logan and Volkswagen is also planning a production of a new model targeting the low-end market at a price below 10.000 USD by 2008. Chinese manufacturers, who are getting started to expand into foreign markets like Russia, also target this segment.

As demonstrated in *Figure 29*, 2006 was the critical year, with sales in foreign brands exceeding sales in Russian brands (new car sales) in total numbers.

The share of second-hand car imports in sales will decrease naturally with higher local income, the availability of financing and the growing local foreign vehicle production. This is not to say, that there will not be a lively second-hand car market in Russia. We expect this market to increase rapidly, but on the basis of new foreign and domestic cars bought in Russia, not through imports of second-hand cars.

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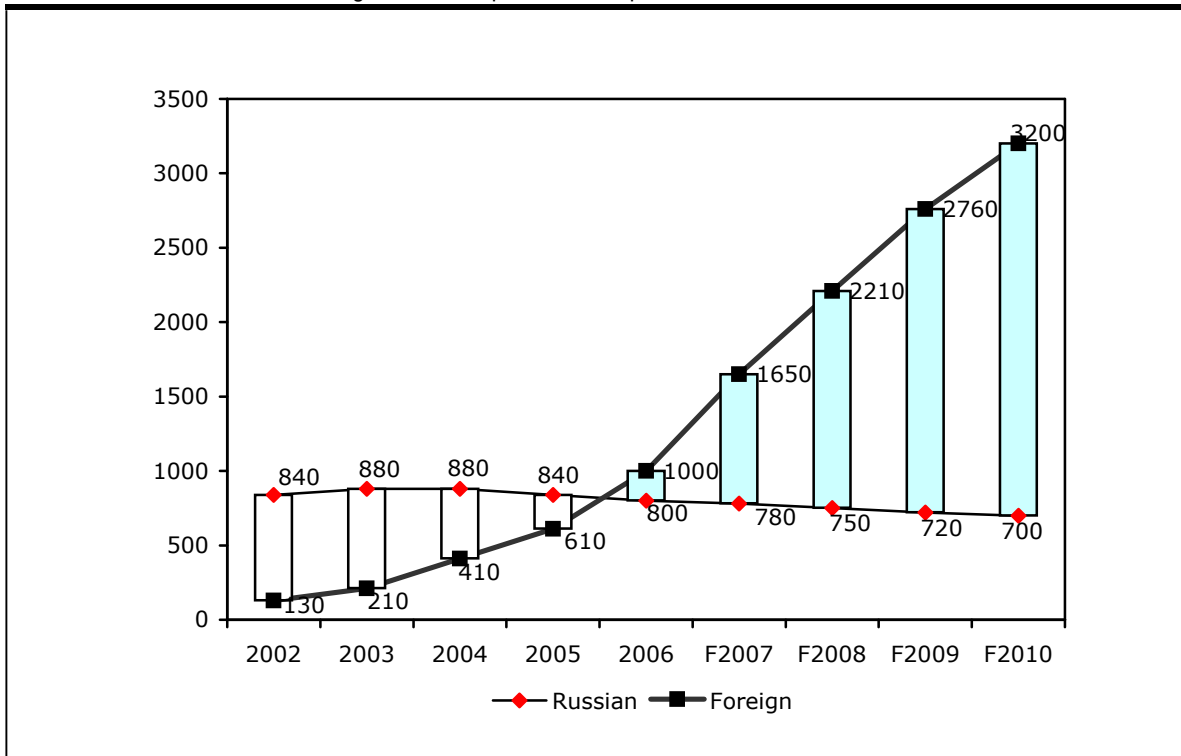


Figure 29: New Car Sales: Foreign and Domestic Brands, 2002-2010

Source: AEB, ASM-Holding, State Statistics Office, Globis analysis

Considering the geographical aspect of sales, Moscow and St. Petersburg together represent over one third of the whole Russian passenger car market. It is important to mention, that a part of Moscow sales represent wholesale supplies to other regions. Other big markets by results of sales in 2006 (source: Autostat) are:

- ▶ Samara Region (5% of sales)
- ▶ Sverdlovsk Region (4,2%)
- ▶ Tyumen Region, including Khanty-Mansijsky Region (3,4%)
- ▶ Krasnodar Region (2,9%)
- ▶ Tatarstan Republic (3,3%)
- ▶ Rostov Region (2,8%)
- ▶ Bashkortostan (2,7%)
- ▶ Perm Region (2,4%)
- ▶ Chelyabinsk (2,5%)
- ▶ Nizhny Novgorod (2%).

Sales of foreign brands have increased by 65% during 2006 and already by 74% in the 1st quarter of 2007, compared to the same period of the previous year, according to AEB (see *Figure 30*; for a complete list, see Appendix, chapter 5.8, p. 92). Ford, in 2006, was the leader among foreign brands, thanks to its popular models Focus and Fusion, closely followed by Chevrolet. Toyota, in 2006 on rank 4, has overcome Hyundai, rank 3 in 2006, in the 1st quarter of 2007, as Hyundai's models Accent and Getz are losing their popularity. Renault experienced a strong increase through its new model Logan, targeted on the low-end market, and ranked 6 in 2006. Audi, VW and Mercedes are growing on market average.

Boosting sales of brands mostly stem from local production facilities, which are newly opened and allow to tackle the market with lower prices: Considering the top leading models in 2005 and 2006, a lot of them were produced at Russian or other former USSR plants – Ford Focus, Renault Logan, Chevrolet Niva and Hyundai Accent (Russian Federation), Daewoo Nexia (Uzbekistan) or Chevrolet Lanos (Ukraine).

Noteworthy is the appearance of Chinese brands, although they still account for a small number in sales. Chery experienced the strongest growth in 2006 (about 1.100%), but coming from a very small sales volume in 2005 this number should not be overestimated.

	Brands	2006	2005	Growth 06/05	1st q 2007	1st q 2006	Growth 07/06
1	Ford	115.985	60.564	92%	39.071	15.950	145%
2	Chevrolet (incl. GM-AvtoVAZ)	111.458	66.532	68%	36.735	17.564	109%
3	Hyundai	100.685	87.457	15%	22.401	21.930	2%
4	Toyota	95.689	60.638	58%	29.368	15.033	95%
5	Nissan	75.529	46.485	62%	18.441	10.235	80%
6	Renault	72.484	29.177	148%	17.897	10.682	68%
7	Mitsubishi	68.845	55.148	25%	14.748	13.936	6%
8	Daewoo	66.717	48.623	37%	17.033	15.273	12%

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	Brands	2006	2005	Growth 06/05	1st q 2007	1st q 2006	Growth 07/06
9	Kia	59.993	24.671	143%	13.844	10.679	30%
10	Mazda	32.290	21.120	53%	9.378	6.196	51%
11	Opel	19.983	9.398	113%	9.380	2.737	243%
12	Volkswagen	19.186	12.007	60%	5.084	3.245	57%
13	Suzuki	16.118	9.803	64%	5.626	2.716	107%
14	Honda	15.723	8.906	77%	4.524	1.543	193%
15	Peugeot	15.287	9.251	65%	4.217	2.644	59%
...
	TOTAL	1.008.765	611.840	65%	295.469	170.258	74%

Figure 30: Sales of Foreign Car Brands, 2005, 2006, Q1 2007

Source: AEB, Globis analysis

The sale in brands is, of course, driven by the sale in models (see Figure 31): Ford Focus is the leader in sales by models in 2006. Renault Logan is second in 2006, with an increase of about 600%. It is noteworthy, that 7 out of the top-ten models are manufactured in Russia or the former USSR.

	Model	Country of production	Sales 2006	Sales 2005	Growth, %
1	Ford Focus	Russia	73.468	39.774	85%
2	Renault Logan	Russia	49.323	7.057	599%
3	Mitsubishi Lancer	Japan	46.969	39.195	20%
4	Daewoo Nexia	Uzbekistan	43.415	35.175	23%
5	Chevrolet Niva	Russia	41.155	44.059	-7%
6	Hyundai Accent	Russia	38.808	32.741	19%
7	Chevrolet Lanos	Ukraine	37.215	2.325	1501%
8	Nissan Almera	England, Korea	32.241	21.822	48%
9	Toyota Corolla	Turkey, England	31.222	22.442	39%
10	Kia Spectra	Russia	25.139	1.534	1539%

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	Model	Country of production	Sales 2006	Sales 2005	Growth, %
11	Daewoo Matiz	Uzbekistan	23.302	13.448	73%
12	Toyota Camry	Japan	18.099	12.860	41%
13	Mazda3	Japan	18.078	11.487	57%
14	Ford Fusion	Germany	16.532	6.815	143%
15	Chevrolet Lacetti	Korea	16.191	6.975	132%
16	Hyundai Getz	Korea	13.183	15.178	-13%
17	Toyota Avensis	England	13.140	8.612	53%
18	Mazda6	Japan	12.819	8.455	52%
19	Hyundai Tucson	Korea	12.606	5.720	120%
20	Renault Megane	Turkey, Spain	12.391	8.751	42%
21	Toyota RAV4	Japan	12.030	6.335	90%
22	Nissan Primera	England	11.142	9.130	22%
23	Ford Mondeo	Belgium	10.120	6.173	64%
24	Hyundai Sonata	Russia	9.987	10.890	-8%
25	Nissan X-Trail	Japan	9.933	7.420	34%

Figure 31: Sales of Foreign Car Models, 2005-2006

Source: AEB, Autostat, Globis analysis

In 2006, the overall SUV-trend could be observed in Russia as well. While the status and convenience aspect is true for Russia as well, there are much more practical reasons for SUVs in Russia: the road conditions in winter and in the countryside any time of the year in Russia are manageable at best with cars with good cross-country characteristics.

In the 1st quarter of 2007, Ford has strengthened its position due to the sales of Fusion (sales of this model increased by as much as 420%), and Chevrolet Niva showed again positive sales dynamics. Renault Logan and Mitsubishi Lancer, on the contrary, have slowed their growth, and Hyundai Accent sales remained on the same level as in the 1st quarter of 2006. The leaders by growth in sales became

Chery Amulet, Opel Astra and Chevrolet models Aveo and Lacetti. The sales of SUVs Suzuki Grand Vitara and Toyota RAV4 also show high growth rates of 186% and 116%, respectively (for details, see Appendix, chapter 5.8, p. 92).

3.2.2 Sales Drivers

As already mentioned, the automotive market in Russia is booming, and the sale of new foreign cars is growing especially fast. There are several drivers for this rapid market development:

- ▶ Increasing income
- ▶ Development of credit system and car loans
- ▶ Increasing local production of foreign brands
- ▶ Expansion of dealership networks
- ▶ Psychological reasons influencing consumer behaviour.

Normally, an increase of 1% of GDP means at least 0,5-0,7% growth in the automotive market. This correlation holds also true in the case of Russia. In Russia, all economic indicators show a healthy growth of the economy and widespread parts of the population (see chapter 2, p. 9). In addition, rising real estate prices further increase optimism and provide for financial leverage.

3.2.2.1 Car Loans

The system of car loans is one of the major aspects influencing the automotive market in Russia. The rise in the car credit market took its start in 2003. Since then, traditional banks and other players have started to offer car loans on a broader basis. Falling interest rates (and falling inflation rates) increase the attractiveness of the offers. Growing competition on the credit market also leads to simplified standard applications, and normally an employed person with a stable income faces no problems in getting a credit.

Whereas in 2003 the number of cars sold on credit was 170.000 or 11% of the market, it was already 500.000 cars (30% of the market) in 2005 and 750.000 or 36% of the market in 2006, according to Autostat (see *Figure 32*). We expect

the share of cars bought on credit to increase further, with a mid-term share as high as 75%.

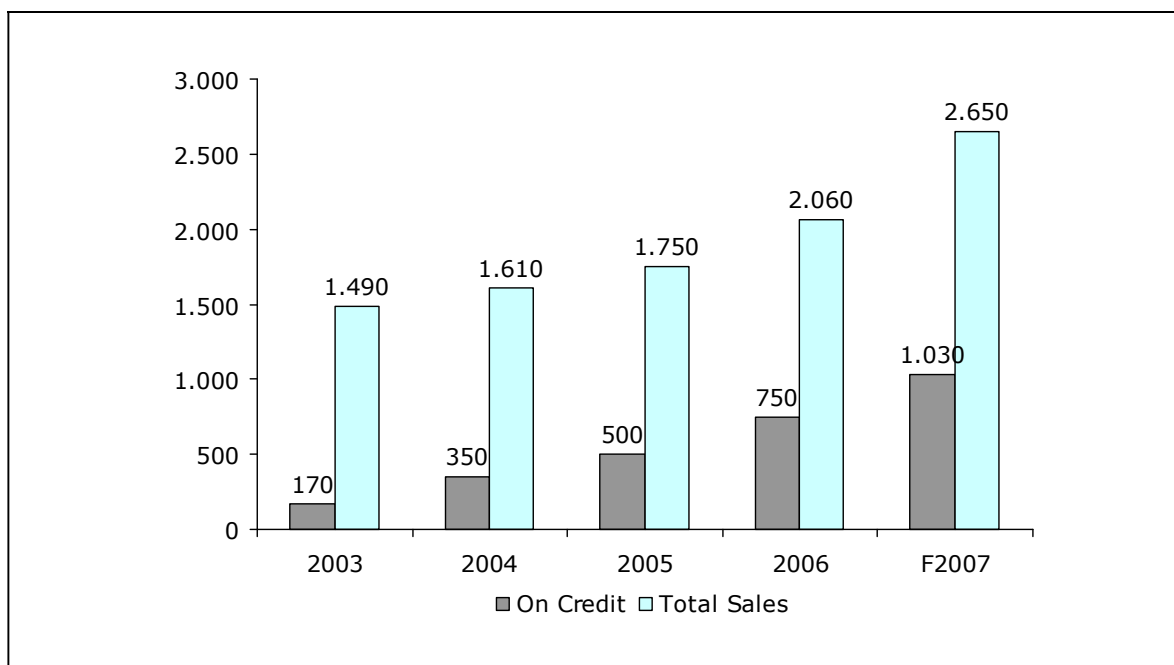


Figure 32: Cars Bought on Credit, in 1.000, 2003–2007

Sources: Autostat, Globis analysis

The most cars bought on credit are foreign brands priced at 10.000 to 25.000 USD, whereas the share of loans for Russian cars is decreasing. We estimate that 45% of new foreign cars were sold on credit in 2006.

The conditions for car credits are going to improve in the future, since the big car makers like Toyota, Renault, DaimlerChrysler, BMW and others have announced their plans to establish their own credit institutions in Russia. This would mean lower interest rates and attractive conditions for potential car buyers and will be a substantial driver for the development of foreign brands in Russia. Russian brands today have no own banks to hand out car loans – but this is only a matter of time.

3.2.2.2 Local Production Projects of Foreign Car Makers

There are clear benefits gained by setting up local production capacity on Russian territory: the import duty regime with its 25% duty on new cars and the hassle of importing into Russia – cars and spare parts – make business costly and

unreliable. However, under normal rules, there is still import duty levied on components that are imported to an assembly line. A comparatively well educated workforce and still relatively low wages are additional factors for engaging actively on Russian territory.

In order to support the automotive industry, Russia introduced the “Assembly Industrial Mode” in the governmental resolution No. 166 from 29.03.2005. According to this document, the import duties for certain groups of auto components – supplies to assembly lines – are abolished or reduced to 0-5% from 10-20%. To benefit from this preferential treatment, assembly projects must apply and fulfill the following criteria:

- ▶ A minimal annual capacity of 25.000 vehicles
- ▶ Minimum a two-shift operation
- ▶ Maximum 30 month from start to operation for Greenfield projects, 18 month for Brownfield projects
- ▶ Local assembly process must comprise body welding, painting, assembly
- ▶ Certain milestones on the degree of localization (value added produced in Russia): 10% within the first 24 months of operation, 20% within the following 18 months, and 30% within the following 12 months.

This framework was extended in June 2006 (decision No. 566) to OEM producers of car components, who now can also benefit from these preferential duties. With this decision, the assortment of articles subject for reduced tax was widened from 67 to 130 items. The idea behind these governmental regulations is to improve conditions in the automotive sector, where the weak supply of components and its low quality are among the main problems, and to realize a shift from import of cars from abroad to local production.

One of the first foreign car makers to assemble and manufacture in Russia was General Motors with its joint venture with Russian VAZ in 2002. The models manufactured are still very successful, with the popular SUV Chevrolet Niva on top. In 2002, Ford also started production of its vehicles in Vsevolzhsk (region of St. Petersburg). At present, Ford is the leader of foreign car sales in Russia, with

own production capacities in Russia. Other car makers start production in Russia through contract manufacturing agreement. ZAO Avtotor from Kaliningrad is one of the contractors which assemble different foreign brands. ZAO Avtotor started in 1999 with the assembly of KIA Sportage, but soon extended its program to BMW, Cadillac and lately also to Chinese brands Great Wall, Chery and Yuejin (the last is represented by several truck models). *Figure 33* gives an overview over foreign production in Russia. In 2006, other big players like Toyota, Nissan, Volkswagen, Peugeot and Citroen announced their own production projects in Russia.

	Enterprise	No. of cars, 2006	No. of cars, 2005
1	"Avototor", independent contract manufacturer, Kaliningrad (KIA, BMW, GM, Great Wall, Chery)	40	16
2	"GM-AvtoVAZ", Joint Venture, Tolyatti (Chevrolet)	48	52
3	"TagAZ", Joint Venture, Rostov Region (Hyundai)	56	45
4	"Avtoframos", was organized as Joint Venture, now with a 94% stake of Renault, Moscow (Renault)	51	10
5	"Ford Motor Company", subsidiary, St. Petersburg (Ford)	62	33
6	"IZH-Avto", independent contract manufacturer, belongs to SOK group, Izhevsk (KIA)	24	4
	Total	281	160

Figure 33: Production of Foreign Car Brands in Russia, in 1.000, 2005-2006

Source: ASM-holding, NAPI

By the end of 2006, ten automobile producers have applied for the industrial assembly agreement: Volkswagen, General Motors, Nissan, Toyota, Ford, Kia, SsangYong, Renault, ZAO "GM-Autovaz" and VAZ. Fiat, Chery and Isuzu have submitted applications and are waiting for the decision. At the beginning of 2007, besides these producers also TagAZ (Hyundai) and Great Wall applied for conditions of the regime.

In total, the production capacity of foreign investors is going to grow further to about 1,1 mio. vehicles by 2010 (see *Figure 34* for details).

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Brand	Production plan by 2010	Starting year
Chrysler (GAZ, Nizhny Novgorod)	65.000	2008
Ford (St. Petersburg)	75.000	2003
Nissan (St. Petersburg)	55.000	2008
Renault (Moscow)	120.000	2005
Volkswagen (Kaluga)	115.000	2007
GM (Kaliningrad, Tolyatti, St. Petersburg)	140.000	2002, 2007, 2008
Toyota (St. Petersburg)	50.000	2007
Hyundai (Rostov Region)	100.000	2000
KIA (Kaliningrad, Izhevsk)	70.000	1999, 2005
Great Wall (Elabuga)	50.000	2008
Chery (Kaliningrad)	100.000	2008
Peugeot, Citroen	50.000	2009
Geely (Novouralsk)	30.000	2007
SsangYoung (Naberezhnye Chelny)	10.000	2005
Fiat (Naberezhnye Chelny)	40.000	2006
Zhongxing (Novouralsk)	30.000	2007
Volvo (Kaluga Region)	10.000	2009
Renault Truck (Kaluga Region)	5.000	2009
FAW (Sverdlovsk Region)	5.000-8.000	2008
Suzuki (St. Petersburg)	10.000	2009
Total	1.125.000	

Figure 34: Planned Local Production for Foreign Cars in Russia up to 2010

Source: Za Ruljem, Globis analysis

Concerning the component producers, about 40 companies have shown their interest to manufacture under the conditions of the industrial assembly regime. Among them are Magna International (Canada), Bosch AG (Germany), Zahnrad

Fabrik Friedrichshafen AG (Germany), Linner (Germany), Virol (Germany), Siemens AG (Germany) and others.

3.2.2.3 Dealership Networks / Distribution Systems

As in many fast growing markets, the Russian dealership structure today is not standardized completely:

1. Most foreign brands in Russia are represented by their official dealers, who have been trying lately to expand their businesses into the regions in different parts of the country.

2. There still exist “unofficial” dealers for some brands. The import and resale of new cars is not prohibited. However, they are not able to provide the official service and therefore an official guarantee on the cars sold. The grey market made up 30% of new car sales in 2004. Today we estimate this grey market to be less than 10%.

3. “Open-air” markets are still the major second-hand marketplace for used cars.

4. An increasing number of companies specialize in second-hand car trade.

In the course of the last years the structure of the distribution system has been changing in consistence with the market development.

At the beginning of 2007, the following brands had the largest dealer networks (see *Figure 35*): KIA is selling via three big distributors in Russia – Sokia, Kia-Sandol and Avtotor – each of them working independently. With these arrangements, KIA increased its presence in Russia heavily, now having the most outlets (225) of all foreign brands. Chevrolet-Niva (GM-VAZ-joint-venture) commands the second largest dealership network. Ford, the current leader in sales, has the third largest network in Russia. A particular attention deserves Ssang-Yong: without any official dealers in 2004, it now has 64 dealer centers. Mitsubishi and Renault are other brands with very extensive networks across the country. Toyota in 2006 has been active in expanding its network to the East. To compare, VAZ currently has about 330 dealer centers, and GAZ approximately 120.

There are two trends for official distribution systems at present: active expansion to regions outside Moscow and St. Petersburg and rapid increase in numbers of centers. During the last 2 years, the number of centers has been growing by 25-30% on average.

Brand	No. of centers 1st Quarter of 2005	No. of centers 1st Quarter of 2007
KIA	57	225
Chevrolet-Niva	59	124
Ford	87	115
Mitsubishi	41	85
Chevrolet	16	82
Renault	60	72
Opel	32	71
Hyundai	40	65
SsangYong	0	64
Volkswagen	39	49
Skoda	38	47
Mercedes-Benz	37	43
BMW, Mini	28	40
Nissan	30	36
Audi	22	34
Toyota	17	33
Citroen	19	28
Peugeot	14	28
Subaru	14	28
Honda	14	25

Figure 35: Largest Dealership Networks of Foreign Brands in Russia, 2005-2007

Source: Globis

There are over 200 official dealers in Moscow and a lot of them have several trading centers. In St. Petersburg the number of dealers exceeds 100. Since the competition is quite fierce, the tendency in the last two years has been to move to other regions. Big cities like Chelyabinsk, Kazan, Krasnodar, Krasnoyarsk, Novosibirsk, Perm, Rostov and Voronezh have normally all foreign brands officially represented there; in Yekaterinburg and Nizhny Novgorod most brands have opened their second center. In the third quarter of 2006 alone 25 new centers were opened in different regions (see *Figure 36*).

Brand	City	Status
Mitsubishi	Orel	Dealer Center
	Kostroma	Dealer Center
	Penza	Dealer Center
	Tyumen	Dealer Center
	Bryansk	Dealer Center
GAZ (Volga, Gazelle, Sobol etc.)	St. Petersburg	Dealer Center
	Nizhny Novgorod	Showroom
	Volgograd	Dealer Center
	Nizhnevartovsk	Dealer Center
Toyota	Novokuznetsk	Dealer Center
	Ekaterinburg	Dealer Center
	Krasnoyarsk	Dealer Center
Volvo	St. Petersburg	Showroom
	Tolyatti	Dealer Center
Volkswagen	Izhevsk	Dealer Center
	Perm	Dealer Center
Peugeot	Moscow	Dealer Center
	Rostov-on-Don	Dealer Center
Ford	Nizhny Novgorod	Dealer Center

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Brand	City	Status
Mazda	St. Petersburg	Showroom
Mercedes	Novosibirsk	Dealer Center
Subaru	Perm	Dealer Center
Lexus	Yekaterinburg	Showroom
Land Rover	Tolyatti	Showroom
Jaguar	Tolyatti	Showroom

Figure 36: Dealer Centers Opened in the Third Quarter of 2006

Source: Autobusiness Magazine

The official dealer centers are built according to the “3S” distribution system: each brand is sold in a separate house, with official service and original spare parts offered there. The big brands, among which are Mercedes, BMW, Audi, Peugeot, Toyota and Great Wall have opened their own centralized ware houses of original spare parts, which allow reduction of delivery time. The presence of an own warehouse is becoming a must, especially considering the dealer network expansion – each of the dealer units needs an adequate spare part provision.

Most brands sell through independent distributors / dealers. Most of these companies represent several brands at the same time (see *Figure 37*) and are also engaged in second-hand car trades.

Company	Official Distributor of Brands
Rolf	Mitsubishi, Hyundai, Audi, Ford, Mazda, Mercedes-Benz, Peugeot
Avtomir	Skoda, Renault, Nissan, Daewoo, Kia, Chery, Suzuki, Hyundai, Citroen, Fiat, Faw, Mitsubishi, Opel, Chevrolet, Ssang Young
Major Auto	Chrysler, Jeep, Dodge, Renault, Nissan, Volvo, Mazda, Land Rover, Ford, Honda
Nezavisimost	Audi, Volkswagen, Mazda, Ford, Volvo, Land Rover, Jaguar
Eleks Polus	VAZ, Kia, Hyundai
Atlant M	Volkswagen, Audi, Mazda, Opel, Saab, Chevrolet, Hummer, Ford, Skoda, VAZ, GAZ, UAZ, MAZ

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Company	Official Distributor of Brands
Avtostart	VAZ, Audi, Mercedes, BMW, Audi, Ford
Business Car	Toyota, Lexus
Incom - Avto	Daewoo, KIA, Hyundai, Renault, Ford, Chery, SsangYong, Fiat, Sens, Yuejin, VAZ, GAZ, UAZ
KM/h	Opel, Chevrolet, Fiat, Kia, Daewoo, Hummer, Cadillac, SsangYong
Genser	Nissan, Opel, Chevrolet, SAAB, Cadillac, Ford, Hummer, Infiniti
Avto Key	Daewoo, Hyundai, Kia, Renault, Suzuki, VAZ
Avtodom	BMW, Mini
Avtocenter City	Opel, Cadillac, Chevrolet, Hummer
Trinity Motors	Volkswagen, Opel, Chevrolet, Cadillac

Figure 37: Major Russian Automobile Dealer Companies

Source: Globis

In Moscow, St. Petersburg and some other big cities like Yekaterinburg and Nizhny Novgorod there is already a competition between dealers of the same brand and the remaining “grey” dealers have a hard standing. In other regions with a loose distribution network, there are many more grey dealers. The expansion of official dealers to other regions forces the grey dealers out of the market since consumers then have the choice to get official service and official guarantee. The role of grey dealers is and will be, however, important in the segment of “rare” cars, even though such companies as Porsche or Cadillac have opened dealer centers lately.

The second-hand car marketplaces are the “open-air” markets, saloons of companies specializing on second-hand cars, and lately also the trade centers of official dealers.

The dealers in “open-air” markets are usually individuals and small companies, who import used foreign cars to Russia on their own. On the marketplace, registration services and help with legal procedures are provided, so that a deal can be made comfortably in quite a short time. The big variety allows the consum-

er to compare. At the same time, however, there is no guarantee on car quality and a comparatively high risk to be cheated.

Whereas open-air markets traditionally were a common place to buy second-hand cars, today the image of these markets is slowly changing: in Moscow they are already associated with the low-end segment. In other regions they still give customers an opportunity to buy a reliable foreign car at a good price.

There also exist companies with saloons specializing in trade of used cars (see *Figure 38*). In some cases they are specializing in vehicles from particular countries – for example, Japanese cars or cars from Europe or the US. Normally, these companies have a partner (i.e. a second-hand-trader) abroad and therefore can offer a customer a broad choice of interesting cars. A client can also “order” a special model, which a company is promising to deliver in a time of normally 2 to 4 weeks. The advantages of such saloons, compared to the open-air-markets, are guarantees provided by the trader. Some of these companies trade also new cars along with the used ones – that is, clients have a choice of 5 to 10 new cars in a saloon, or can order a new car to be delivered from abroad.

Company	Specialization
Berlin Auto	Cars from Germany
Avto Karavan	Second-hand cars from Europe and USA
Dali Motors	Cars from Europe and USA
Avtostart	Second-hand trade: foreign and Russian cars
Autosalonbu	Second-hand cars from Europe, USA, Japan
Usedcars	Sell-buy and order second-hand cars from Germany, USA, Canada
Canmore	Order second-hand from Germany and USA
SV-Motors	Second-hand and new cars from Europe and America
Autoconsultant	BMW, Mercedes-Benz, Porsche, Lexus, Audi, VW, Opel, Toyota
Borex	Second-hand cars from Germany: BMW, Mercedes-Benz, Audi, VW, Opel

Figure 38: Selected Second-Hand Car Dealers in Russia

Source: Globis

Comparatively new players in the second-hand car market are the saloons of official dealers, which establish the system of trade-in and organize pavilions with used cars in their trade centers. A customer can rely on the official brand representative and be sure about the history of a particular car. However, there is a considerable price difference of a few thousand Euros more in comparison to the open-air-markets.

Nevertheless, we suppose that a bigger share of the used car trade will move to official saloons in future. At present, an official dealer realizes about 100 used cars per months on average, compared, for example, to 90 cars per day in the big trade complex “Autogarant” of Mytishinsky open-air market in Moscow.

3.2.2.4 Consumer Preferences

For many Russian consumers the most important purchase criteria when buying a car is its cost-effectiveness. This attitude, of course, differs depending on the income group, which to a large extend correlates with the region: in Moscow and St. Petersburg brand and design are more important than in other regions.

On Russian average, cost-effectiveness (with comprises quality to a large extent) is followed by brand and design. *Figure 39* gives an overview over key purchase criteria.

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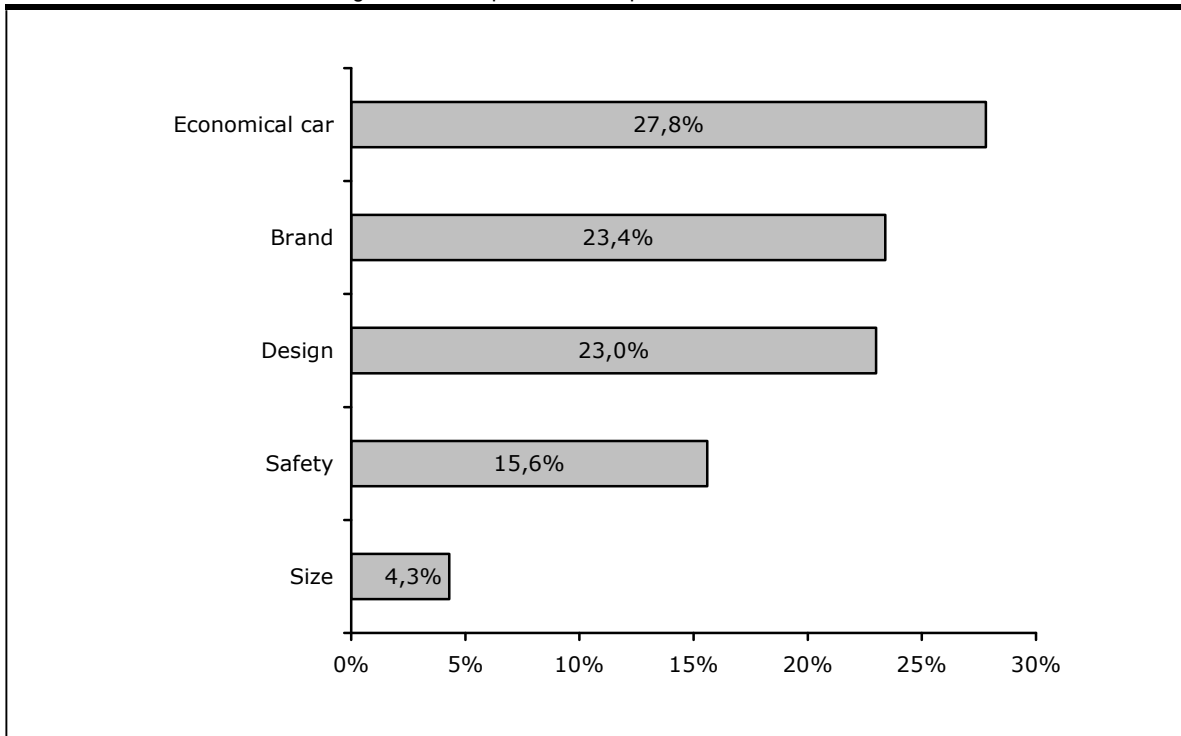


Figure 39: Key Criteria Influencing Car Choice in Russia, Single-Choice

Source: kolesa.ru

Given these criteria, Russian consumers in total prefer foreign cars (see *Figure 40*). Even in the lowest income group 27,9% of respondents say that they would prefer to buy a new foreign vehicle; in the segment of consumers with highest income it is 84,4%.

A typical Russian holder of a new foreign car is a 37 year old man or woman (in Europe: 47 years old, according to AEB) with higher education (office worker or manager) with a monthly income of about 580 Euros. A typical person, who is planning a purchase of a new foreign vehicle, is 35 years old and has a monthly income of 530 Euros. Buyers of foreign cars are middle-class representatives and young city inhabitants, who are conscious about high quality standards. They are replacing their car every 4 to 5 years. In the big cities, more and more women drive cars (in Moscow and St. Petersburg 25-30%). This goes hand in hand with many households having a second and third car in these cities. In general, however, the purchase decision to buy the (one) family car is still made by men.

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

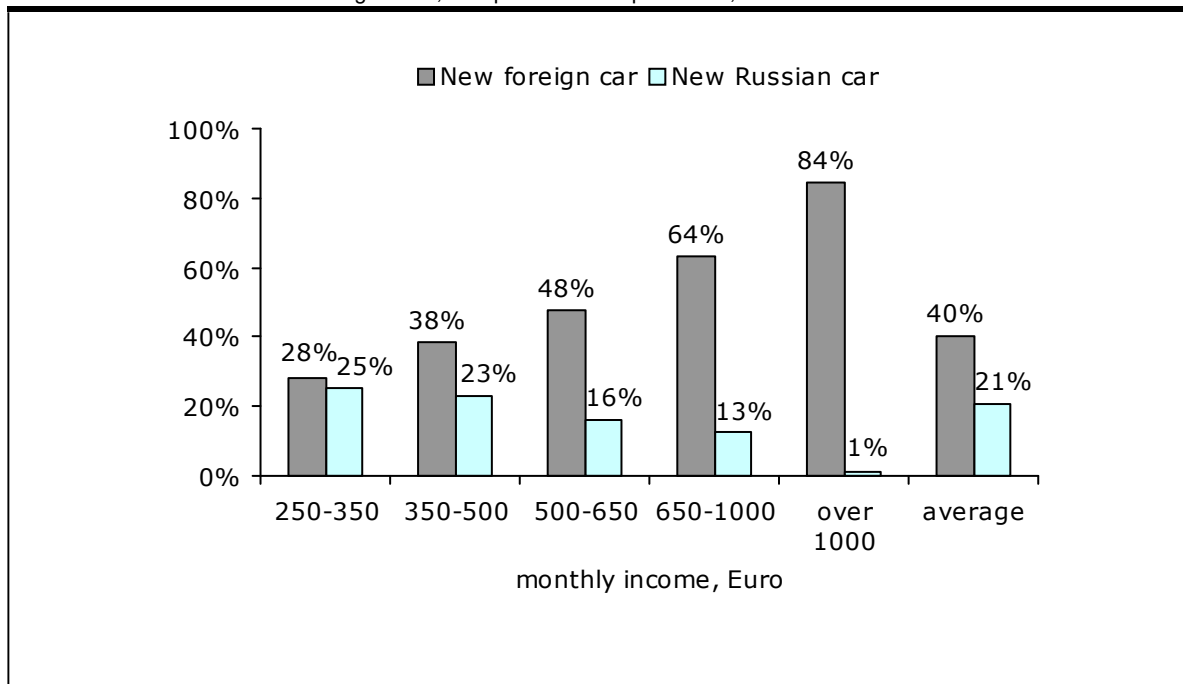


Figure 40: Car Buyer's Preferences Depending on Income Size

Source: Russian National Insurance Company

Analysing Russian consumers today, one has to bear in mind that every year about 12% of Russians buy their first vehicle ever, whereas in Europe only 1% are first buyers, according to AEB.

4 Russian Components and Spare Parts Market

4.1 Market Size for Components and Spare Parts

The market needs to be divided into primary market (supplies to assembly lines) and secondary market (aftermarket) for spare parts. Given the status of the Russian car parc and its dynamic, both markets are growing substantially.

4.1.1 Primary Market

The primary market, that is the delivery of components to the assembly line, depends on the volume of new cars assembled and produced in Russia, the pricing of components and the value-added of the manufacturer.

Sales numbers were already discussed earlier, along with the development of local production projects of foreign brands in Russia (see *Figure 28*, p. 34). The technical progress will lead to increased pricing of components, both for foreign and Russian cars. Given these developments, the primary market will grow substantially from about 5,0 bn. USD in 2006 to 11,8 bn. USD in 2010 (see *Figure 41*).

The main drivers for this development are local production projects of foreign brands and the increasing demand overall. Almost 75% of the primary market in 2010 will be allocated to foreign brands producing in Russia.

A substantial share of the market is, of course, captive. Car manufacturers tend to co-operate with suppliers on a worldwide basis, so as to minimize co-ordination efforts, ensure quality and reduce prices. Nevertheless, given the market dynamics in Russia, there are also substantial opportunities to establish co-operation with new brands in the primary market. For foreign component suppliers, also Russian car brands are an option. For example, the UAZ Patriot is equipped with Bosch, Almet, Goetze, INA, LuK and Rubena components. In total, given the current structure of suppliers in Russia, there is a large potential in metal parts, tyres, glass, accumulators and engine components.

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

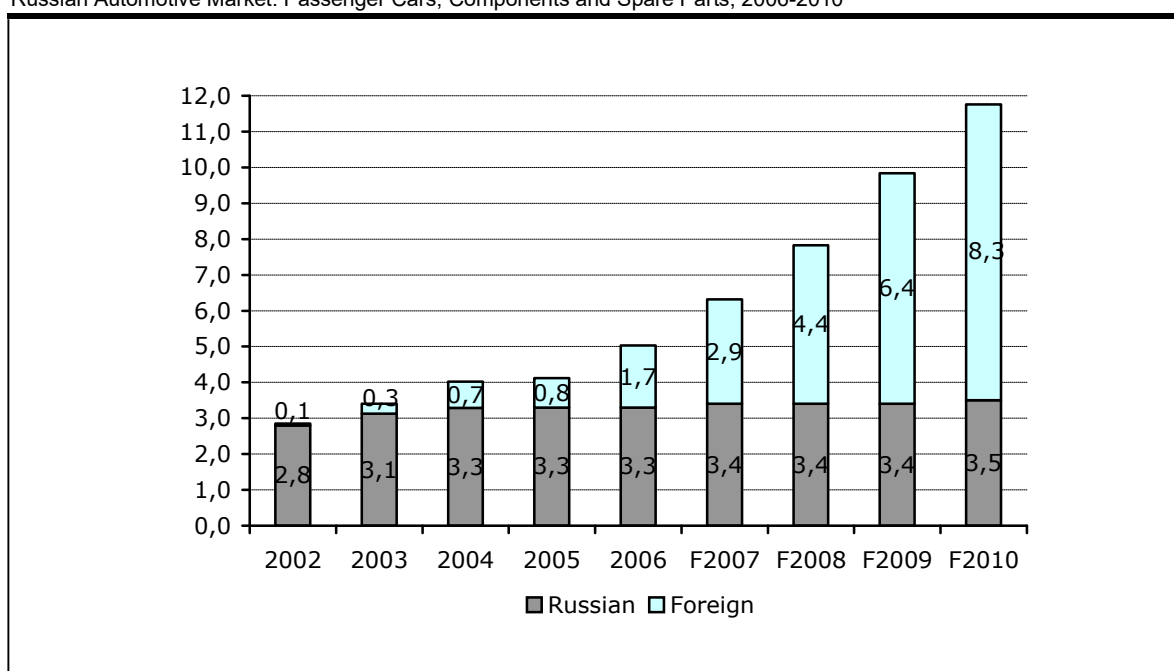


Figure 41: Automotive Parts Market for Russian and Foreign Brands, USD bn., 2002-2010

Source: Globis

Today there are over 200 component manufacturers in the Russian automotive industry, both of Russian and of foreign origin. The Russian manufacturers have been associated with lower quality and, in the past, have not been the first choice for foreign brands producing in Russia. With local car brands under pressure due to low quality, less attractive offers and foreign competition in the low-end sector, Russian component manufacturers are threatened to lose even local brands as their customers. Hence, Russian component suppliers are investing heavily to improve efficiency, quality and innovation. Some of them already supply components to foreign brands assembling in Russia. Major Russian suppliers are listed in *Figure 42*.

Region	Enterprise	Production	Supplies to
Ivanovo Region	Avtoagregat (Kineshma)	Knots and details of brake system, suspension, body, steering	VAZ, UAZ, LuAZ, KamAZ, PAZ, TRW
Vladimir Region	AvtoPribor	Instrument clusters, windshield wiper systems, sensors, other automotive electrical products	VAZ, GAZ, IzhAuto, UAZ, KAMAZ, Ford, abroad exports

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

Region	Enterprise	Production	Supplies to
	Osvar (Vyazniki, SOK Group)	Car lightening: internal lights, head-lights, braking lights, lamps	GAZ, AvtoVAZ, UAZ, KamAZ, ZMA, UralAZ, SeAZ, abroad exports
Chuvashia Republic	Elara	Ignition systems; climate control systems; signal and control systems for automotive and aircraft industries	Various Russian enterprises
	ZEiM-Line (Cheboksary)	Car electronics: controllers for fuel injected engines, immobilizers; diagnostic equipment for electronic systems	AutoVAZ, GAZ, UAZ, aftermarket
Samara Region	Energotech-mash (Zhigulevsk)	Bumpers, bumper beams, stampings made from thin sheet steel, plastic components	AvtoVAZ, Avtoagregat, Vazinterservis, DSK, aftermarket
	DSK (Toljatti)	Fuel tanks, carpeting, window raisers, window glass, metal parts miscellaneous components	AvtoVAZ, GM-AvtoVAZ, Ford Motor Company, Vazinterservis, IzhAvto, SeAZ, ZMA
	Polimerstroymaterialy (Otradnoye)	Trunk carpets	AvtoVAZ, GM-AvtoVAZ, GAZ
	Samaraavtozhgut	Auto wiring assemblies, windshield washer systems, door lock wiring	AvtoVAZ, ZAZ, others
	Samara Cable Company	Cables, wire	VAZ, GAZ, other
Kaluga Region	Kaluga Plant of Automotive Electrical Equipment	Ventilators, electric window lifts, starters, etc.	AvtoVAZ, GAZ, KAMAZ, UAZ, ZIL, LIAZ, IzhMASH
	Plant "Autopribor"	Sensors, relay, etc.	Russian and CIS car manufacturers
Kursk Region	Kursk Bearing Company	Bearings	AvtoVAZ, GAZ, KamAZ, UAZ, ZMZ, exports
Oryol Region	Orleks	Sensors, relays, thermostats, etc.	Various enterprises
Nizhny Novgorod Region	Avtotechnika	Floors, ceilings, trunk coverings and sound insulation panels	GAZ, Ford Motor Company, GM-AvtoVAZ
	Soteks	Car seats, polyurethane foam and plastic part	GAZ, Lear Corporation, Johnson Controls, AvtoVAZagregat, ZMA (Ssang Yong)

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

Region	Enterprise	Production	Supplies to
	ZMZ (part of SeverStal Auto Group)	Gasoline and diesel engines, engine bearings	GAZ, UAZ, ZMA (Fiat)
	Bor Glass Company	Glass, windshields etc.	Russian car manufacturers; GM AvtoVAZ, Ford Motor Company
Belgorod Region	Soate (Sary Oskol)	Automotive electronics; injection systems, and ignition systems	GAZ, AvtoVAZ, UAZ, IzhMash, KamAZ, ZMZ, others
Saint-Petersburg Region	Avtoarmatura	Car antennas, ignition switches and other switches, other electrical and plastic components	GAZ, AvtoVAZ, KamAZ, ZIL, UAZ, IzhAvto, MAZ and KrAZ
	Intercos	Automotive body panel dies, tools large sized stamping, stampings and mouldings for automotive and other industries	Volkswagen, Ford Motor Company, Daewoo Motor, Hayes Lemmerz, Caterpillar
	Toplivnye Systemy	Carburetors, fuel pumps, engine management systems	Pierburg; negotiations with Ford, VW, Skoda, Bosch
Chelyabinsk Region	TREK (Miass)	Control arms silent blocks, oil filters, suspension details	AvtoVAZ, GAZ

Figure 42: Major Russian Component Suppliers

Source: Globis

There is a substantial number of foreign component suppliers in Russia already. New participants are also about to enter the market, partly forced through car brands they depend upon. *Figure 43* gives an overview over major foreign component suppliers in Russia.

Region	Car component production projects	
	Active	Announced
Moscow	IHI Pilkington Stadco (punching, supplies to Severstal) Glaverbel (glass, supplies to Ford, GM-AvtoVAZ) Michelin (supplies to Ford)	Inergy (supplies to Renault, Nissan, others)
St. Petersburg	ThyssenKrupp	Kirchhoff Automotive (supplies to Ford)

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

Region	Car component production projects	
	Active	Announced
	<p>Stadco</p> <p>Nokian Tyres (supplies to Ford)</p> <p>Magna (mouldings, supplies to AutoVAZ, GAZ and foreign production lines)</p> <p>Johnson Controls (seats, supplies to Ford, Hyundai)</p>	<p>Toyota (supplies of its own production)</p>
Kaluga Region	Siemens VDO Automotive	Bosal (supplies to Renault, VW, others)
Ryazan Region	Magneti Marelli (headlights, supplies to AvtoVAZ, GM-AvtoVAZ, GAZ, UAZ)	
Nizhny Novgorod Region	<p>Lear Corporation</p> <p>Faurecia</p> <p>ThyssenKrupp</p> <p>Magna</p> <p>Glaverbel</p>	<p>Ficosa (joint venture with Auto-component; supplies to Renault, Ford, Toyota, Volkswagen)</p> <p>EDAG</p> <p>Knorr-Bremse</p> <p>Gruppo Magnetto (moldings for VW)</p>
Saratov Region (Engels)	Bosch (fuel injection systems, supplies to AvtoVAZ, GM-AvtoVAZ)	
Samara Region	<p>Hayes Lemmerz</p> <p>Delphi (banded cables for AvtoVAZ, GM-Avtovaz, Ford)</p> <p>HCC (Toljatti)</p>	WOCO
Kazan Region (Tatarstan Republic)	<p>Siemens VDO Automotive (Tschistopol; car-tridges, tahometres, supplies to AvtoVAZ, GM-AvtoVAZ, Kamaz)</p> <p>Stadco</p> <p>ZF (gear boxes, supplies to Kamaz)</p> <p>Cummins (Naberezhnye Chelny; diesel engines, supplies to Kamaz)</p>	
Yekaterinburg	<p>Tenneco (exhaust systems, filters, supplies to GM-AvtoVAZ)</p> <p>Federal Mogul</p> <p>Johnson Controls</p> <p>Asahi Glass Company</p>	

Figure 43: Foreign Component Supplier Projects in Russia

Suppliers tend to settle around the assembly or production units of car makers. Currently, production clusters have been formed in St. Petersburg, Nizhny Novgorod, Samara, Kaluga and Tatarstan Regions.

4.1.2 Secondary Market

The secondary market, that is spare parts build into cars because of routine replacements or break downs, is scattered. There is a distribution system with many options for customers to buy spare parts (see chapter 4.2, p. 63), either directly or as part of a service.

The market for spare parts is determined by many factors:

- ▶ Quality of cars, spare parts, fuel and lubricants used
- ▶ Service center system
- ▶ Regulations, like mandatory routine inspection
- ▶ Road conditions
- ▶ Climate
- ▶ Availability of faked products
- ▶ Availability of independent aftermarket products

The quality of materials, fuel and lubricants produced in Russia is, on average, rather substandard compared to Western Europe and North America. This leads to shorter life cycles of components and parts on average. For example, a fuel filter in Russia has to be replaced in a much shorter time period than in countries with better quality of fuel. We expect this driver to loose its relevance only slowly.

A comparatively large share of repair and maintenance services in Russia is delivered by small repair garages, mostly not officially registered as a business. Self-repair is also relatively widespread. The main reason for this repair channel is low cost. The preferred methods of repair of these channels is to fix a problem somehow – if possible without the use of new spare parts or through used parts. If new parts are needed, the preferred choice is faked products (mostly in case of Russian brands) and non-original parts. This has a solid impact on the spare parts

market, in terms of parts used and the cash-volume of the market. Depending on the component or part, this service channel reduces the market substantially. In the case of older models, the shortage of supply of spare parts also contributes to work-arounds.

The “Rules of Technical Inspection for Transport Vehicles” (see chapter 3.1.1, p. 19) provide for cars to be checked regularly. These checks comprise mainly basic function tests, like the functioning of the brake, steering and lightning systems. These rules influence the spare parts market. In order to pass the tests, parts which are not sufficient anymore but otherwise still in use, are exchanged in the course of preparation for the test. The Rules still provide for some (but not much) growth potential of the spare part market, since in some cases the necessary certificates are handed out without any checks. With more strictly enforced regulations, more parts will be needed.

Road conditions are, especially in the country side, hazardous in most regions. Russia as a country is just too large and some distances just too far to bring and keep roads in a solid shape. The climate is another factor which leads to a much faster deterioration of pavements. Even though there are heavy investments into the road network in Russia, the conditions of Russian roads will remain a driving factor for the spare parts market. Due to this reason, shock-absorbers are one of the biggest spare part markets in Russia.

Climate, as mentioned before, is an important factor in understanding the Russian spare part market. The unfriendly climate especially in the Eastern regions (which, compared to Western European standards, is to be found in Moscow already) leads to a faster deterioration of the roads. Individual parts, however, are also affected strongly by the climate. Most of them simply wear out faster at average winter temperatures of -15 to -20 °C. We estimate, that parts need to be replaced at a rate of 20% earlier (all other things equal), compared to Western Europe.

Faked components and spare parts are a major characteristic of the Russian automotive parts market. The data on falsification of original spare parts is striking:

in the case of Russian brands, every second one is faked, with the most of them produced in China or less often in Turkey. In the case of foreign brands, 80% of spare parts are considered to be of original quality (OEM and IAM). The less complex a part is, the more likely it is faked. Widespread falsifications include small details like filters, plugs, radiators, rubber parts, as well as of expandable materials. The total market of faked parts is estimated at 2 bn. USD. There are strong efforts, led by the National Association of Automotive Component Manufacturers, to reduce the volume of falsification. However, in a vast country like Russia one can not expect a dramatic change of the situation in the foreseeable future. Faked parts, of course, are offered at a much lower price. This is only partly offset through their lower quality, increasing the quantity of incidents to replace these parts.

Apart from faked products, there is a large independent aftermarket in Russia. Today, most spare parts used are not original. The vast majority of services is delivered through other service channels than the original service centers. These service centers prefer IAM-products to reduce cost. Sometimes they invoice original quality and build in IAM-products. In many instances, a customer even brings in IAM-parts to the service center (and purchases only the service), which he bought at a spare part shop by himself. Additionally, the shortage of original parts in some regions strengthens the independent market. Today, there is a trend towards a better supply with original parts and towards using more original parts, which will slowly change the market. However, we expect a very strong independent aftermarket in the future.

In total, parts are replaced 10% more frequent than in Western Europe, with peaks of up to 100% for certain parts. The pricing of parts is diverse, with a huge price span from faked, over IAM, to OEM parts.

Based on our market model, the total spare part market in Russia in 2006 was around 7,9 bn. USD (*Figure 44*). Based on today's pricing, this market will grow at a rate of almost 14% to 13,3 bn. USD in 2010, driven by an increase in the car parc and the factors discussed above. The growth of the market will be through parts for foreign brands only; this market segment will grow at a rate of 30% until

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2010. The market for parts for Russian brands will stagnate over this time period. These numbers include the market for tyres, but exclude lubricants.

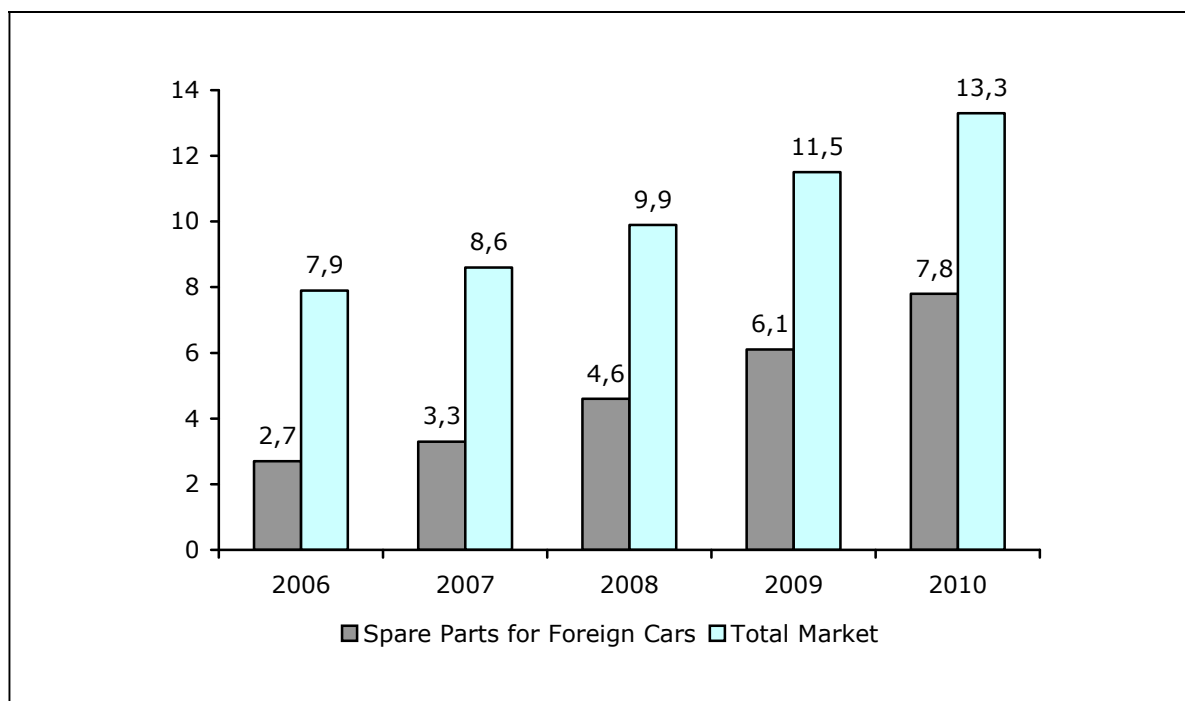


Figure 44: Size of Russian Spare Parts Market, USD bn., 2006-2010

Source: Globis

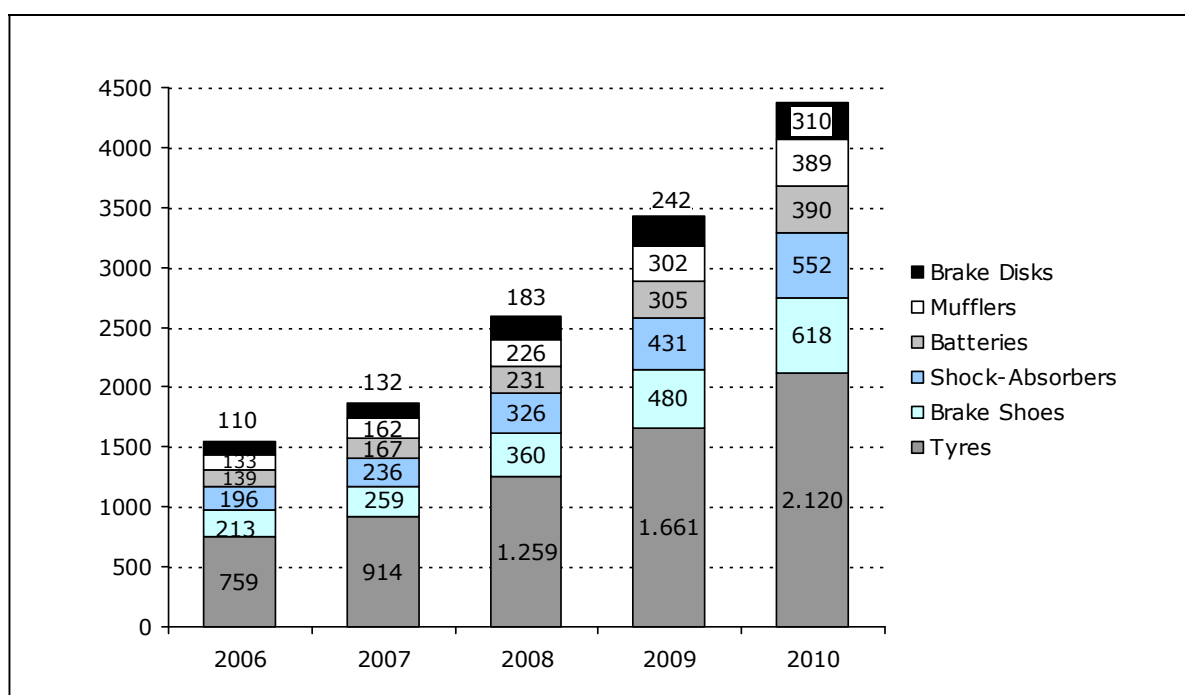


Figure 45: Spare Parts for Foreign Cars: Top-6 Positions, USD mio., 2006-2010

Source: Globis

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The top markets are, in order of size, tyres, brake shoes, shock-absorbers, batteries, mufflers and brake disks (*Figure 45*). The ranking is strongly connected to the conditions in Russia: road conditions and climate affect all parts listed above.

The market for individual components is also driven through parts for foreign cars (for example, see *Figure 46* and *Figure 47* for markets for brake shoes and shock absorbers). The market for parts for Russian cars almost stagnates, in accordance with stagnating sales of Russian brands (see *Figure 12*, p. 18)

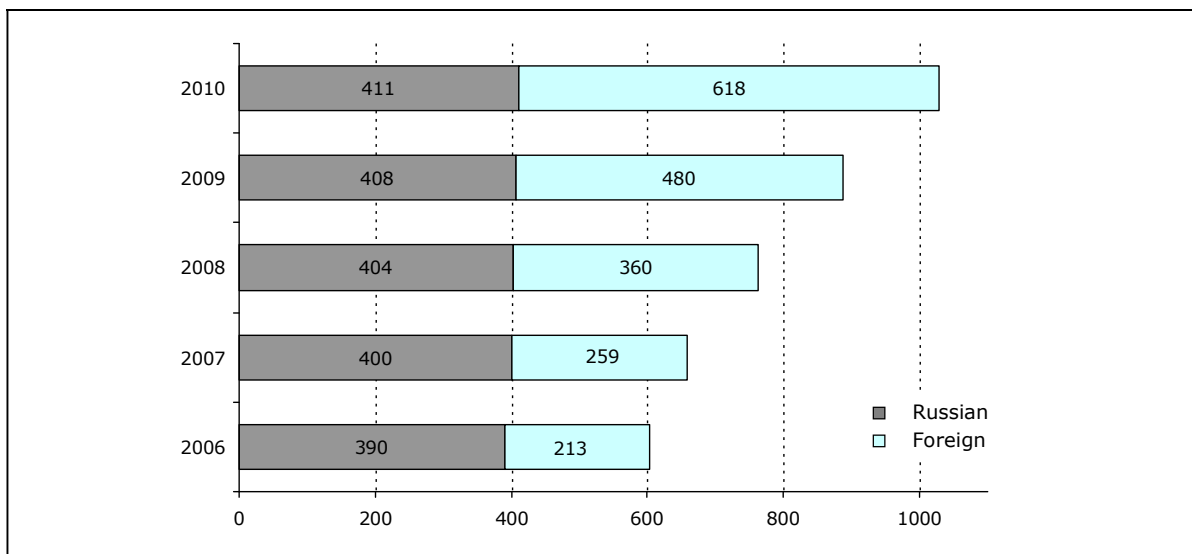


Figure 46: Market for Brake Shoes, Foreign & Russian, USD mio., 2006-2010

Source: Globis

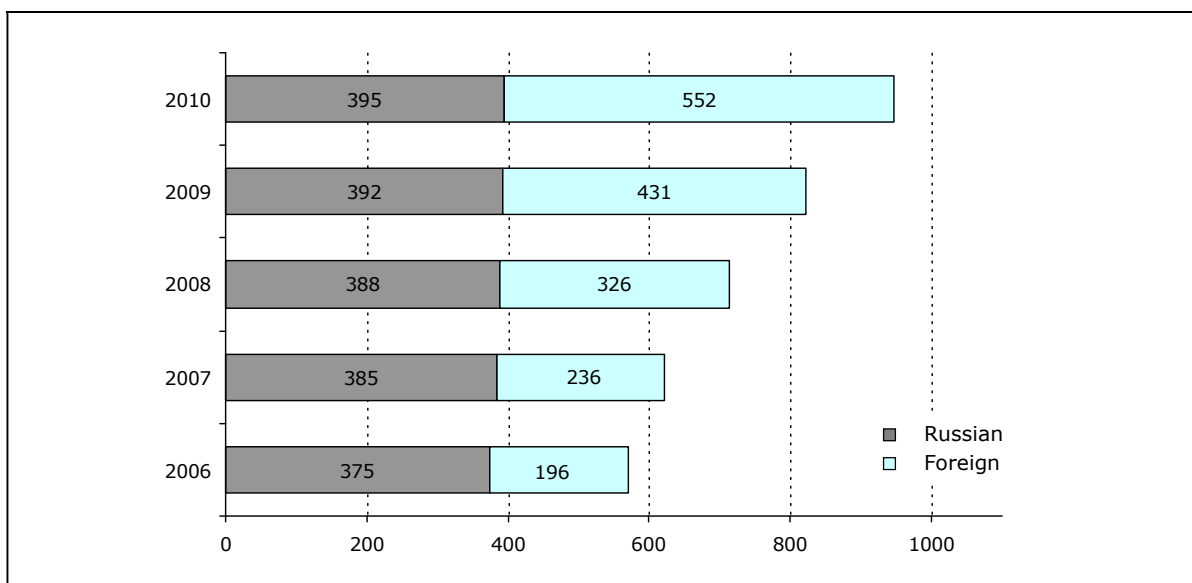


Figure 47: Market for Shock Absorbers, Foreign & Russian, USD mio., 2006-2010

Source: Globis

4.2 Distribution System for Spare Parts

There are numerous options for consumers to get service and spare parts in Russia (see *Figure 48*). However, the car service market today is not fully developed if measured by Western European standards. The cars-to-service-stations-ratio is much less than in Europe: there are about 7.000 stations for about 30 mio. vehicles in Russia, which is about 4.300 cars per station; in Moscow, there are about 1.500 cars per service station. To compare, in the EU, there are 650 cars per station on average.

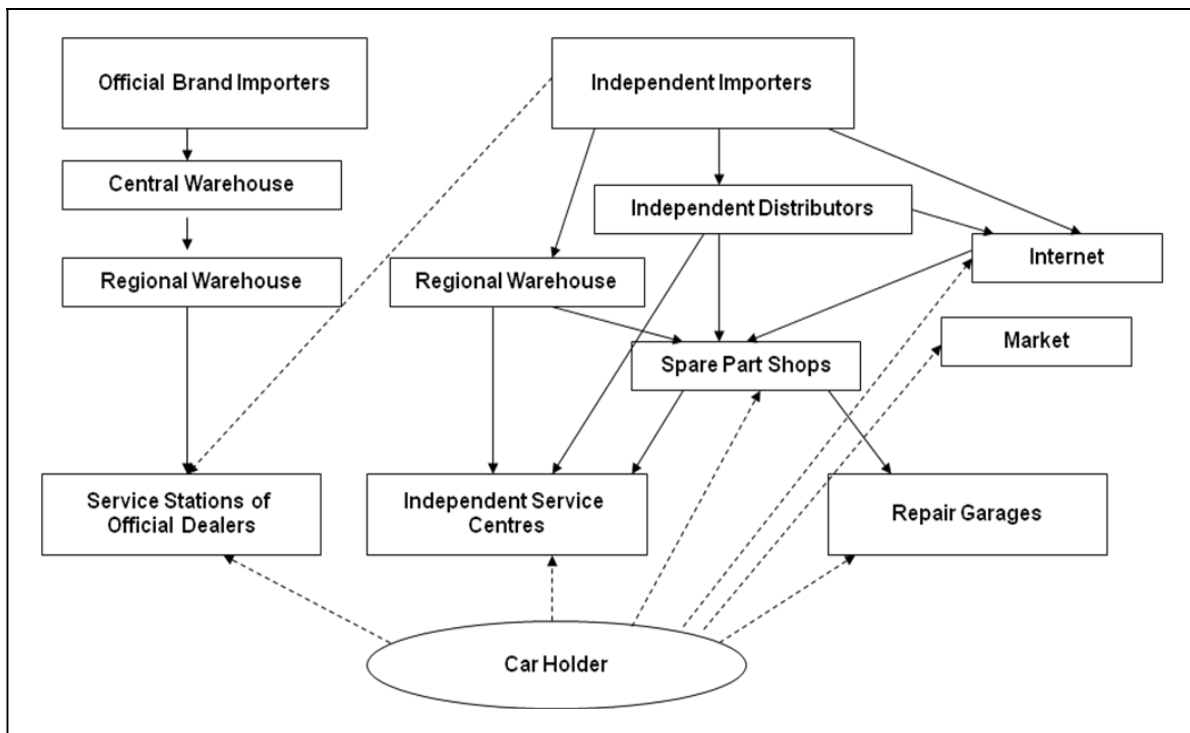


Figure 48: Distribution System for Spare Parts in Russia

Source: Globis

As in other markets as well, pricing in the car-service-sector is not transparent. There are substantial differences in pricing of selected services and needed spare parts (see *Figure 49*).

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Service Pricing (in Rouble)	Official Audi SC "Warszawka"	Official SC "Audi Centre Sever" (Rolf Group)	Independent SC "Turbostars" (specialization on Audi)	Independent SC "VDV" (specialization on VW Group)
Replacement of the tooth belt and pump for V630V engine	16.556	28.318	14.700	14.000
Replacement of front levers for A6	15.390	61.910	17.060	27.000
Replacement of turbine for 1,8T engine	62.400	55.067	30.500	31.000
Replacement of suspension parts on Audi Allroad	40.150	64.238	50.000	50.000

Figure 49: Pricing of Service Centers on Selected Services, 2006

Source: Commersant-Auto

Spare parts for foreign brands are imported to Russia by official brand importers as well as independent importers. Importers normally have a partnership agreement with spare part manufacturers or big warehouses abroad. Most importers use central and regional warehouses for efficient delivery. In rare cases they order only on demand, without having warehouses. Some importers also engage in retail and service business. *Figure 50* gives an overview over large selected importers of foreign spare parts.

Company	Business Focus	Brands
Auto-1	Importer and distributor of OE and aftermarket from Germany, Japan, OAE, USA	Ate, Autolite, Ava, Bendix, Beru, Bilstein, Bosal, Brembo, Clean, Cobra, Facet, Febi, Federal Mogul, Fram, Gabriel, Geri Glo Hueco, Kayaba, Lemforder, Luk, Meyle, Ngk, Quinton, Hazell Reinz, Remsa, Stabilus, Suzuki, Walker, Yamaha, etc.
ABC Parts	Importer and wholesale supplier of spare parts for foreign PCs and trucks	Mostly original parts; over 60.000 Articles
AKA	Importer of OE and aftermarket from Germany	Spare parts from VAG, BMW, Opel; Toyota, Mitsubishi, Subaru (Europe)

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Company	Business Focus	Brands
AMT	Large importer and supplier of spare parts, active in the CIS markets: Russia, Ukraine, Belarus	Mopar, Motorcraft, ACDelco, Bendix, Fram, Depo, Vestion, Moog, Timken, Automotive, TRW, Federal Mogul, Sealed Power, Fel-Pro, SKF, Transbec, Raybestos, Monroe, Walker, etc.
ANP Service	Internet Shop	Official dealer of Bosch spare parts; 50 brands from leading spare part manufacturers
Avtodor FV	Sales organization of OE and aftermarket with its own service station	OE for cars of VW-Group
AZA	Importer and supplier of spare parts from Germany, United Arab Emirates; internet-project	OE and aftermarket for Japan and European cars
Berg	Importer and supplier of car spare parts, automotive service and diagnostic equipment, warehouse equipment from leading global manufacturers	TRW (Lucas), ThyssenKrupp (BILSTEIN), Wynn's Belgium N.V., NGK, MANN+HUMMEL, ContiTech, Rosss (warehouse equipment), Rancho, Gartec, Impact; over 10 mio. Articles.
Exist	One of the largest Russian Internet spare parts shops	Over 300 suppliers, 500 brands, 12 mio. articles
Fortune Wheel	Delivery of OE from Europe and United Arab Emirates; spare parts from large European warehouses	Beru, Boge, Bosch, Brembo, Bosal, Koyo, etc.
Mikado	Wholesale supplier of spare parts for foreign cars	Official distributor of aftermarket: Febi, Jurid, Luk, Elring, Mahle, Bremi, SKF, Kayaba, Denso, Aisin, 555, Nissens, Valeo, Magneti Marelli, Metelli, Dayco, UFI, etc. and OE
Profplus	Large spare parts supplier active in the CIS markets; specialization on trucks and buses	Valeo, Sachs, Luk, Skf, Beral, Peters, Febi, Haldex, Zf, Glico, Ks, Mahle, Knecht, Hella, Airtech, Lumag, etc. and OE for Mercedes-Benz, Man, Volvo, Iveco, Scania, Daf, Setra, Neoplan, Renault, etc.

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Company	Business Focus	Brands
Ricambi	Large importer of spare parts and accessories for foreign and Russian cars	Mahle, Swag, Glo, Contitech, Tesla, Beru, Valeo, Mapco, Dayco, Ufi, Optimal, Elring, Kayaba, Sofima, Allied Nippon, etc. Special focus on OE for Volkswagen-Audi-Skoda-Seat
Trans-Parts	Importer and supplier of spare parts for European trucks; direct supplies from manufacturers and warehouses in Europe (Poland, Germany, Finland etc.)	Spare parts for Scania, Volvo, Mercedes, MAN, DAF, Iveco, Renault trucks
Vita M	Importer of spare parts for PCs and trucks with specialization on brake system, filters, steering/suspension	Official distributor of TRW / Lucas, General Ricambi, Nuova Tecnodelta, All Brake Systems, Mahle / Knecht Boge, Sachs, Febi, etc.

Figure 50: Large Spare Parts Importers and Wholesalers in Russia

Source: Globis

Consumers get access to spare parts in several ways:

1. Official service centers
2. Independent service centers
3. Spare part shops
4. Internet shops
5. Repair shops
6. Open-air-markets.

Official car dealers provide repair and maintenance services and offer a complete range of original spare parts ("official service centers"). Official service centers receive spare parts mostly from official importers, distributed through central and regional warehouses. Even though the availability of spare parts for foreign cars has dramatically improved, there are still shortages from time to time, depending on the part and the location of the center. Hence, in some cases, official service centers purchase from independent importers or even independent spare part shops. If possible, they exchange parts with other official dealers. There

are still cases of official service centers, where faked parts or non-official parts are used. However, since this is a risky business for official centers, this practice is rarely used today.

Independent service centers get their spare parts from the independent aftermarket as well as from importers of OEM-parts. These service centers specialize in the provision of repair and maintenance services, mostly not limited to any brands. It is not unusual to bring in your spare parts and just buy the service at these independent centers. There are still not many large service chains in Russia. Large parts of the country are not covered well. *Figure 51* gives an overview over larger chains of independent service centers.

Company	Region	No. of Service Stations
Alarm	St. Petersburg	30
Bosch Autoservice (franchise)	Russia-wide	200
Every Car Service (franchise)	Moscow	8
Union	St. Petersburg	28
Euro Auto	St. Petersburg	4 service stations, 13 spare part stores
Michelin	Russia-wide	70
MVO	Moscow, St. Petersburg	22

Figure 51: Chains of Independent Service Centers in Russia

Source: Globis

Spare part shops mostly sell independent aftermarket parts but do also have original parts. Faked parts are also sold, but not officially. The shops sometimes specialize in brands, sometimes in certain components. The trend is, however, to offer a range of parts as broad as possible. These shops do not provide any services but act as a retailer. Frequently, they also have an internet-shop and sell countrywide.

Internet-shops are often used as a secondary sales channel of normal spare part shops. For these shops the internet will in many cases become the main sales channel. Today, delivery to the customer is the main problem, since the logistics system is not fully developed yet. Internet-shops usually sell independent after-market parts, in some cases also original equipment.

To get one's car serviced, there are also small repair shops, which partly are privately run and not officially registered as a business. They are numerous, especially in the country-side. These shops mostly provide service for many brands, sometimes, however, they are "specializing" in a single brand. Their main argument is low prices and depending on the region, their pure presence, since some regions are not covered by official or larger independent service centers. These repair shops organize spare parts through normal channels, but rarely provide original parts. They mostly use faked parts or parts from the independent after-market.

Open-air-markets, where second-hand cars are sold, are also a supply source for parts. Often the parts of dismantled used cars and faked parts are sold on such markets. Given the price of original equipment, for many consumers these markets are still attractive, although potential difficulties with the parts bought are well known. New original equipment is rarely sold on such markets.

The relevance of these channels for reaching customers differs greatly. Overall, car service in Russia is provided mainly through independent service centers (60%), followed by small repair shops (less than 20%) and official service stations (less than 10%). Self repair accounts for approximately 15%. The distribution channels for spare parts, however, differ strongly: *Figure 52* shows the results of a survey with around 1.000 participants. Spare part shops are the most preferred channel (both for foreign and Russian brands) – by almost 50% of all consumers. This shows the Russian mentality to buy spare parts on their own and to repair their car themselves or through independent service centers and smaller repair shops, where they bring in their parts. Open-air-markets are still a major source of supplies, with around 14% of consumers using this channel.

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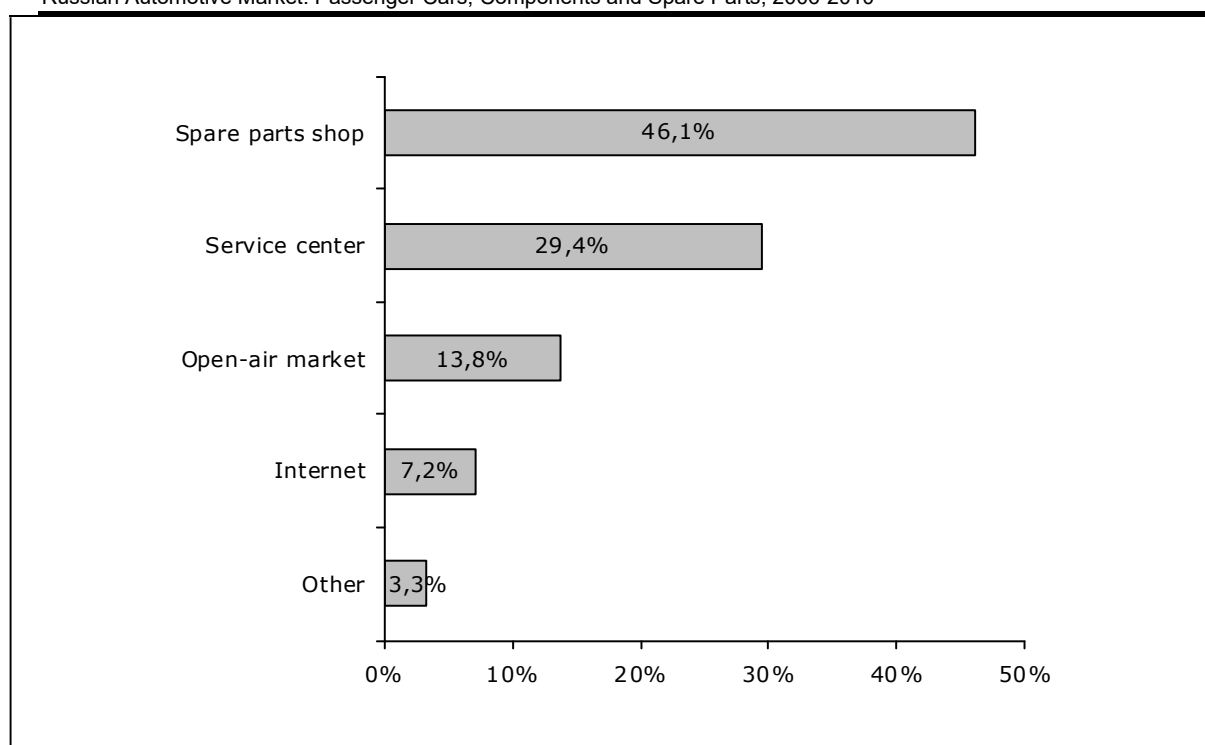


Figure 52: Where Russians Buy Spare Parts, 2006

Source: autonews.ru

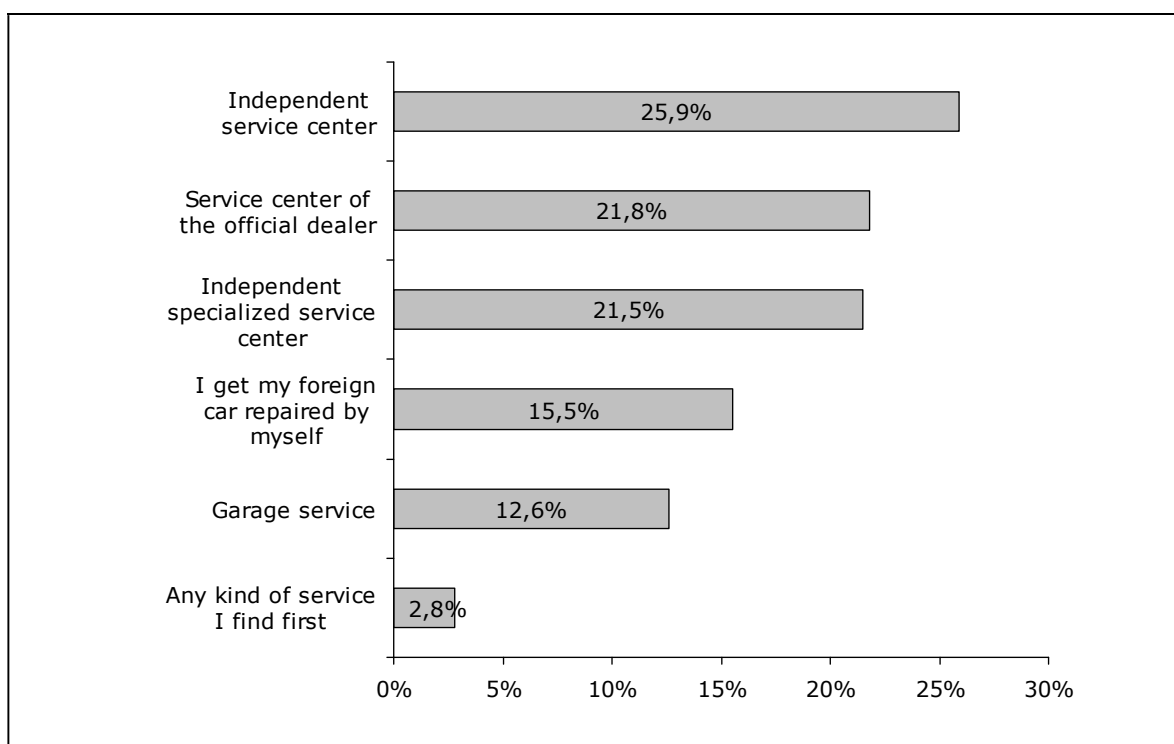


Figure 53: Where Russians Get Their Foreign Car Repaired, 2006

Source: auto.ru

In order to get a *foreign* car repaired, the picture differs slightly from the overall situation (see *Figure 53*): Consumers use more official service centers (over 20%). Independent service centers account for a share of almost 50%. 15% state, that they would repair the car themselves. Smaller repair shops are used at the same level to repair a foreign car than in Russia in total.

4.3 Consumer Behaviour Regarding Car Service and Spare Parts

The preference of consumers differs, when it comes to the usage of original or independent aftermarket spare parts. 30% would only use original spare parts and 5% would never use original parts. The majority decides by the type of the part. The less critical and complex the part is, the more they decide for cheaper non-original parts. *Figure 54* shows the details.

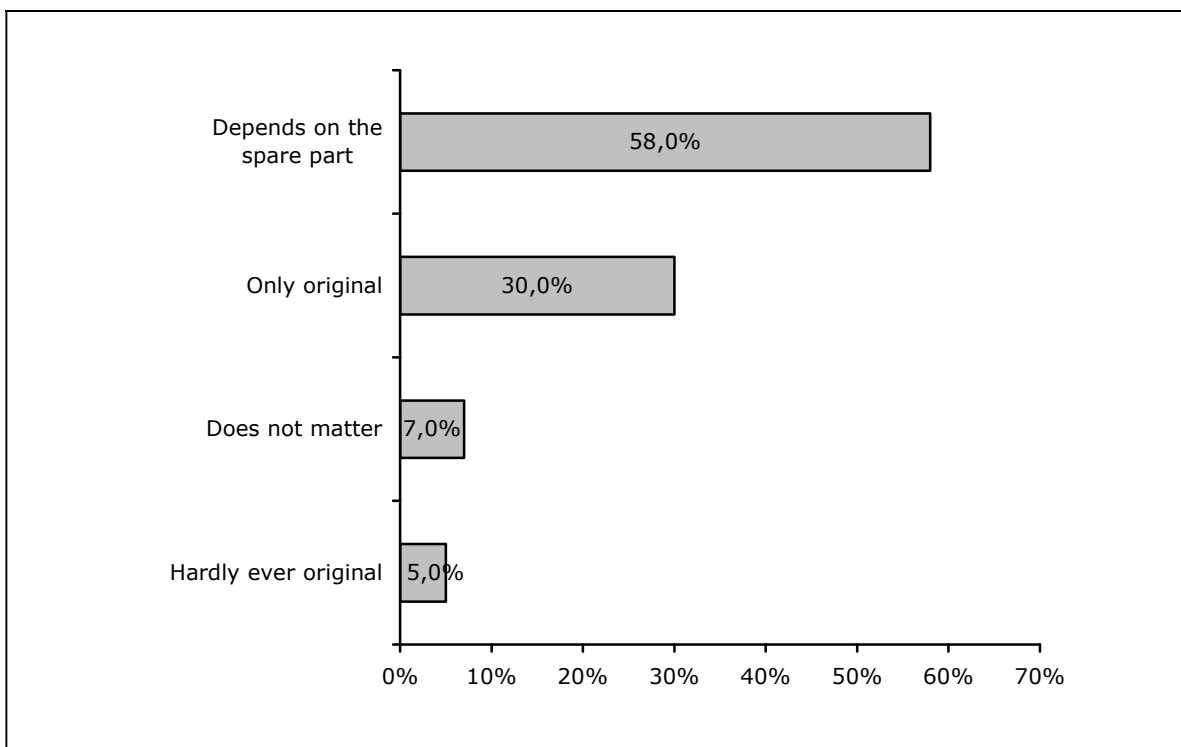


Figure 54: Consumer Preferences: Original or Independent Aftermarket Spare Parts, 2006

Source: ricambi.ru

The choice to use original or non-original parts can also be explained through the age of the car. Whereas the great majority of owners of new cars use mostly

original spare parts, the holders of older cars more often decide in favour of non-original parts.

Owners of new cars are ultimate consumers of original equipment: if services are provided on the basis of a guarantee, original parts are used. Also, if an exchange is necessary but not on the basis of a guarantee, the usage of original parts may be crucial to ensure the validity of the guarantee, since it is the strict requirement of a car dealer for the guarantee service. Even if new cars are bought through non-official dealers, customers mostly prefer to use original parts, when the car is still comparatively young.

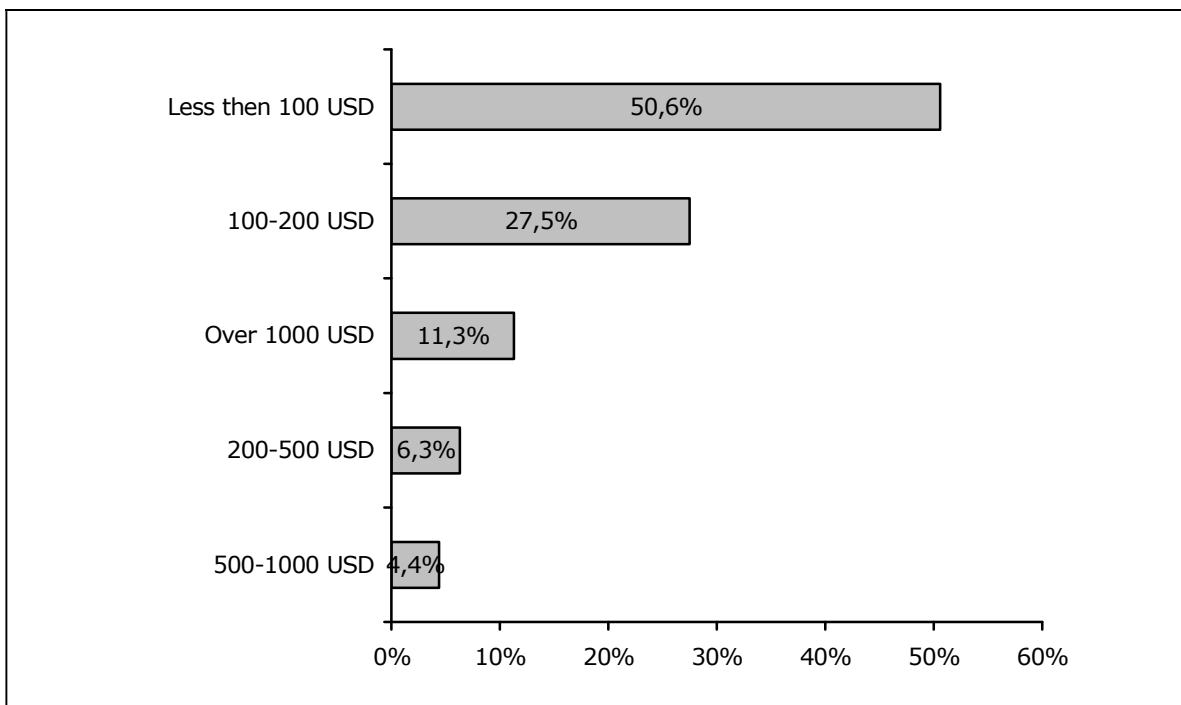


Figure 55: Monthly Expenditures on Car Repair and Maintenance, 2006

Source: avtogarant.ru

The older the car gets (or if bought second-hand), the more owners are willing to substitute original parts through non-original parts. This is simply a matter of cost-effectiveness: people are less willing to spend the high price for original parts for a car, which is reduced in value through its age. In addition, the older the car gets, the more difficult it is to find new original parts. However, there is a group of consumers who would never use non-original parts. This group consists of wealthy

consumers, who normally get a new car in less than 5 years time. Using original parts then also is an argument for a higher price when selling to official dealers.

The other arguments for and against original parts are the same as in other countries: original parts, on the one hand, are mostly of better quality, are built to suit (hence there is a lower rate of following defections) and normally come with a guarantee. On the other hand, they are costly. An additional problem in the Russian market also is that original parts are not always readily available. This situation is improving, coming from 2 to 4 weeks waiting time in 2005 to get the desired original parts.

Looking at the monthly expenditures of consumers on service including spare parts the numbers (see *Figure 55*) indicate a widespread use of cheaper non-original or faked parts.

In Russia, there are clearly preferred providers of independent aftermarket spare parts, depending on the component. For example:

- ▶ Break disks: Ate (57%), followed by Brembo (13%)
- ▶ Break shoes: Lucas (50%), followed by Textar (15%)
- ▶ Shock-Absorbers: Bilstein and Kayaba (32% each), followed by Sachs (14%).

In case of more complex parts like elements of suspension, consumers prefer original parts.

Given the growth of the market and the still changing distribution system, there are good opportunities for foreign parts manufacturers to enter the market.

5 Appendices

5.1 Districts and Regions in Russia

Federal District	Regions included		
Central	Belgorod Region Bryansk Region Ivanovo Region Kaluga Region Kostroma Region Kursk Region	Lipetsk Region Orel Region Ryazan Region Smolensk Region Tambov Region Tver Region	Tula Region Vladimir Region Voronezh Region Yaroslavl Region Moscow Region Moscow
Southern	Adygea Republic Astrakhan Region Chechnya Republic Dagestan Republic Ingushetia Republic	Kabardino-Balkaria Re- public Kalmyk Republic Karachaevo-Cherkessia Republic Krasnodarskiy Region	North Osetia Republic Stavropol Region Rostov Region Volgograd Region
North-Western	Nenetskiy Autonomous Region Karelia Republic Komi Republic	Arhangelsk Region Kaliningrad Region Leningradskiy Region Murmansk Region	Novgorod Reigon Pskov Region Vologda Region Saint-Petersburg
Urals	Khanty-Mansijskiy Au- tonomous Region Yamalo-Nenetskiy Auto- nomous Region	Kurgan Region Sverdlovsk Region	Tyumen Region Chelyabinsk Region
Volga	Bashkortostan Republic Chuvash Republic Mari El Republic Udmurt Republic Mordovia Republic	Tatarstan Republic Kirov Region Nizhny Novgorod Re- gion Orenburg Region Penza Region	Perm Region Samara Region Saratov Region Ulyanovsk Region
Siberian	Tuva Republic Altai Republic Buryatia Republic	Aginskiy-Buryatskiy Autonomous Region Chita Region Irkutsk Region	Krasnoyarsk Region Novosibirsk Region Omsk Region

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Federal District	Regions included		
	Khakasia Republic	Kemerovo Region	Tomsk Region
	Ust-Ordynskiy Autonomous Region		Altai Region
Far Eastern	Koryakskiy Autonomous Region	Sakha Republic (Yakutia)	Magadan Region
	Jewish Autonomous Region	Amur Region	Sakhalin Region
	Chukotka Autonomous Region	Kamchatka Region	Primorskiy Region
		Khabarovsk Region	

5.2 Population and Area in Regions

	Region	Population (October 2002)	Area	Density	Federal district
1	Moscow	10.382.754	1.000	10.382,75	Central
2	Moscow Region	6.618.538	46.000	143,88	Central
3	Krasnodar Region	5.125.221	76.000	67,44	Southern
4	Saint-Petersburg	4.661.219	600	7.768,70	North-Western
5	Sverdlovsk Region	4.486.214	194.800	23,03	Urals
6	Rostov Region	4.404.013	100.800	43,69	Southern
7	Bashkortostan Republic	4.104.336	143.600	28,58	Volga
8	Tatarstan Republic	3.779.265	68.000	55,58	Volga
9	Chelyabinsk Region	3.603.339	87.900	40,99	Urals
10	Nizhniy Novgorod Region	3.524.028	74.800	47,11	Volga
11	Samara Region	3.239.737	53.600	60,44	Volga
12	Krasnoyarsk Region	2.966.042	2.339.700	1,27	Siberian
13	Kemerovo Region	2.899.142	95.500	30,36	Siberian
14	Perm Region	2.819.421	160.600	17,56	Volga
15	Stavropol Region	2.735.139	66.500	41,13	Southern
16	Volgograd Region	2.699.223	113.900	23,7	Southern
17	Novosibirsk Region	2.692.251	178.200	15,11	Siberian
18	Saratov Region	2.668.310	100.200	26,63	Volga
19	Altaiskiy Krai	2.607.426	169.100	15,42	Siberian
20	Dagestan Republic	2.576.531	50.300	51,22	Southern

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Region	Population (October 2002)	Area	Density	Federal district
21	Irkutsk Region	2.446.378	745.500	3,28	Siberian
22	Voronezh Region	2.378.803	52.400	45,4	Central
23	Orenburg Region	2.179.551	124.000	17,58	Volga
24	Omsk Region	2.079.220	139.700	14,88	Siberian
25	Primorsk Region	2.071.210	165.900	12,48	Far Eastern
26	Tula Region	1.675.758	25.700	65,2	Central
27	Leningradskiy Region	1.669.205	85.300	19,57	North-Western
28	Udmurtia Republic	1.570.316	42.100	37,3	Volga
29	Vladimir Region	1.523.990	29.000	52,55	Central
30	Belgorod Region	1.511.620	27.100	55,78	Central
31	Kirov Region	1.503.529	120.800	12,45	Volga
32	Tver Region	1.471.459	84.100	17,5	Central
33	Penza Region	1.452.941	43.200	33,63	Volga
34	Khabarovsk Region	1.436.570	788.600	1,82	Far Eastern
35	Khanty-Mansijskiy Autonomous Region	1.432.817	523.100	2,74	Urals
36	Ulyanov Region	1.382.811	37.300	37,07	Volga
37	Bryansk Region	1.378.941	34.900	39,51	Central
38	Jaroslavl Region	1.367.398	36.400	37,57	Central
39	Tyumen Region	1.325.018	161.800	8,19	Urals
40	Chuvashia Republic	1.313.754	18.300	71,79	Volga
41	Arhangelsk Region	1.294.993	410.700	3,15	North-Western
42	Vologda Region	1.269.568	145.700	8,71	North-Western
43	Kursk Region	1.235.091	29.800	41,45	Central
44	Ryazan Region	1.227.910	39.600	31,01	Central
45	Lipetsk Region	1.213.499	24.100	50,35	Central
46	Tambov Region	1.178.443	34.300	34,36	Central
47	Ivanovo Region	1.148.329	23.900	48,05	Central
48	Chechenian Republic	1.103.686	15.000	73,58	Southern
49	Chita Region	1.083.133	412.500	2,63	Siberian
50	Smolensk Region	1.049.574	49.800	21,08	Central
51	Tomsk Region	1.046.039	316.900	3,3	Siberian
52	Kaluga Region	1.041.641	29.900	34,84	Central
53	Kurgan Region	1.019.532	71.000	14,36	Urals
54	Komi Republic	1.018.574	415.900	2,45	North-Western
55	Astrakhan Region	1.005.276	44.100	22,8	Southern

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Region	Population (October 2002)	Area	Density	Federal district
56	Republic of Buryatia	981.238	351.300	2,79	Siberian
57	Kaliningrad Region	955.281	15.100	63,26	North-Western
58	Sakha Republic	949.280	3.103.200	0,31	Far Eastern
59	Amur Region	902.844	363.700	2,48	Far Eastern
60	Kabardino-Balkaria Republic	901.494	12.500	72,12	Southern
61	Murmansk Region	892.534	144.900	6,16	North-Western
62	Mordovia Republic	888.766	26.200	33,92	Volga
63	Orel Region	860.262	24.700	34,83	Central
64	Pskov Region	760.810	55.300	13,76	North-Western
65	Kostroma Region	736.641	60.100	12,26	Central
66	Mari El Republic	727.979	23.200	31,38	Volga
67	Karelia Republic	716.281	172.400	4,15	North-Western
68	Republic of North Osetia	710.275	8.000	88,78	Southern
69	Novgorod Region	694.355	55.300	12,56	North-Western
70	Sakhalin Region	546.695	87.100	6,28	Far Eastern
71	Khakasia Republic	546.072	61.900	8,82	Siberian
72	Yamalo-Nenetskiy Autonomous Region	507.006	750.300	0,68	Urals
73	Republic of Ingushetia	467.294	4.300	108,67	Southern
74	Adygea Republic	447.109	7.600	58,83	Southern
75	Karachaevo-Cherkessia Republic	439.470	14.100	31,17	Southern
76	Kamchatka Region	333.644	170.800	1,95	Far Eastern
77	Tuva Republic	305.510	170.500	1,79	Siberian
78	Kalmykia Republic	292.410	76.100	3,84	Southern
79	Altai Republic	202.947	92.600	2,19	Siberian
80	Jewish Autonomous Okrug	190.915	36.000	5,3	Far Eastern
81	Magadan Region	182.726	461.400	0,4	Far Eastern
82	Ust-Ordynskiy Region	135.327	22.400	6,04	Siberian
83	Aginskiy-Buryatskiy Region	72.213	19.000	3,8	Siberian
84	Chukotka Region	53.824	737.700	0,07	Far Eastern
85	Nenetskiy Autonomous Region	41.546	176.700	0,24	North-Western
86	Koryak Region	25.157	301.500	0,08	Far Eastern

5.3 Major Russian Cities

	Cities over 100.000 inhabitants	2006 (in 1.000)	2005 (in 1.000)
1	Moscow	10.425	10.407
2	St. Petersburg	4.581	4.600
3	Novosibirsk	1.397	1.406
4	Yekaterinburg	1.308	1.304
5	Nizhny Novgorod	1.284	1.289
6	Samara	1.143	1.133
7	Omsk	1.139	1.143
8	Kazan	1.113	1.110
9	Chelyabinsk	1.093	1.095
10	Rostov-on-Don	1.055	1.058
11	Ufa	1.030	1.036
12	Perm	993	989
13	Volgograd	992	999
14	Krasnoyarsk	921	917
15	Saratov	850	858
16	Voronezh	846	849
17	Krasnodar	710	715
18	Toljatti	705	705
19	Izhevsk	620	623
20	Ulyanovsk	617	623
21	Jaroslavl	604	605
22	Barnaul	604	631
23	Vadivostok	584	587
24	Irkutsk	578	583
25	Habarovsk	578	579
26	Novokuznetsk	562	563
27	Tyumen	543	538
28	Orenburg	534	539
29	Kemerovo	520	523
30	Ryazan	513	516
31	Penza	510	513
32	Tula	509	466
33	Naberezhnye Chelny	507	508

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Cities over 100.000 inhabitants	2006 (in 1.000)	2005 (in 1.000)
34	Lipetsk	503	503
35	Astrachan	499	501
36	Tomsk	490	487
37	Kirov	469	449
38	Mahachkala	466	465
39	Cheboksary	442	443
40	Kaliningrad	424	426
41	Bryansk	420	424
42	Ivanovo	413	418
43	Magnitogorsk	413	417
44	Kursk	406	406
45	Tver	406	407
46	Nishniy Tagil	380	383
47	Stavropol	358	356
48	Arhangelsk	350	352
49	Ulan-Ude	348	353
50	Belgorod	344	341
51	Vladimir	341	310
52	Kurgan	330	334
53	Sochi	330	329
54	Kaluga	329	329
55	Orel	326	329
56	Murmansk	321	325
57	Smolensk	318	319
58	Vladikavkaz	314	314
59	Volzhskiy	309	309
60	Cherepovets	308	309
61	Chita	306	308
62	Saransk	297	299
63	Surgut	291	292
64	Vologda	287	288
65	Tambov	285	287
66	Kostroma	275	276
67	Komsomolsk-on-Amur	273	276
68	Nalchik	271	273

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Cities over 100.000 inhabitants	2006 (in 1.000)	2005 (in 1.000)
69	Taganrog	269	273
70	Sterlitamak	266	265
71	Petrozavodsk	265	266
72	Bratsk	255	257
73	Dzerzhinsk	253	256
74	Joshkar-Ola	251	253
75	Shachty	248	249
76	Orsk	247	248
77	Angarsk	246	248
78	Nizhnevartovsk	241	240
79	Yakutsk	239	236
80	Novorossiysk	231	231
81	Syktyvkar	229	229
82	Nizhnekamsk	227	227
83	Bijsk	225	228
84	Velikiy Novgorod	218	219
85	Staryi Oskol	218	217
86	Grozny	218	216
87	Prokopjevsk	217	219
88	Rybinsk	215	217
89	Noril'sk	213	132
90	Blagoveshensk	212	218
91	Balakovo	199	200
92	Pskov	197	200
93	Severodvinsk	195	197
94	Petropavlovsk-Kamchatskiy	195	196
95	Engels	195	192
96	Armavir	191	192
97	Zlatoust	190	192
98	Kamensk-Uralskiy	183	183
99	Balashiha	183	181
100	Syzran	182	184
101	Podolsk	180	180
102	Novocherkassk	180	181
103	Himki	180	180

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Cities over 100.000 inhabitants	2006 (in 1.000)	2005 (in 1.000)
104	Juzhno-Sakhalinsk	173	174
105	Korolev	173	172
106	Nahodka	172	174
107	Volgodonsk	171	171
108	Berezniki	168	170
109	Abakan	164	165
110	Mytischki	162	162
111	Rubtsovsk	159	160
112	Ljubertzy	159	158
113	Salavat	157	158
114	Maykop	157	157
115	Miass	155	156
116	Ussurijsk	155	156
117	Kovrov	152	153
118	Kolomna	148	149
119	Elektrostal	146	146
120	Almetjevsk	142	142
121	Pyatigorsk	140	140
122	Kopejsk	138	139
123	Pervouralsk	133	133
124	Odintzovo	132	133
125	Nevinnomyssk	130	131
126	Nazran	130	129
127	Kislovodsk	129	129
128	Novomoskovsk	128	130
129	Dimitrovgrad	128	129
130	Novochebocksarsk	126	125
131	Serpuhov	125	127
132	Khasavjursk	125	124
133	Kamyshin	122	124
134	Murom	122	124
135	Orehovo-Zuevo	122	122
136	Neftekamsk	118	119
137	Cherkessk	117	117
138	Zheleznodorozhnyy	117	115

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Cities over 100.000 inhabitants	2006 (in 1.000)	2005 (in 1.000)
139	Noginsk	116	117
140	Novoshahtinsk	115	116
141	Achinsk	113	115
142	Eletz	113	115
143	Sergiev Posad	113	114
144	Schelokovo	113	113
145	Nefteyugansk	113	112
146	Novy Urengoj	113	109
147	Novokuibyshevsk	112	112
148	Kyzyl	109	108
149	Noyabrsk	109	107
150	Leninsk-Kuznetzkiy	108	109
151	Oktjabrskiy	108	108
152	Seversk	108	108
153	Arzamas	107	108
154	Derbent	106	105
155	Obninsk	105	105
156	Bataisk	104	105
157	Novotroitsk	104	105
158	Kiselevsk	104	104
159	Mezhdurechensk	104	103
160	Elista	103	103
161	Uhta	103	103
162	Velikie Luki	102	103
163	Kansk	102	102
164	Artem	102	102
165	Zhukovskiy	101	101
166	Tobolsk	101	101
167	Glazov	100	101
168	Magadan	100	100

5.4 Regions by Level of Economic Development

Regions with high level of development (13)	Lipetsk Region Moscow Moscow Region Komi Republic Leningradskiy Region St. Petersburg Bashkortostan Republic Tatarstan Republic Samara Region Sverdlovsk Region Tyumen Region Khanty-Mansiyskiy Autonomous Region Yamalo-Nenetskiy Autonomous Region
Regions with level of development higher than on average (15)	Belgorod Region Smolensk Region Yaroslavl Region Vologda region Kaliningrad region Novgorod Region Perm Region Nizhny Novgorod Region Orenburg Region Chelyabinsk Region Kemerovo Region Omsk Region Tomsk Region Sakhalin Region Chukotka Region
Regions with average level of development (21)	Kaluga Region Kursk Region Orel Region Ryazan Region Tambov Region Tver Region Tula Region

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	<p>Karelia Republic</p> <p>Nenetskiy Autonomous Region</p> <p>Murmansk Region</p> <p>Pskov Region</p> <p>Krasnodar Region</p> <p>Astrakhan Region</p> <p>Volgograd Region</p> <p>Rostov Region</p> <p>Mordovia Region</p> <p>Chuvashia Republic</p> <p>Krasnoyarsk Region</p> <p>Novosibirsk Region</p> <p>Sakha Republic (Yakutia)</p> <p>Magadan Region</p>
Regions with level of development lower than on average (16)	<p>Bryansk Region</p> <p>Vladimir Region</p> <p>Voronezh Region</p> <p>Kostroma Region</p> <p>Arkhangelsk Region</p> <p>North Osetia Republic</p> <p>Mari El Republic</p> <p>Udmurtia Republic</p> <p>Kirov Region</p> <p>Penza Region</p> <p>Saratov Region</p> <p>Khakasia Republic</p> <p>Irkutsk Region</p> <p>Khabarovsk Region</p> <p>Koryak Autonomous Region</p> <p>Jewish Autonomous Region</p>
Regions with low level of development (14)	<p>Ivanovo Region</p> <p>Dagestan Republic</p> <p>Kalmykia Republic</p> <p>Karachaevo-Cherkessia Republic</p> <p>Stavropol Region</p> <p>Ulyanov Region</p> <p>Kurgan Region</p>

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Altai Republic Altaiskiy Krai Evenkiyskiy Autonomous Region Chita Region Primorskiy Region Amur Region Kamchatka Region
Regions with very low level of development (7)	Adygea Republic Ingushetia Republic Kabadino-Balkar Republic Buryatia Republic Tuva Republic Ust-Ordynskiy (Buryatskiy) Autonomous Region Aginskiy Burjatskiy Autonomous Region

5.5 Regional Passenger Car Parcs

	Region	Car parc, 01.01.2006	Change to 01.01.2005	Population, thousand	Cars/1.000 people
1	Moscow	3.096.661	7,7	10.415,8	297
2	Moscow Region	1.593.606	12,9	6.628,9	240
3	St. Petersburg	1.063 479	9,7	4.590,3	232
4	Krasnodar Region	1.047 412	3	5.098,4	205
5	Bashkortostan Republic	775.913	10,4	4.071,1	191
6	Sverdlovsk Region	748.979	11,4	4.419	169
7	Rostov Region	728.462	4,8	4.318,9	169
8	Samara Region	691.630	4,8	3.195,1	216
9	Chelyabinsk Region	585.070	5,5	3.541,3	165
10	Tatarstan Republic	536.012	6,7	3.765	142
11	Novosibirsk Region	523.162	20,6	2.656,1	197
12	Nizhny Novgorod Region	511.988	3,5	3.428,2	149
13	Stavropol Region	500.248	3,7	2.714,1	184

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Region	Car parc, 01.01.2006	Change to 01.01.2005	Population, thousand	Cars/1.000 people
14	Krasnojarsk Region	491.315	11,1	2.859,2	172
15	Voronezh Region	445.297	5,5	2.323,9	192
16	Kemerovo Region	424.266	6,8	2.846,8	149
17	Volgograd Region	416.750	3,7	2.645,4	158
18	Primorsky Region	414.662	3,2	2.027,7	204
19	Altaisky Krai	412.623	-4,3	2.554,4	162
20	Saratov Region	402.970	-0,1	2.617	154
21	Perm Region	402.896	3,8	2.748,2	147
22	Orenburg Region	389.302	2,8	2.144,1	182
23	Khanty-Mansijsky Autonomous Region	363.702	2	1.473,6	247
24	Irkutsk Region	360.388	-11,9	2.402,1	150
25	Omsk Region	326.890	3,4	2.040,6	160
26	Leningradskaya Oblast	310.743	7	1.648,4	189
27	Tula region	298.175	15,8	1.610,8	185
28	Tymen Region	267.932	13,2	1.314,8	204
29	Belgorod Region	252.375	5	1.511,5	167
30	Khabarovsk Region	250.841	3,9	1.416,3	177
31	Udmurtia Republic	248.393	0,3	1.548,6	160
32	Tver Region	236.402	8,4	1.416,1	167
33	Kaliningrad Region	234.371	5,5	942,4	249
34	Vladimir Region	213.744	6	1.479,9	144
35	Vologda Region	213.503	7,2	1.240,4	172
36	Lipetsk Region	212.992	5,7	1.185,4	180
37	Ryazan Region	204.506	5,4	1.188,4	172
38	Kirov Region	203.837	7,2	1.452,1	140

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Region	Car parc, 01.01.2006	Change to 01.01.2005	Population, thousand	Cars/1.000 people
39	Ulyanov Region	188.458	4,5	1.343,3	140
40	Smolensk Region	188.341	48	1.012,5	186
41	Penza Region	186.462	10,5	1.415,4	132
42	Yaroslavl Region	185.637	7,9	1.333,3	139
43	Tambov Region	181.973	0,3	1.137,6	160
44	Kursk Region	179.422	4,3	1.191,5	151
45	Astrakhan Region	177.533	6,2	996,2	178
46	Kaluga Region	175.923	11	1.017,9	173
47	Kurgan Region	165.979	2,1	986	168
48	Chita Region	163.228	4,6	1.058,2	154
49	Arhangelsk Region	160.334	4,9	1.256	128
50	Komi Republic	159.238	9,5	990,7	161
51	Tomsk Region	157.068	5,2	1.035,4	152
52	Dagestan Republic	155.670	5,1	2.631,4	59
53	Amur Region	153.170	8,1	884,3	173
54	Oryel Region	142.953	10,4	838,1	171
55	Karelia Republic	140.772	-0,9	700,3	201
56	Ivanovo Region	139.070	9,1	1.107,4	126
57	Sakhalin Region	138.458	22,7	529,3	262
58	Murmansk Region	137.759	3,1	868,7	159
59	Sakha Republic (Yakutia)	136.615	5	950,3	144
60	Chuvashia Republic	121.146	6,6	1.295,8	93
61	Bryansk Region	118.510	4	1.338,9	89
62	Pskov Region	114.333	10,1	730,7	156
63	Republic of Burjatia	113.890	7,6	966,2	118

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Region	Car parc, 01.01.2006	Change to 01.01.2005	Population, thousand	Cars/1.000 people
64	Yamalo-Nenetsky Autonomous Region	108.244	2,7	527	205
65	Republic of North Ossetia	103.995	9,4	703,4	148
66	Khakasia Republic	103.123	-0,4	539,6	191
67	Novgorod Region	101.911	8,9	669,7	152
68	Kabardino-Balkar Republic	101.857	3,9	895,5	114
69	Mordovia Republic	100.927	2,5	861,8	117
70	Kostroma Region	100.634	6,6	713,2	141
71	Kamchatka Region	95.140	8,9	327,2	291
72	Mari El Republic	80.789	6,5	714,2	113
73	Adygea Republic	77.047	6,9	443,6	174
74	Karachaevo-Cherkessk Republic	63.868	5,3	433	148
75	Chechnya Republic	59.259	17,6	1.152,1	51
76	Kalmyk Republic	44.654	1,8	289,3	154
77	Magadan Region	38.900	3,2	173,1	225
78	Republic of Altai	38.866	5,4	204,2	190
79	Republic of Ingushetia	30.704	7,5	484,3	63
80	Jewish Autonomous Region	28.904	-2,2	187,7	154
81	Tuva Republic	26.118	10,9	308,1	85
82	Aginsky Burjatsky Autonomous Region	16.057	12,2	73,8	218
83	Ust-Ordynsky (Burjatsky) Autonomous Region	14.872	7,5	134	111
84	Nenetsky Autonomous Region	5.578	10,3	42	133

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Region	Car parc, 01.01.2006	Change to 01.01.2005	Population, thousand	Cars/1.000 people
85	Chukotka Region	3.141	15	50,6	62
86	Taimyr Autonomous Region	2.891	1,8	39,2	74
87	Koryak Region	992	2,5	23,5	42
88	Evenkijskiy Autonomous Region	728	8,8	17,3	42

5.6 Custom Regulation for Car Imports

Current custom regulations are expected to change after access of Russia to the WTO. The access, however, is not expected before end of 2007, and probably might take much longer. Even with access, there will be a transitional period of seven years. During that time, old custom duties will apply. After that, the duties for new cars, for example, will probably drop to 15%.

5.6.1 New Cars

A “new car” is defined to be a vehicle under 3 years old from its production date. New cars imported into the territory of Russian Federation are subject to a 25% customs duty.

5.6.2 Second-hand Cars

“Second-hand cars” are defined as non-new cars. For second-hand cars, import duties are levied on the basis of engine volume. Detailed regulations are as follows:

For vehicles between 3 and 7 years old, the following import duties apply:

Engine volume (cm ³)	Import duty / cm ³
≤ 1.000	0,85 €
> 1.000 ≤ 1.500	1 €
> 1.500 ≤ 1.800	1,5 €

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

> 1.800 =< 2.300	1,75 €
> 2.300 =< 3.000	2€
> 3.000	2,25 €

For vehicles over 7 years old, the following import duties apply:

Engine volume (cm ³)	Import duty / cm ³
=< 2.500	2 €
> 2.500	3 €

5.6.3 Non-Compliance with Euro 2 Norm

If a car does not comply with the Euro 2 norm, it is prohibited to be imported. This affects most European and American cars produced before 1996.

5.7 Sales of Foreign Brands in Russia, 2005-2007

	Brand	2006	2005	Growth 06/05	Q1 2007	Q1 2006	Growth 07/06
1	Ford	115.985	60.564	92%	39.071	15.950	145%
2	Chevrolet (incl. GM-AVTOVAZ)	111.458	66.532	68%	36.735	17.564	109%
3	Hyundai	100.685	87.457	15%	22.401	21.930	2%
4	Toyota	95.689	60.638	58%	29.368	15.033	95%
5	Nissan	75.529	46.485	62%	18.441	10.235	80%
6	Renault	72.484	29.177	148%	17.897	10.682	68%
7	Mitsubishi	68.845	55.148	25%	14.748	13.936	6%
8	Daewoo	66.717	48.623	37%	17.033	15.273	12%
9	Kia	59.993	24.671	143%	13.844	10.679	30%
10	Mazda	32.290	21.120	53%	9.378	6.196	51%
11	Opel	19.983	9.398	113%	9.380	2.737	243%
12	Volkswagen	19.186	12.007	60%	5.084	3.245	57%
13	Suzuki	16.118	9.803	64%	5.626	2.716	107%
14	Honda	15.723	8.906	77%	4.524	1.543	193%
15	Peugeot	15.287	9.251	65%	4.217	2.644	59%
16	Skoda	14.835	7.535	97%	5.303	2.206	140%
17	Citroen	11.934	6.922	72%	2.504	2.289	9%
18	Volvo	10.801	5.713	89%	3.320	1.393	138%
19	Lexus	10.065	5.369	87%	2.728	1.521	79%
20	Audi	10.050	6.115	64%	3.020	1.755	72%
21	Mercedes-Benz	9.316	4.848	92%	2.796	1.579	77%
22	BMW	9.031	6.338	42%	2.902	1.911	52%
23	Subaru	7.604	4.160	83%	2.594	1.065	144%
24	Land Rover	6.299	4 075	55%	1.754	1.066	65%

Russian Automotive Market: Passenger Cars, Components and Spare Parts, 2006-2010

	Brand	2006	2005	Growth 06/05	Q1 2007	Q1 2006	Growth 07/06
25	Great Wall	4.788	4 070	18%	1.087	1.037	5%
26	Iran Khondro	4.534	-	-	1.495	184	7
27	Ssang Yong	4.018	226	1678%	1.970	601	228%
28	Volkswagen Commercial Vehicles	3.402	1 904	79%	914	601	52%
29	Mercedes-Benz Vans	1.890	715	164%	845	507	67%
30	BYD	1.634	152	975%	269	336	-20%
31	Jeep	1.569	885	77%	482	212	127%
32	Fiat	1.382	93	1386%	3.982	8	-
33	Chrysler	1.381	837	65%	224	227	-1%
34	Porsche	1.320	525	151%	333	234	42%
35	FAW	1.288	-	-	675	223	203%
36	Hafei	1.253	-	-	258	-	-
37	Dodge	1.068	-	-	395	-	-
38	Jaguar	893	522	71%	180	156	15%
39	Infiniti	729	-	-	499	-	-
40	MINI	496	340	46%	106	101	5%
41	Cadillac	416	251	66%	173	51	239%
42	Saab	383	241	59%	142	55	158%
43	Hummer	360	156	131%	116	26	346%
44	Alfa Romeo	54	68	-21%	-	-	-
45	Chery	NA	NA	-	6.656	551	1108%
	Total	1.008.765	611.840	65%	295.469	170.258	74%

5.8 Sales by Car Models Q1 2006 to Q1 2007

	Model	Q1 2007	Q1 2006	Growth, %
1	Ford Focus	20.791	11.025	89%
2	Renault Logan	12.502	7.566	65%
3	Chevrolet Lanos	11.597	6.028	92%
4	Ford Fusion	10.881	2.099	418%
5	Toyota Corolla	10.345	4.685	121%
6	Chevrolet Niva	10.255	7.684	33%
7	Daewoo Nexia	10.170	10.890	-7%
8	Mitsubishi Lancer	10.131	9.051	12%
9	Hyundai Accent	8.688	8.535	2%
10	Chevrolet Lacetti	8.049	2.034	296%
11	Daewoo Matiz	6.863	4.383	57%
12	Mazda3	6.077	3.786	61%
13	Kia Spectra	5.528	3.812	45%
14	Nissan Almera	5.347	5.268	1%
15	Toyota RAV 4	5.058	2.346	116%
16	Chery Amulet	4.162	416	900%
17	Opel Astra	4 107	1.277	222%
18	Toyota Camry	4 081	2.039	100%
19	Toyota Avensis	3 834	2.290	67%
20	Hyundai Tucson	3 477	3.073	13%
21	Chevrolet Aveo	3 461	902	284%
22	Nissan Note	3 443	15	-
23	Suzuki Grand Vitara	3 205	1.119	186%
24	Fiat Albea	3 037	-	-

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	Model	Q1 2007	Q1 2006	Growth, %
25	Mazda6	3.030	2.280	33%

6 Abbreviations

AEB	Association of European Businesses in the Russian Federation
ACEA	European Automobile Manufacturers' Association
Bn.	Billion
CAGR	Compounded Annual Growth Rate
EU	European Union
F	Forecast
GDP	Gross Domestic Product
IAM	Independent Aftermarket
Mio.	Million
NAPI	National Agency of Industrial Information
No.	Number
OEM	Original Equipment Manufacturer
PC	Passenger Car
sq. km.	Square Kilometre
SUV	Sport Utility Vehicle
USD	US-Dollar
WTO	World Trade Organisation

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For questions or further information, please contact us at:

Globis GmbH
Möllendorffstr. 52
10367 Berlin
Germany

T.: +49 (0)30 4005 4914
F.: +49 (0)30 4005 4928

<https://www.globis-consulting.com>
request@globis-consulting.com