

Market Report



Kazakhstani Automotive Market: Passenger Cars, Suppliers and Aftermarket

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4 Summary

With 15,5 mio. inhabitants, Kazakhstan is the fourth largest country in CIS, after Russia, Ukraine and Uzbekistan. Given the difficult political situation in Uzbekistan, Kazakhstan is actually the third most interesting country in CIS. Kazakhstan's real GDP was growing with double-digits over the last years. Wages were also growing at a comparable pace and are now at 424 USD per month on average. With rising inflation, real growth will be more moderate in the future.

Kazakhstan's car penetration is comparable with Russia and still much lower than in Western European markets. The growth in car parc was mainly driven by imports of used cars, which peaked in 2006. The new car market is also growing continuously but growth rates of 40% p.a. over the last years can not be maintained in the future. We estimate a growth of about 19% p.a. until 2010.

The new car market is characterized through the large number of grey dealers. Whereas in 2006 more than 50% of new car sales of non-CIS brands were made through grey dealers, this share is reducing now. Russian brands still play a strong role in the market and grow with overall market development. The parc is still dominated by VAZ.

Financing of cars is developing rapidly while market penetration is still low. Financing is especially important for Kazakhstan since consumers prefer large cars and SUVs which are more costly. The availability of personal information for loan procedures is improving, but only slowly. With rising inflation, however, the growth of car financing might be limited.

Kazakhstan currently is not a market for small cars. Most cars sold are from lower and upper medium class or SUV-class. The availability of smaller cars is also limited, for example Toyota is not selling its Yaris through its official dealerships. It is unclear, how consumers will react to a better offering of smaller, affordable cars. With energy prices up and inflation on the rise, smaller, less fuel consuming cars could be an opportunity in the market.

Kazakhstan has no own passenger car brand. Azia Avto, a company listed on the Kazakhstan Stock Exchange (KASE), currently is the only producer, assembling Ladas, Skodas and Chevrolets. Nissan is about to set up an assembling facility and several Korean and Chinese OEMs are investigating a potential entry. With plans of AvtoVAZ, the Russian car maker, to buy a stake of at least 25% in Azia Avto, the situation is getting more complicated. Since Renault took a stake of 25% plus one share in AvtoVAZ, and Renault and Nissan being part of the same group, the car manufacturing scene in Kazakhstan might look different.

Given this situation, there is a limited number of players in the automotive industry in Kazakhstan. Most of them export, mainly to Russia. The government wants to develop the automotive industry and is slowly progressing. Nissan's plant and Nokian Tyres' production joint venture are first steps. Kazakhstan's advantages are, besides incentives provided by the government, its strategic location to Russia, the upcoming Eurasian Economic Community (EurAsEC) which will develop a customs union between Russia, Kazakhstan and Belarus at first and the low wages. In total, we expect a strong increase in local production activities although still on a low level compared to major automotive nations.

Along with the inflow of used cars, the aftermarket is growing by almost 10% p.a. over the next years to 2010. The aftermarket is one of the most attractive sectors of the Kazakhstani automotive industry over the next years. With further additions to the parc and more demanding consumers, better and more frequent service and better parts are needed.

The distribution system for spare parts is only forming. Also, service chains have not yet developed and even Bosch car service, present in many emerging automotive markets, is just starting.

In any case, distribution is a real challenge due to the size of the country. With a population density of 6, it is hard to reach nationwide penetration. A good starting point are the two major cities, Almaty and Astana, followed by the mining provinces, which have a larger car parc and a wealthier population.

In total, the Kazakhstani market for passenger cars and the aftermarket provide attractive opportunities. Especially in the aftermarket, structures are just forming and there is great value to be generated by entering early.

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 October 2007 to June 2008 and hence includes statistical data until Q1, 2008, if available.

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

1 Country Basics

Population (mio.)	15,53
Area	2.724.900 sq. km
Territorial arrangement	14 regions, 3 cities
Population density (inhabitants / sq. km.)	5,7
Life expectancy at birth (years)	Total: 67,2 Male: 60,5 Female: 71,5
Population growth rate p.a. 2007	1%
No. of households (mio.)	5,4

Table 1: Key Country Facts

Source: Statistical Office of Kazakhstan, UN, CIA

The Republic of Kazakhstan (sometimes also written Kazakhstan) is almost as large as Western Europe. With only about 15 mio. inhabitants it is scarcely populated and has a population density of 5,7 (see Table 1). The biggest city is Almaty city (the capital until December 10, 1997) with approx. 1,3 mio. inhabitants, followed by the new capital Astana with 600.000. For a list of the largest cities in Kazakhstan, see Appendix, chapter 8.2.

Kazakhstan comprises 14 provinces (also called "oblasts"), 2 municipal districts and the district Baykonur (see Figure 1). This district has a special status. In 1995, the governments of Kazakhstan and Russia entered into an

agreement whereby Russia would lease and administer the city for a period of 20 years (because of the space launch facilities in the area), which today is extended to 2054.

The population development in Kazakhstan is strongly depending on the respective region. A major driver for this diverse population development is migration of ethnic groups. Kazakhstan's ethnic composition has undergone a great change after independence resulting from the emigration of nearly 2 mio. Russian speakers (to Russia) and about 750.000 of the German ethnic group. This emigration from Kazakhstan, coupled with a sharp drop in the overall fertility rate in the early stage of transition in the 90's, resulted in a 7,7% decrease in total population from

1989 to 1999. Especially the Northern provinces with its Slavic and Russian speaking population lost inhabitants: the provinces of Akmola, North Kazakhstan, and Karaganda lost about 20% of their population, while the drop was only somewhat smaller in Pavlodar, Kostanay and East Kazakhstan.

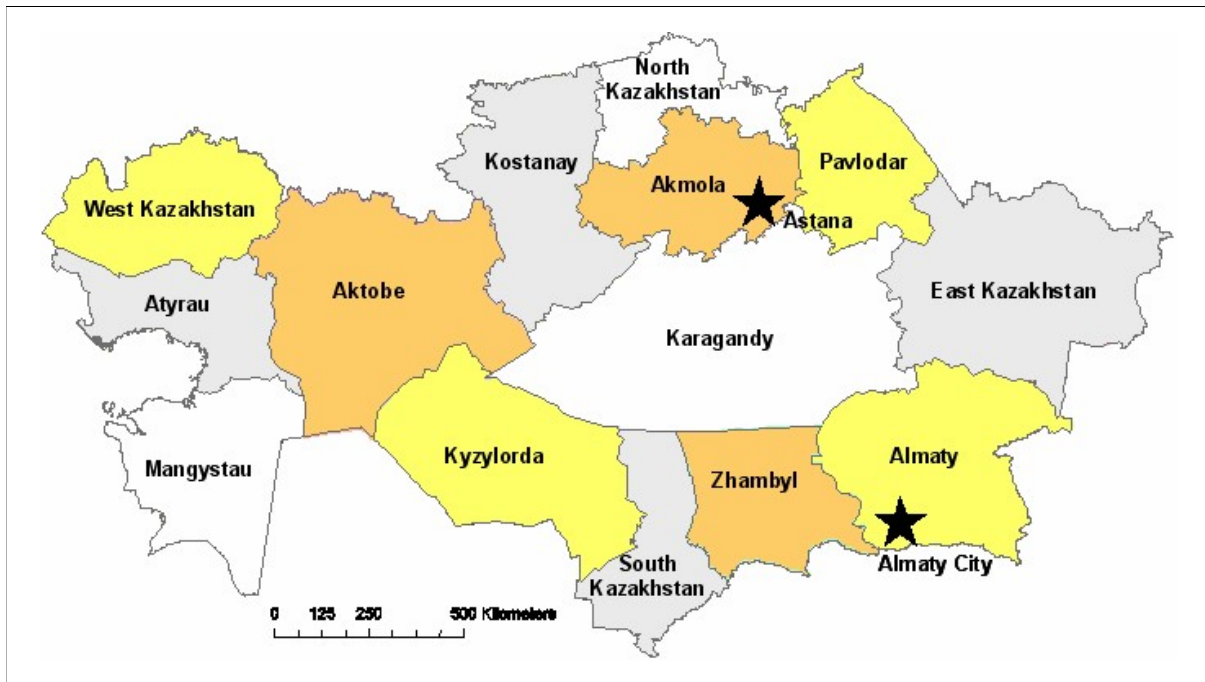


Figure 1: Map of Kazakhstan with Administrative Regions

At the same time, the Kazakh dominated provinces of South Kazakhstan, Kyzylorda, Almaty, West Kazakhstan, Almaty City and the new capital Astana city gained population, especially driven through ethnic Kazakh immigration of part of the over 2,5 mio. ethnic Kazakh people living outside Kazakhstan. Immigration is coming from the South, especially from China and Mongolia, but also from Turkey and Russia. This immigration was encouraged, even by granting dual citizenship.

This trend of regional focussing continued and was accompanied by increasing urbanization (see Table 2). In 2007, Almaty city and Astana city but also Mangystau and South Kazakhstan increased population, mostly on the expense of Kostanay, North and East Kazakhstan. Some 52,9% of the population lives in urban areas, making Kazakhstan the most urbanized of the Central Asian republics.

Region	2002	2007 (Sept)	Change (CAGR)	Inhabitants per sq. km.
Kazakhstan overall	14.851.059	15.527.649	0,90%	5,7
South Kazakhstan	2.079.506	2.322.172	2,23%	19,6
Almaty	1.554.573	1.638.150	1,05%	7,3
East Kazakhstan	1.482.550	1.418.787	-0,88%	5
Karagandy	1.344.244	1.341.020	-0,05%	3,1
Almaty city	1.132.424	1.312.153	2,99%	4.040
Zhambyl	979.199	1.015.761	0,74%	7,1
Kostanay	935.717	896.063	-0,86%	4,6
Akmola	755.000	748.433	-0,17%	6,2
Pavlodar	758.154	745.899	-0,33%	6
Aktobe	668.166	701.558	0,98%	2,3
North Kazakhstan	691.263	656.001	-1,04%	5,3
Kyzylorda	600.972	630.326	0,96%	2,8
West Kazakhstan	600.330	615.077	0,49%	4,1
Astana city	493.062	595.406	3,84%	838
Atyrau	447.634	487.863	1,74%	4,1
Mangystau	328.265	402.980	4,19%	2,4

Table 2: Population Development in the Kazakhstani Regions (Oblasts), 2001-2007

Source: Statistical Office of Kazakhstan, Globis Analysis

The fertility rate in Kazakhstan is below other central Asian countries. Fertility rate declined from 2,16 children per woman in 2003 to 1,89 in 2006, a result of higher levels of education and urbanization among Kazakhstanis compared to other Cen-

tral Asian countries which were induced earlier through Soviet modernization. It is likely, that population in Kazakhstan will be growing again, with several government programs targeting this issue.

4.1 Economic Development

With a nominal GDP of approximately 106 bn. USD in 2007, Kazakhstan continued its impressive growth (see Figure 2) over the last years, when nominal GDP was growing at almost 30%. For the years towards 2010 a slower growth is expected, in nominal terms as well as in real terms.

An important driver for the economy is exports. Oil and gas condensate as well as petroleum products were the prime export goods, which were in very high demand globally. The oil and gas sector remained the country's most attractive sector to investors. In 2007, almost 30% of total investment in capital assets was in this sector with oil-rich Atyrau Oblast as the prime investment location.

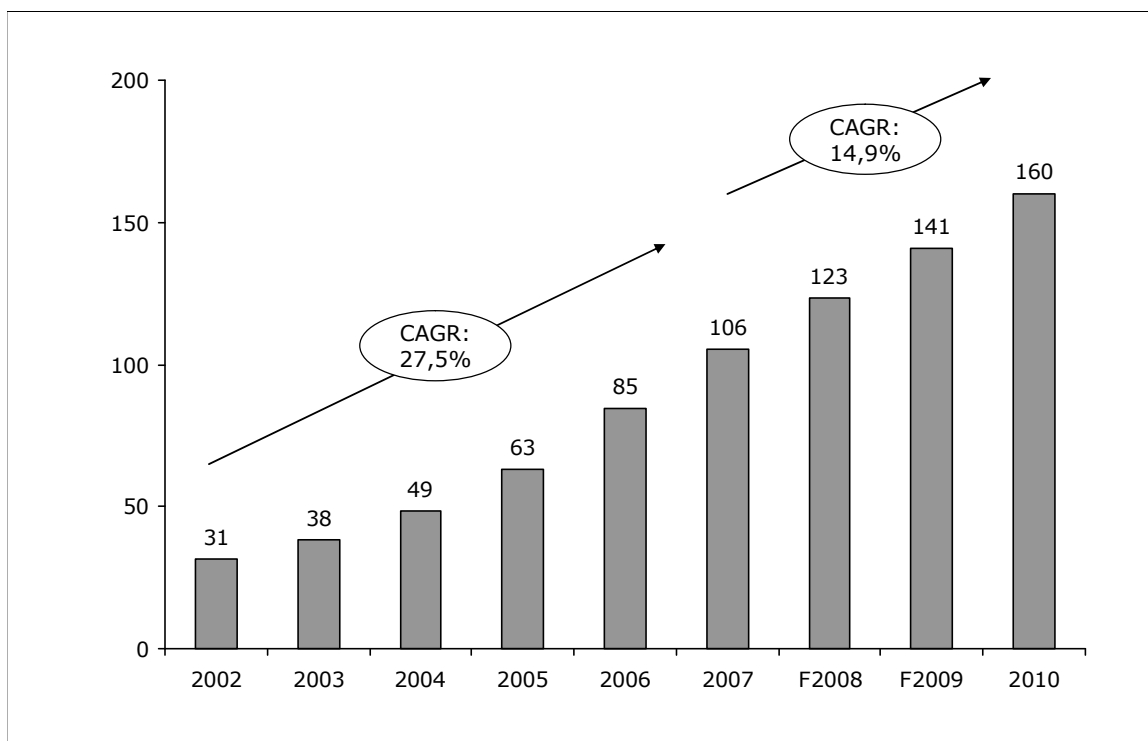


Figure 2: Development of Nominal GDP, bn. USD, 2002-2010

Source: Statistical Office of Kazakhstan, Globis Analysis

Whereas the economy in recent years was to a large extent driven by oil and metals, in 2007 there was a production increase in all sectors of the economy. Special drivers of the economy were banking and construction. However, economic growth in 2007 was lower than expected. In the second half of 2007, the impact of the US subprime crisis reached Kazakhstani commercial banks. In this course, banks considerably reduced lending to industrial enterprises. The banks rely substantially on foreign debt as a driver for credit lending in national currency, paying lower interest rates and expecting further appreciation of the Kazakh Tenge against the US-Dollar. But with global risk aversion increasing, liquidity risk and credit spreads increased as well and saw Kazakh banks facing tighter refinancing conditions. 2008 seems to be also a challenging year for banks as the bulk of repayments is short term and payable mid of 2008.

In 2007 wages and per capita incomes of the population continued to grow rapidly. Since 2002, nominal wages grew at a rate of about 20% annually (see Figure 3). This growth will reduce for the years to 2010 but will still be substantial.

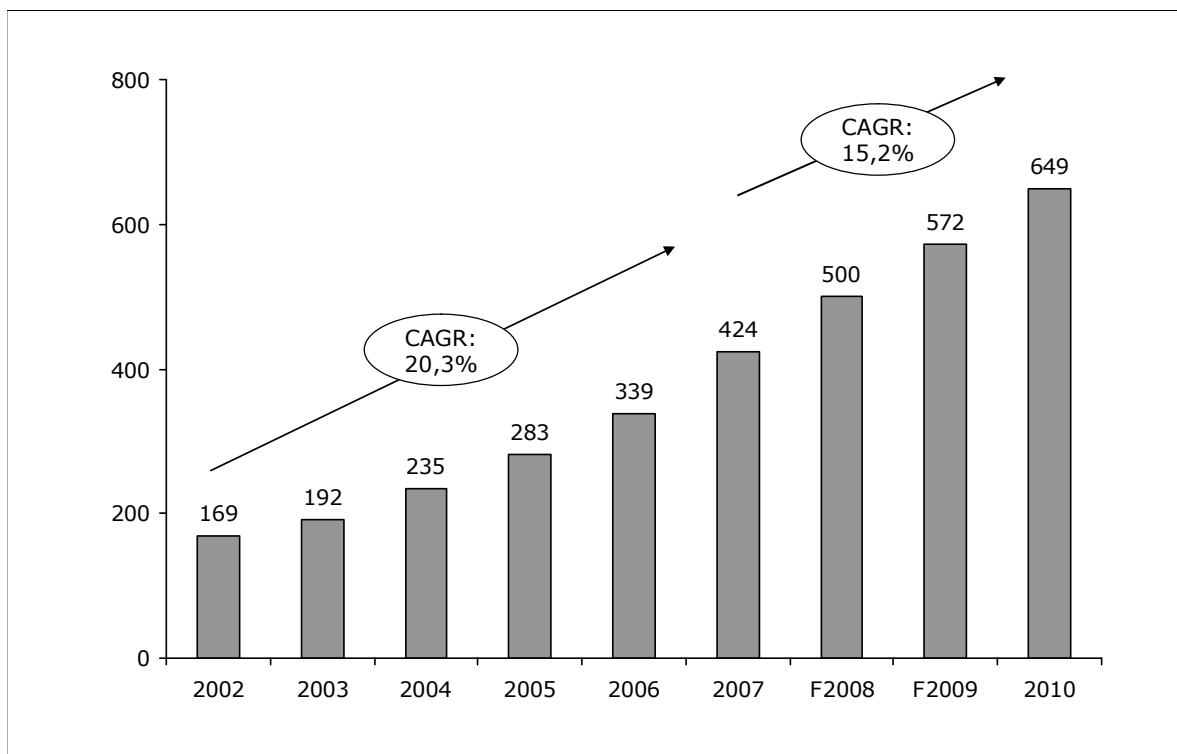


Figure 3: Development of Monthly Nominal Wages, in USD, 2002-2010

Source: Statistical Office of Kazakhstan, Globis Analysis

With an overall average monthly wage in November 2007 at 53.928 tenge, highest wages were paid by far in the financial industry with 129.469 tenge, followed by mining with 88.751 tenge and real estate with 81.618 tenge. Agriculture and service sectors experienced the strongest growth in wages, driven by increased public funding.

The quality of life in Kazakhstan did not grow in line with nominal developments. Recently there was a strong increase in inflation, beginning in Q4, 2007, driven by all kind of goods. In 2007, inflation reached a peak at around 11% (see Figure 4) In certain regions, inflation is growing much stronger: for example, in December 2007 there was a year-on-year inflation rate of 27% in Almaty city, while the average was at 18%.

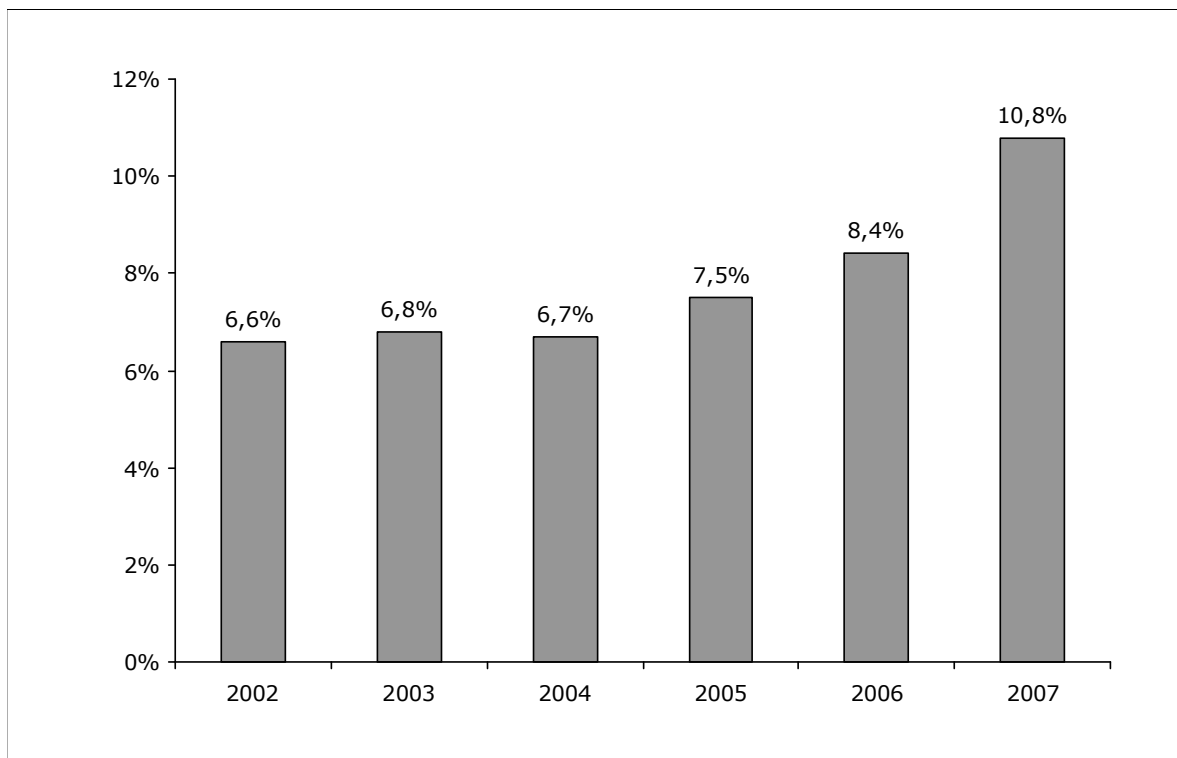


Figure 4: Development of Consumer Prices, 2002-2007

Source: Statistical Office of Kazakhstan

4.2 Regional Economic Development

The regions of Kazakhstan differ strongly with respect to economic indicators. Economic activity is centred around a few clusters which comprise areas with rich

sources of raw material like oil (Atyrau, Mangystau, Karagandy, West Kazakhstan and Aktobe) and large metropolitan areas like Almaty City or the capital Astana city. These areas attract most of capital investments and generate almost two-third of Kazakhstan's industrial output (see Figure 5; for an overview of the industrial output of all Kazakhstani regions, see Appendix, chapter 8.1). A strong growth in investments took place in West Kazakhstan Oblast (+40.1%) because of preparations to exploit the Karachaganak gas condensate field. Almaty city as a financial and real estate center attracted large investments, followed by the capital Astana.

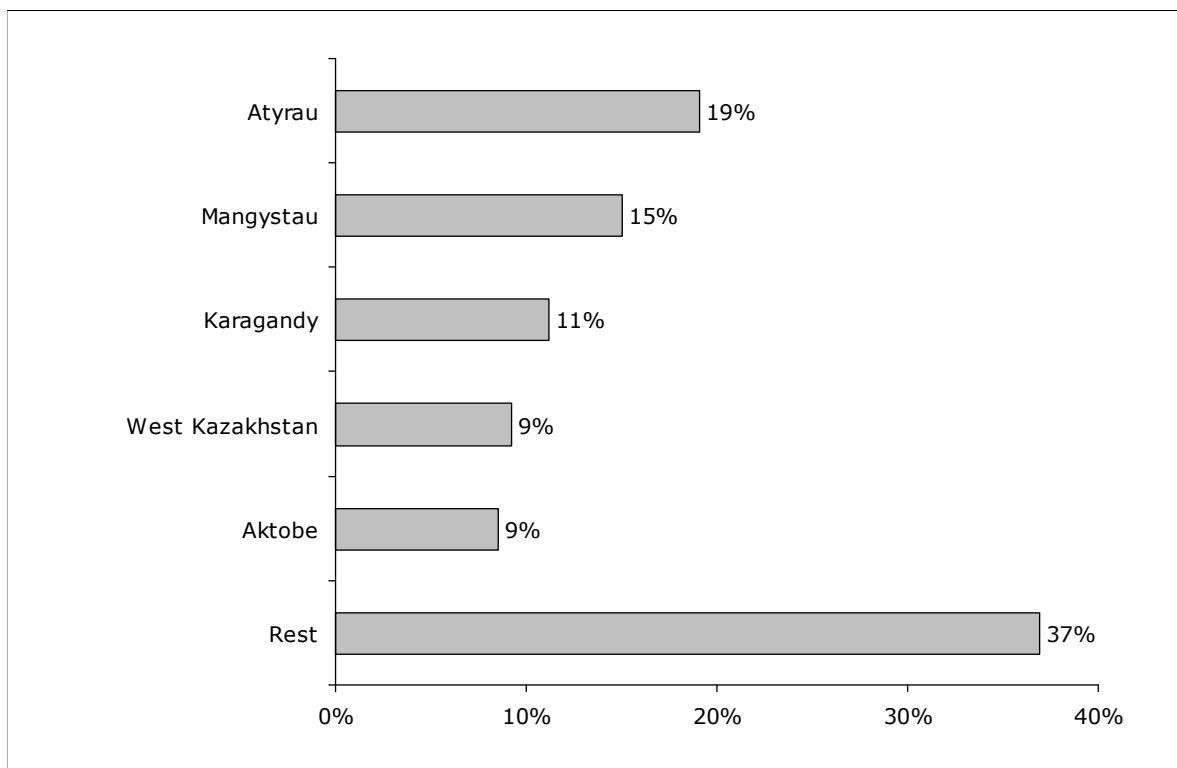


Figure 5: Share of Mining Oblasts in Kazakhstan's Industrial Output, 2006

Source: Statistical Office of Kazakhstan

The oil and gas region of Atyrauskaya had the highest regional income per capita in 2007 (64.022 tenge), followed by Almaty city (52.250 tenge), Astana city (47.881 tenge) and Mangistauskaya (42.302). Table 3 shows details on economic parameters of the oblasts in Kazakhstan. With regional inflation rates differing largely, real income varied heavily from nominal. In fact, in Astana and Almaty city people were losing real income on average.

Region / City	Population (as of 09/2007)	Population density	Nominal GDP per Capita in 1.000 Tenge (2007)	Average monthly income per 11/2007 (Tenge)
Kazakhstan	15.527.649	5,7	824,4	26.714
Akmola	748.433	6,2	468,0	20.006
Aktobe	701.558	2,3	885,4	29.215
Almaty	1.638.150	7,3	312,8	15.240
Atyrau	487.863	4,1	2.596,8	64.022
East Kazakhstan	1.418.787	5,0	535,7	22.344
Zhambyl	1.015.761	7,1	231,3	14.372
West Kazakhstan	615.077	4,1	1.002,5	28.827
Karagandy	1.341.020	3,1	830,9	25.724
Kostanay	896.063	4,6	588,7	23.287
Kyzylorda	630.326	2,8	734,9	20.369
Mangystau	402.980	2,4	1.854,1	42.302
Pavlodar	745.899	6,0	768,8	25.781
North Kazakhstan	656.001	5,3	468,4	20.062
South Kazakhstan	2.322.172	19,6	217,4	15.205
Astana city	595.406	838,6	2.367,2	47.881
Almaty city	1.312.153	4039,9	2.139,1	52.250

Table 3: Income per Capita in Regions, 2007

Source: Statistical Office of Kazakhstan

The lowest income per capita are found in the Southern provinces of South Kazakhstan and Zhambyl. South Kazakhstan, for example, which is densely populat-

ed for Kazakhstani standards, suffers from a lack of industry but also from a high birthrate among traditional Kazakh and Uzbek families (families with five to eight children are no exception) and an additional immigration of cheap and mostly low skilled labour migrants from North Uzbekistan.

4.3 Kazakhstan and CIS / EurAsEC

Kazakhstan is known as part of CIS. CIS, however, is losing its relevance. CIS-member are orienting itself towards other unions like the Eurasian Economic Community (EurAsEC), the Shanghai Cooperation Organisation (SCO) or GUAM. While the latter two organisations are more political in nature (e.g. GUAM, to form a counterweight to Russia's dominance in the region), the EurAsEC is focussing mainly on economic benefits.

The EurAsEC is the most progressive union. While consisting of six countries (Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan), Belarus, Kazakhstan and Russia are about to form a customs union on the basis of the EurAsEC agenda. Other countries might follow, but not before 2010. Through this union, Kazakhstan and Belarus are gaining attractiveness as entry points into Russia for foreign investors. The union and the EurAsEC in general are providing more stability to the region.

The SCO is also a political union aiming at the reduction of military forces along common borders and the creation of trust between the members. Members are P.R.C., Russia, Uzbekistan, Kazakhstan, Kyrgyzstan and Tajikistan. Although currently it is not an economic union, it has more potential than GUAM to develop into a form of co-operation which also covers economic issues.

5 Kazakhstani Passenger Car Market

5.1 Kazakhstani Car Parc

There are two varying sets of official numbers about the size of the Kazakhstani car parc: one from Traffic Police and the other one from the Statistics Agency. These figures differ greatly, with about 2,9 mio. vehicles (Traffic Police) to about 1,5 mio. vehicles (Statistics Agency) in 2005. There is wide agreement that the real size lies somewhere in between these numbers. Our numbers are based on these assumptions. Growth figures are similar, which ensures a higher validity of the real growth figures.

The passenger car parc in Kazakhstan is growing relatively fast.

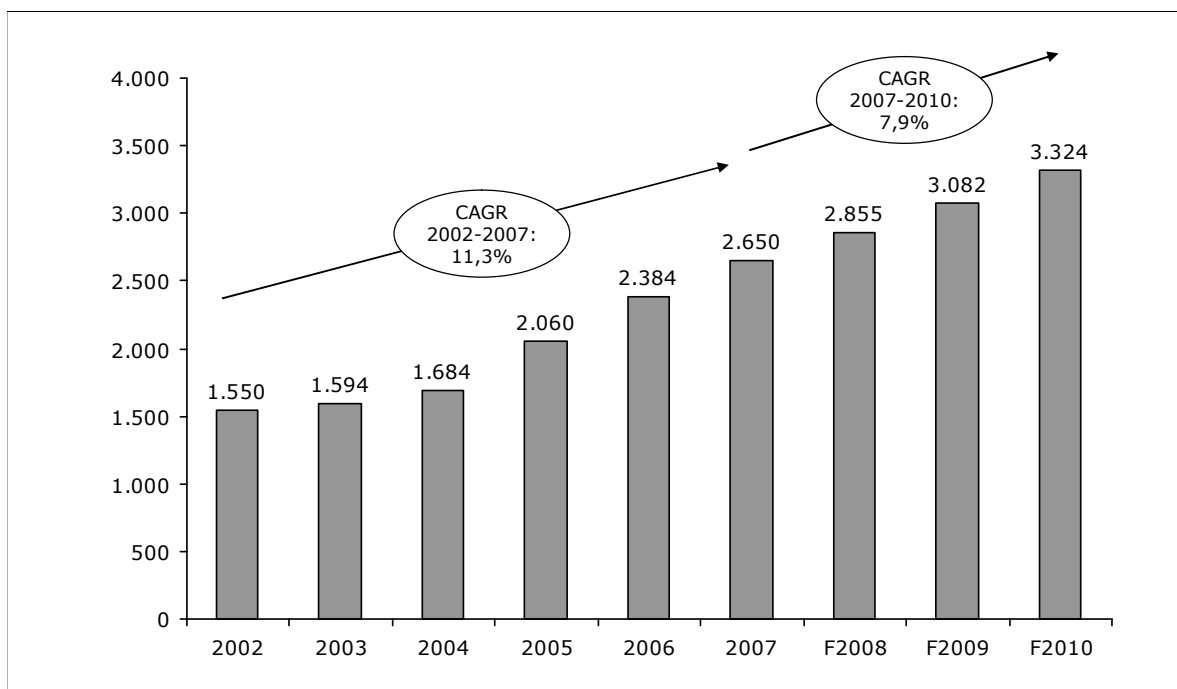


Figure 6: Development of Passenger Car Parc, in 1.000, 2002-2010*

Source: Traffic Police, Statistics Agency of Kazakhstan, Globis

* Here and further the data on car parc is on 31st December of the respective year.

The total number of passenger cars has increased from about 1,4 mio. passenger cars at the beginning of 2000 to 2,65 mio. in 2007 (see Figure 6). Since 2002 the car parc grew at a rate of over 10% annually. In comparison, the growth rates in Western European markets reached 1-2% annually. With estimate further growth towards 2010 at a rate of 7,9% annually.

In 2009 we expect more than 3 mio. passenger cars in Kazakhstan. The main growth driver has been the import of used cars. The destination of these cars depend on the region: In the Northern regions, at the border to Russia, Russian cars are preferred. In the East, Japanese and Korean cars prevail. However, a new law banning all right-hand-stirring wheel cars will limit the inflow of used Japanese cars. In the remaining parts of the country, used cars from Western Europe prevail, especially from Germany. There is no limit on imports of used cars and used cars are subject to the same customs duty as new cars (10%) with the exception of cars older than 10 years, which are subject to a 15% customs duty.

Kazakhstan today has no domestic brand and no history of passenger car production. Only in recent years there has been one car manufacturer active in Kazakhstan assembling VAZ vehicles (Lada), Skodas and, since recently, Chevrolets. Nissan is preparing a manufacturing operation with production start in 2009. Hence, the local car industry is and will not be a driver for the car parc or the market.

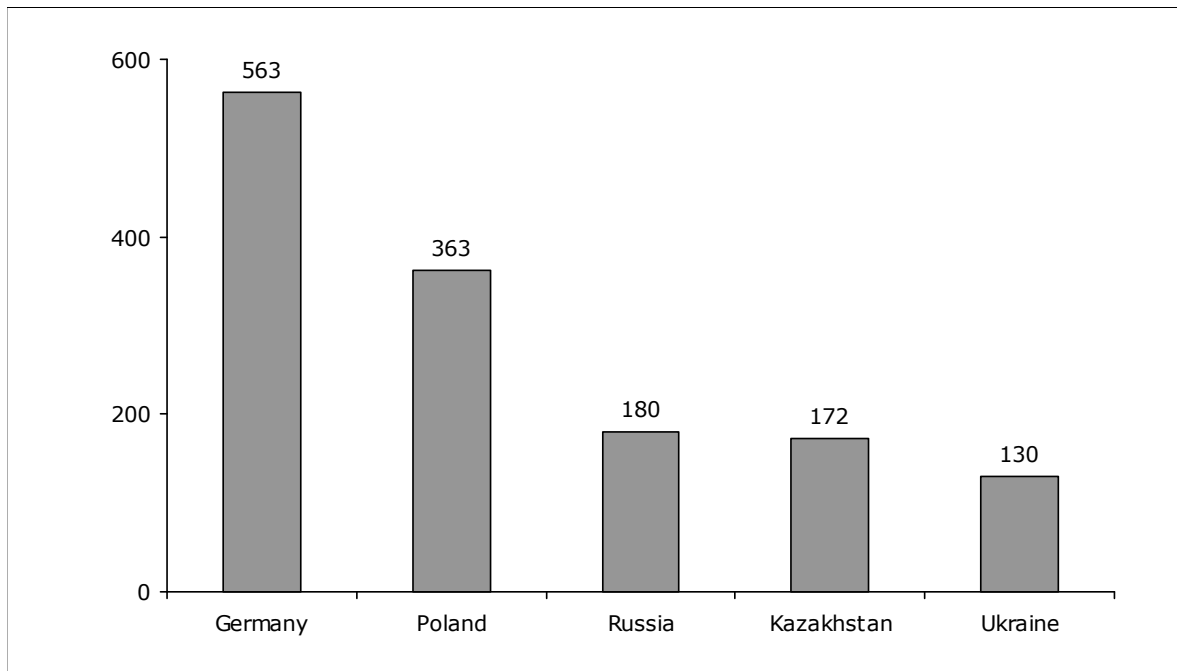


Figure 7: Passenger Car Penetration in Kazakhstan and Selected Countries, 2006/2007

Source: Globis

With its about 2,7 mio. passenger cars in parc, Kazakhstan's car penetration of 172 cars per 1.000 inhabitants is at a good level compared to the other larger countries of CIS, Russia and Ukraine (see Figure 7).

5.1.1 Structure of Car Parc by Age

The Kazakhstani car parc is relatively old compared to more advanced automotive markets. This is to be expected from a country with relatively low levels of income and no domestic brands. Even in comparison to Russia and Ukraine, the parc is still a little older. Almost one-third of the parc is older than 15 years. 40% of the cars is older than 10 years (but younger than 16 years). Only 6% of the parc consists of cars of an age up to 3 years (see Figure 8).

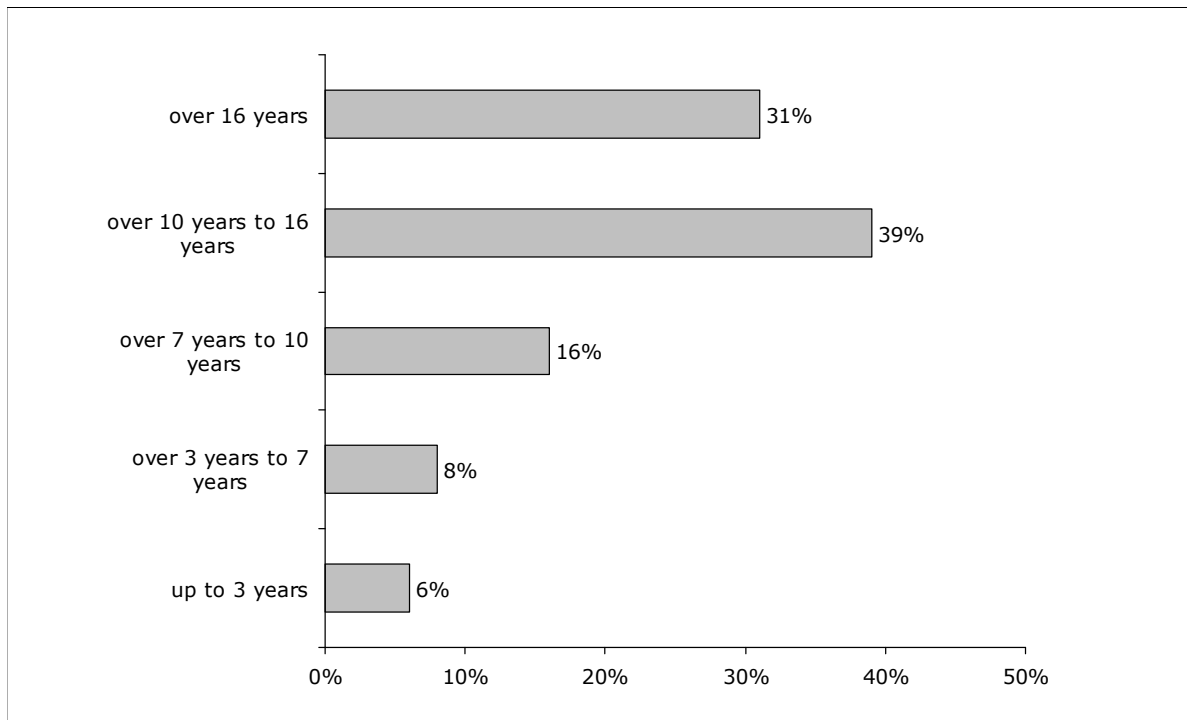


Figure 8: Structure of Kazakhstan's Car Parc by Age, 2007

Source: Various, Globis Analysis

The structure of additions to the parc is rather cementing this age distribution. About 50% of the imports of used cars are older than 10 years. Very old cars with an age above 15 years, however, are not imported frequently.

In Kazakhstan there are no rules for the technical inspection of transport vehicles. Cars are run until they can not be fixed any more. There is no regulative force which leads to a drop-out of very old and unsave cars. The only regulation with an impact on the size of the car parc is the one mentioned above: a ban of cars with right-hand-steering-wheels as of January 1st, 2007.

5.1.2 Structure of Car Parc by Brands and Models

The Kazakhstani car parc is still dominated by its heritage as part of the Soviet Union. The prime brands from these days were Russian ones, with VAZ as the leading brand (see Figure 9). After the opening to the West and the break-down of the Soviet Union into the CIS-countries, Kazakhstan was still dependent on Russian cars. It is only since this century with the surge in oil prices and the increase

in the economy, that Kazakhstan is coming more into the focus of other brands. Up to the end of the last century, Kazakhstan's car parc consisted more or less of Russian brands.

Since then, the picture is changing rapidly, mostly driven by small, private entrepreneurs who started an importing business for used cars – from the East (Japan, Korea) and the West (mainly Germany).

This led to a shift in the brand distribution of the parc, but Russian brand still dominate: VAZ is the leader with 24%, followed by GAZ (9%). The first non-Russian brand in Toyota (5%), followed by Audi and VW (4% each). UAZ of Russia is sixth in parc with a 3% share. Other main brands are of Japanese or German origin.

Chinese brands do not play any role in the car parc of Kazakhstan. For the future, we expect a more prominent position of Chinese brands. In China there are large car production overcapacities and a growing market alongside the border is attractive. However, Kazakhstani demand structure does not readily fit to the prevailing models build in China. While Kazakstanis prefer larger cars, MPVs and SUVs, pure Chinese manufacturers are more specialized in smaller low-end car. However, this is changing.

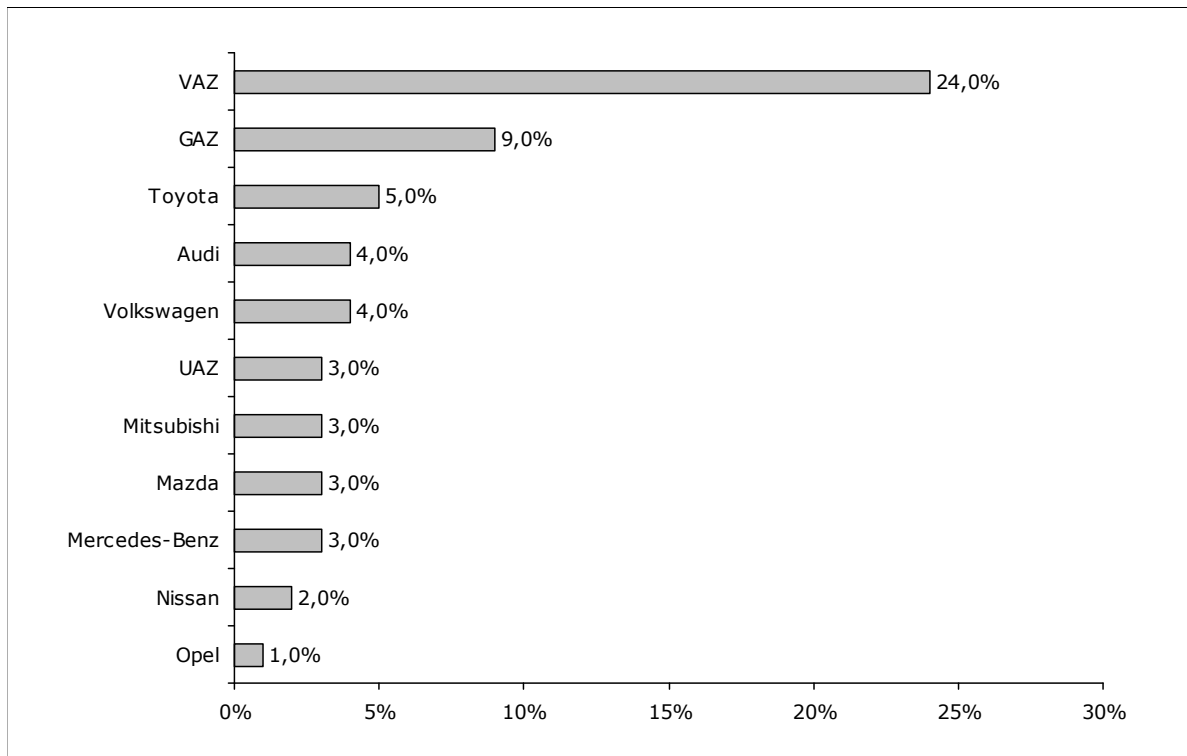


Figure 9: Top-Ten Brands in Kazakhstan's Car Parc, 2007

Source: Traffic Police, Globis Analysis

The most numerous models in the Kazakhstan's car parc are still from Russian brands. The most popular model in the parc is still the VAZ 2104-2106, which were built from the end of the 80s to the beginning of 2000. Table 4 gives an overview over the most popular models in the Kazakhstani parc.

Brand	Parc in 1.000	Popular models
VAZ	170	VAZ 2104-2106
Moskvich	100	Moskvich 2141
VAZ	95	VAZ 2101-2103
VAZ	80	VAZ 2109
Volga	80	GAZ 31029 and successor

Table 4: Most Popular Models in Kazakhstan's Car Parc, 2006-2007

Source: TNS Gallup, Globis Analysis

5.1.3 Car Parc in Regional Markets

Kazakhstan consists of 16 regions, called oblasts. The regional distribution of cars among oblasts in Kazakhstan, measured by cars per 1.000 people, is diverse (see Table 5). Car penetration on average is at 172 cars / 1.000 people. As with retail expenditure in general, the largest agglomeration can be found in Almaty city and Astana city, with 365 and 247 cars / 1.000 people, respectively.

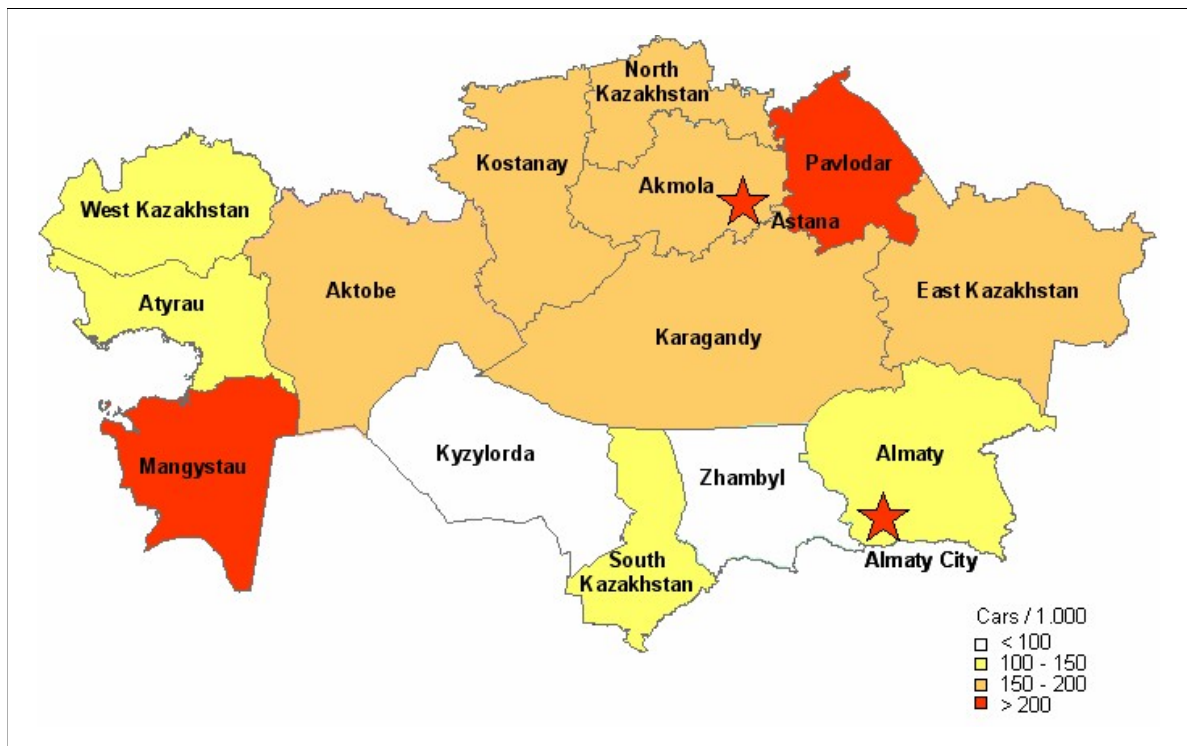


Figure 10: Regional Distribution of Cars by Density, 2007

Source: Globis Analysis

Car penetration does not mirror the economic situation in terms of GDP per capita: Among the top regions, Atyrau, Mangystau, West Kazakhstan, Pavlodar, Aktobe and Karagandy (most of these regions lie in the Western part of Kazakhstan apart from Pavlodar in the North-East and Karagandy in the center) only Mangystau, Pavlodar and Aktobe can be found among the regions with top car penetration. This suggests that money is not spent where it is earned and that the economic rise of Kazakhstan has not yet been long enough to change the picture according to today's regional economic capabilities.

Other regions with top car penetration lie in the Northern part of Kazakhstan – with easy access to Russia and its car market. Regions to the South (Zhambyl, Kyzylorda) are at the lower end of car penetration. With borders to Uzbekistan, Kyrgyzstan, Turkmenistan and China, there is no lively foreign car market that Kazakhstan’s Southern regions could built upon.

Apart from Almaty city, the regions with the largest fleet of passenger cars are South and East Kazakhstan. Both regions have the largest population of all regions in Kazakhstan.

Region	Car parc, in 1.000, end of 2007 (F)	Population, in 1.000	Cars/1.000 people
Kazakhstan	2.398	15.528	154,4
Almaty city	479	1.312	365
Astana city	147	595	247
Mangystau oblast	91	403	226
Pavlodar oblast	166	746	223
Kostanay oblast	172	896	192
Aktobe oblast	132	702	188
North Kazakhstan oblast	115	656	175
Akmola oblast	130	748	174
East Kazakhstan oblast	234	1.419	165
Karagandy oblast	219	1.341	164
Almaty oblast	229	1.638	140
Atyrau oblast	64	488	130

Region	Car parc, in 1.000, end of 2007 (F)	Population, in 1.000	Cars/1.000 people
West Kazakhstan oblast	79	615	128
South Kazakhstan oblast	258	2.322	111
Zhambyl oblast	99	1.016	98
Kyzylorda oblast	52	630	82

Table 5: Regional Car Parc and Car Penetration of Kazakhstan, 2007

Source: Statistics Agency of Kazakhstan, Globis Analysis

The main driver for the regional distribution of the parc was access to car markets, mostly second hand. In future the economic well-being of respective regions will be the major driver and we expect a stronger increase in the Western regions as well as in both major cities, Almaty and Astana.

5.2 Passenger Car Sales and Imports

5.2.1 Size of Market

The Kazakhstani car market, defined as new cars sold, has experienced a steady increase over the last years. Coming from below 10.000 new units sold at the turn of the century, in 2007 new car sales reached almost 75.000. We expect the absolute increase to continue at least until 2010. Growth rates, however, will reduce, coming from a CAGR of 40% from 2002 to 2007 (because of the low volume in 2002) down to about 19% for the years until 2010 (see Figure 11).

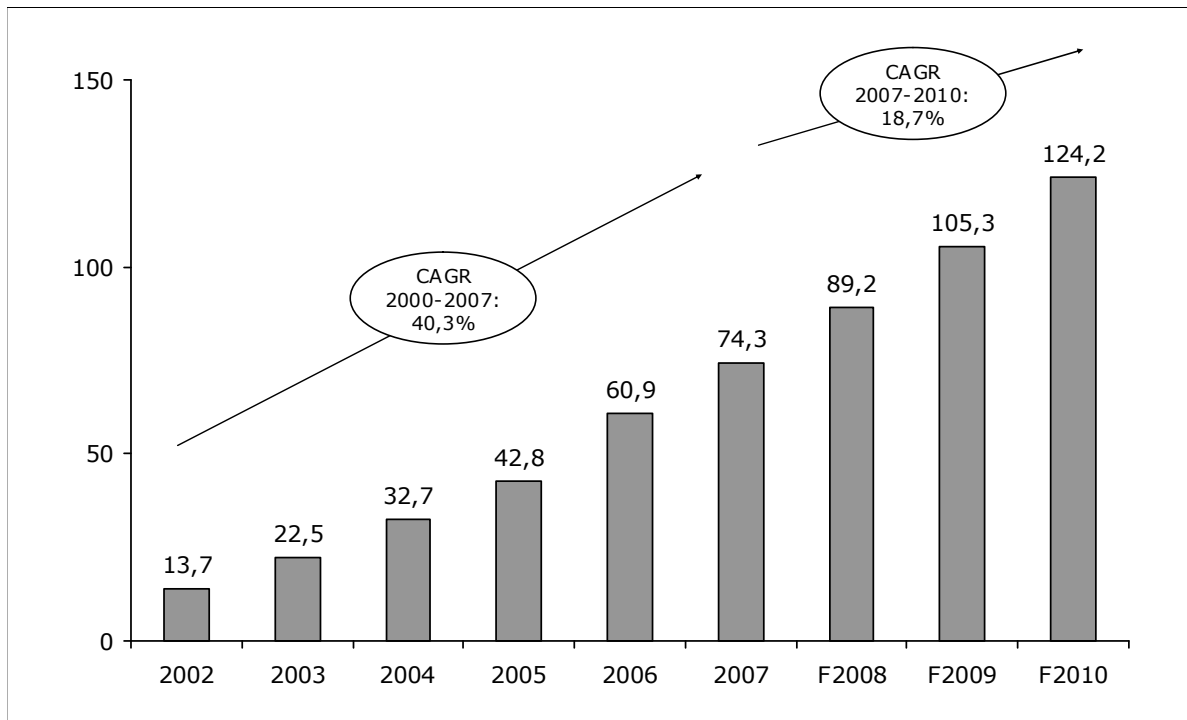


Figure 11: Sale of New Cars in Kazakhstan, in 1.000, 2002-2010

Source: Various, Globis Analysis

There are numerous reasons for this development, for example the economic situation, better access to credit schemes, a more stable administrative regime and of course the low car penetration.

Used car imports also grew heavily over the last years although there was a decline from 2006 to 2007. In 2007, about 310.000 used cars were imported. Import tariffs of new and used cars are identical at 10%, with an exception of cars older than 10 years, which bear a tariff of 15%. Hence, tariffs do not distort the market of used and new cars. People buy used cars because of their lower price and the availability of models not sold inside Kazakhstan. Mostly, the imported cars are of low value. In total, used car imports have a limited effect on the new car market.

Looking at new additions to the parc, the major share used to come from used car imports (see Figure 12). Starting 2008 we estimate the start of an adverse trend, with new car imports steadily increasing their share of the new additions. In

2010 about 35% of all additions will come from new car sales. Then about 10% of total additions will be produced locally, coming from zero in 2002.

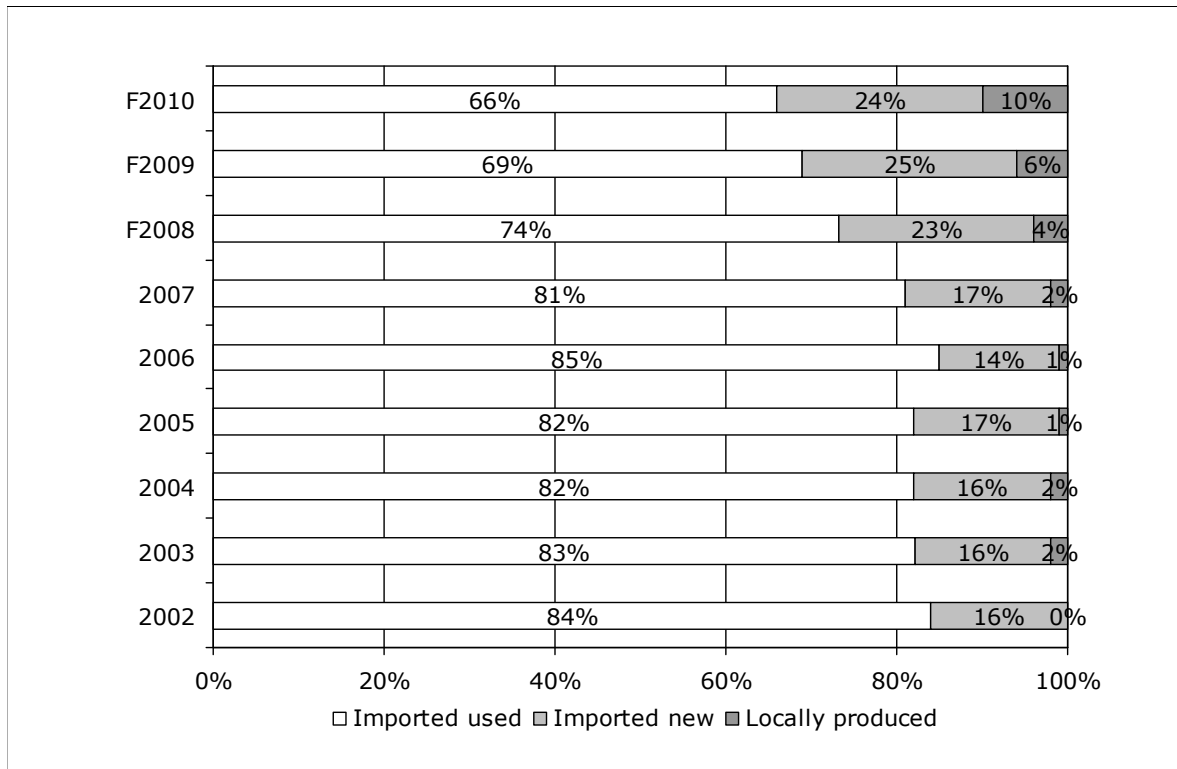


Figure 12: Relative Sales and Import Structure of Car Market, 2002-2010

Source: Globis

Annual additions to the car parc were around 400.000 cars in 2006 and 2007 and will drop about 10% over the next years (see Table 6). However, the parc is not growing at this pace. There are about 100.000 units leaving the parc (scrapped) annually.

Year	Total sales	Foreign "second-hand" imports (sold)	New foreign	
			Imported new	Locally produced
2002	85.440	71.770	13.670	0
2003	128.823	106.279	20.044	2.500
2004	181.870	149.133	29.737	3.000
2005	237.528	194.773	40.395	2.360

Year	Total sales	Foreign "second-hand" imports (sold)	New foreign	
			Imported new	Locally produced
2006	406.244	345.307	57.087	3.850
2007	385.043	310.700	65.543	8.800
2008	337.771	248.560	77.211	12.000
2009	341.401	236.132	85.269	20.000
2010	365.072	240.855	87.218	37.000

Table 6: Sales and Import Structure of Kazakhstan's Car Market, 2002-2010

Source: Globis

5.2.2 Market Characteristics New Cars Market

The Kazakhstani market for new cars is at a developing stage. Dealerships are just forming. The grey sector, with new cars sold through non officially authorized dealers, contributes a major share of the market. According to various estimated, the market share of these grey dealers were at over 50% for foreign brands over the last years, but it is now reduced heavily. There are numerous reasons for this strong grey sector:

- For many Kazakhstani auto dealers it is just to troublesome to convert into an official dealership of a certain brand. The set-up-cost in form of cost to build modern showrooms and service facilities as well as in form of training expenses is often seen as inadequate. Many dealers nevertheless sell new cars, but without being an authorized dealer.
- OEMs do not sell all their models through official dealerships in Kazakhstan. Since the main segments in Kazakhstan are larger cars, Toyota for example, is not selling the Yaris, its small car. Customers interested to buy the car need to go through grey dealers.
- In the countryside demand often is too low to justify an authorized center. Dealers then naturally have to act as grey dealers.

The grey market is not covered through extensive statistics. All official numbers, mostly generated by the SADK – the Association of Automotive Dealers of Kazakhstan – only show a fraction of the real market. In addition, these numbers do not include Russian brands, which data are hardly available. The total number of new cars sold and the brand distribution therefore need to be based on estimates. In total, official numbers of SADK cover only less than 50% of the market (see Figure 13) but the share of cars sold through dealers represented in SADK is increasing. Grey dealers loose market share while Russian brands, which are not covered by SADK, remain stable.

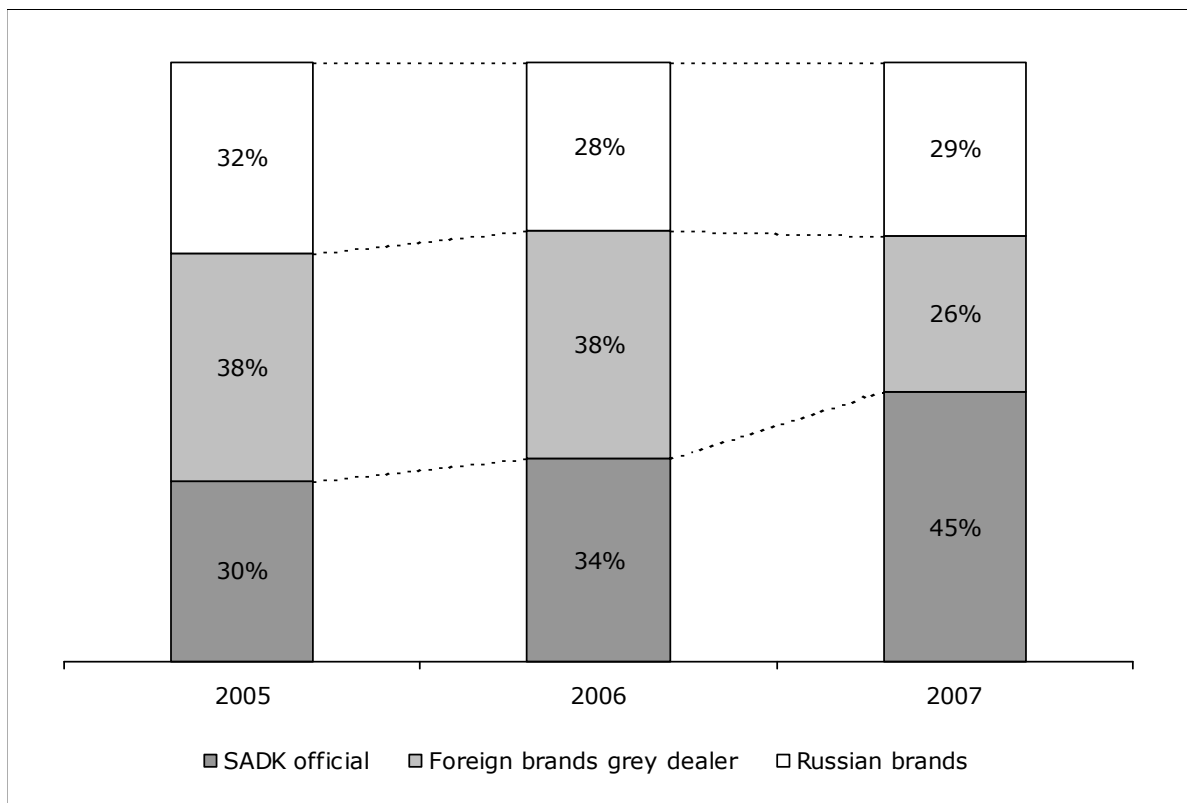


Figure 13: New Car Sales by Type of Official and Grey Dealers, 2005-2007

Source: Globis Analysis and Estimate

Concerning SADK-members, the leader in sales is Toyota, with almost 10.000 cars sold. Table 7 shows the details. Also strong is UZ-Daewoo from Uzbekistan, which sold over 5.000 units, followed by Hyundai and Volkswagen.

Kazakhstani Automotive Market 2007/2008: Passenger Cars, Suppliers, Aftermarket

	Brand	2006	2007	Growth 2006 / 2007	Q1, 2008
1	Toyota	6.346	9.715	53%	1.497
2	Uz-Daewoo	3.704	5.200	40%	614
3	Hyundai	1.505	2.744	82%	446
4	Volkswagen	1.496	2.464	65%	546
5	Mitsubishi	467	1.967	321%	486
6	Nissan	425	1.957	360%	422
7	Chevrolet Niva	1.283	1.509	18%	189
8	Skoda	1.469	1.493	2%	191
9	Subaru	838	1.441	72%	435
10	Chevrolet	169	901	433%	205
11	Ford	504	616	22%	123
12	Suzuki	2	564		91
13	Kia	395	506	28%	45
14	Peugeot	382	479	25%	120
15	Mercedes	197	296	50%	40
16	Renault	263	293	11%	55
17	Audi	227	259	14%	25
18	BMW	240	240	0%	34
19	Land Rover	101	180	78%	14
20	FAW		179		-
21	Ssang Young	135	160	19%	62

	Brand	2006	2007	Growth 2006 / 2007	Q1, 2008
22	Porsche	53	80	51%	12
23	Fiat	33	68	106%	13
24	Volvo	90	66	-27%	18

Table 7: Top Selling Brands (New Cars) of Dealers Organized in SADK, 2006-2007, Q1 2008

Source: SADK, Salonauto.kz, Globis Analysis

Looking at the total market, the picture is different. VAZ with Lada is the leader in sales, with almost 16.000 new units sold in 2007 (see Figure 14). Even with taking grey dealers into account, Toyota is only second in the market but will likely surpass VAZ in 2008. UAZ from Russia is fourth in the market.

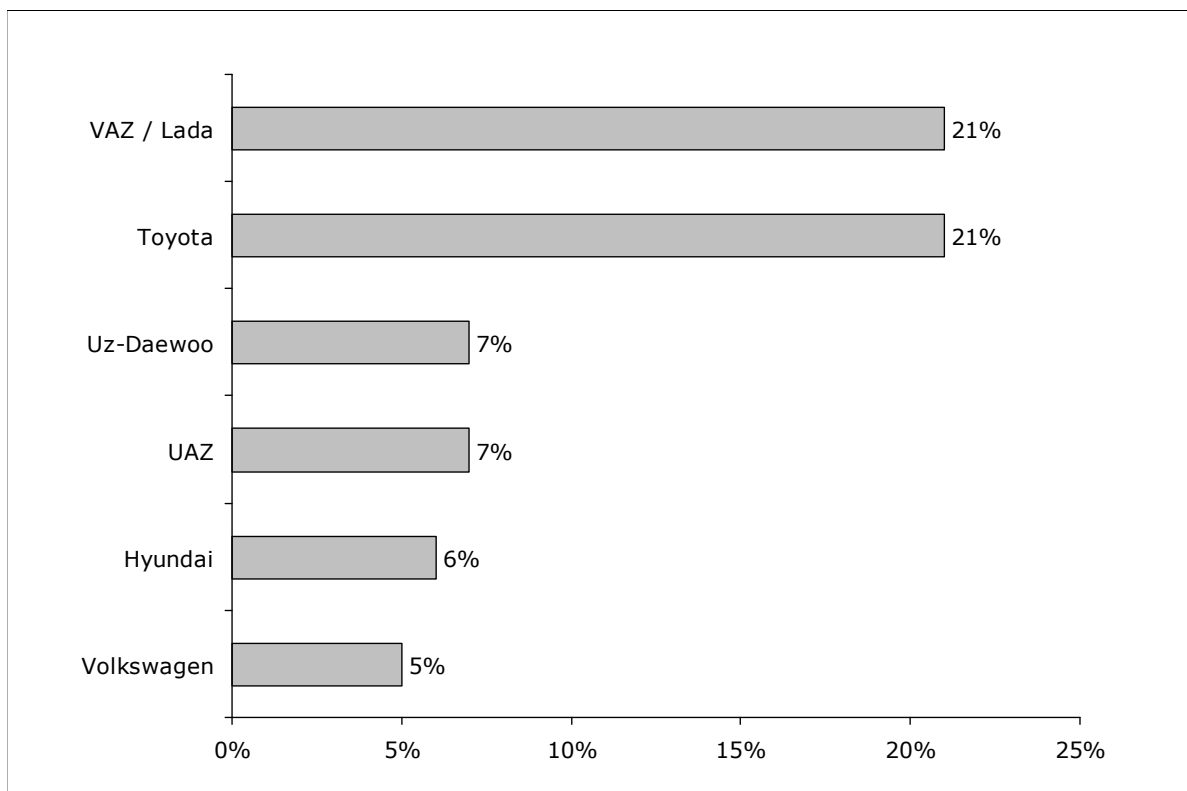


Figure 14: Market Share of Top-Brands (Official and Grey Dealers), 2007

Source: Globis Analysis and Estimates

In general, local production of cars does not impact sales to a great extent. Only 2% of cars sold in Kazakhstan were manufactured domestically. Hence,

sales are impacted mostly by the attractiveness of and the access to these cars but not some type of loyalty towards a local brand or local production site.

In terms of overall sales, Lada Niva, an SUV, was the sales leader with almost 3.000 units sold in 2007. Toyota Camry was leader in non-CIS-car-sales, counting official and grey dealers together. Looking at the type of models being top-seller in the Kazakhstani market (Table 8 shows the details), one can observe a strong tendency towards larger cars or SUV, mostly even from the luxury segment.

	Model	Sales in 2007
1	Toyota	Camry
2	Uz-Daewoo	Nexia
3	Hyundai	Getz
4	Volkswagen	Touareg
5	Skoda	Octavia Tour A4
6	Nissan	Almera Classic
7	Subaru	Outback
8	Chevrolet	Lacetti
9	Ford	Mondeo
10	Mitsubishi	Outlander
11	Peugeot	307
12	Mercedes	S-class
13	Rover	Range Rover
14	Suzuki	Grand Vitara
15	Audi	Q7

	Model	Sales in 2007
16	BMW	5 series
17	Porsche	Cayenne
18	Kia	Sportage
19	Volvo	XC90
20	Renault	SYMBOL

Table 8: Top Selling Models, 2007

Source: Salonauto.kz

Kazakhstan is not a market for smaller cars. People prefer lower and upper medium class cars (to about 55%), followed by SUV und MPVs (about 35%) – see Figure 15. This also means, that the average price tag is comparatively high. Some brands do not even offer smaller cars like Toyota, which is not officially selling its Yaris in Kazakhstan.

There are many reasons for this distribution

- Kazakhstan is a vast country with only few larger cities. This means, people need to travel a lot and long distances can best be driven in larger cars.
- The transportation systems (public and goods logistics) is far from being advanced and reliable. Hence, people need to transport a lot by themselves and need larger cars.
- Road conditions in many parts of the country (especially in the country side) are hazardous. For these roads SUVs are best suited. GM, for example, which is manufacturing Chevrolet models through Azia Avto, is further strengthening the shock-absorbers of all these models due to the local road conditions.
- Also, there is a general preference towards larger cars, which give a sense of safety but also of superiority.

The new models introduced to Kazakhstan make it clear that this trend is to continue: In 2007, many SUVs were introduced to the market, among them: Audi R8, VW Tiguan, Toyota Land Cruiser 200, Mitsubishi Pajero and Outlander XL, Subaru Impreza and Nissan X-trail and Qashqai.

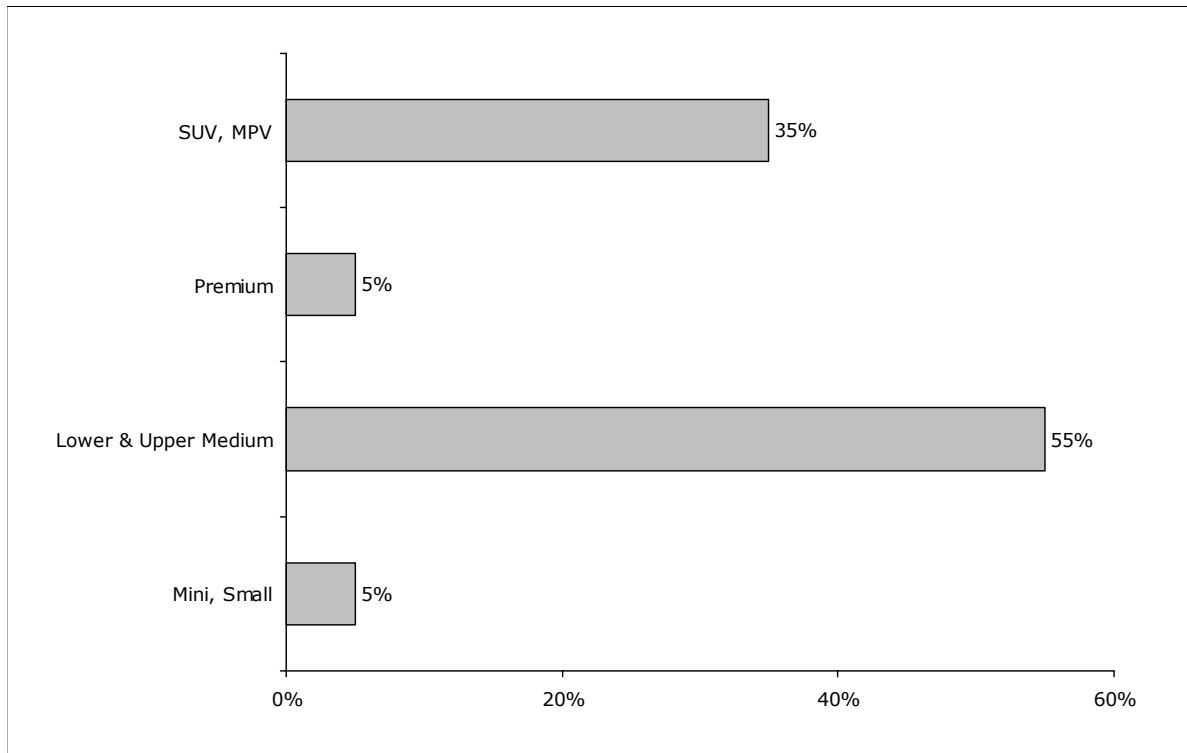


Figure 15: New Car Sales by Segment, 2007

Source: Globis Analysis and Survey

Corporate buyers account for about 25% of sales volume of new cars in Kazakhstan, with taxi companies being heavy buyers. These numbers are down from about 40% in 2004. Taxi companies prefer Ladas, which are sold for around 4.000 USD. The share of the state is continuously reducing.

5.2.3 Sales Drivers for New Cars

The automotive market in Kazakhstan is one of the most attractive ones in Eurasia and the CIS-countries in terms of sales of new cars and the aftermarket potential. The market has shown continuous growth in the past and will continue to do so. There are several factors influencing the market size:

- Economic growth and income levels
- Used car imports
- Regulatory environment
- Development of credit system and car loans
- Expansion of dealership networks
- Consumer behaviour.

5.2.3.1 Economic Growth and Income Levels

Kazakhstan's economy and income levels are growing strongly. Especially through the mining, oil, banking and construction sector part of the population is getting wealthy quickly. These are the consumers who can afford the more expensive best selling models like VW Touareg, Audi Q7 or Porsche Cayenne.

However, inflation being at a record high, the average Kazakhstani does not benefit much from the strong growth. In several parts of the country there was even a shrinkage in wealth due to high inflation. The majority of people still can not afford a car. A large share of people only has the choice between cheap Russian models (a Lada for about 4.000 USD) or used cars – imported or bought locally. This segment of consumers will keep up the sales numbers of Russian brands. In future, this segment might get targeted by Chinese OEMs.

Nevertheless, the number of people who can afford buying new cars will grow continuously and will ensure a solid growth over the next years. With a better supply of low cost cars, the market will gain additional momentum.

5.2.3.2 Used Car Imports

Used car imports increased heavily over the last year and peaked in 2006, coming from below 100.000 at the turn of the century (see Figure 16). We do not expect this trend to continue. However, we estimate imports staying at a high level towards the year 2010, with around 250.000 units annually. In 2007 there was already a slight decline and imports reached about 310.000 units.

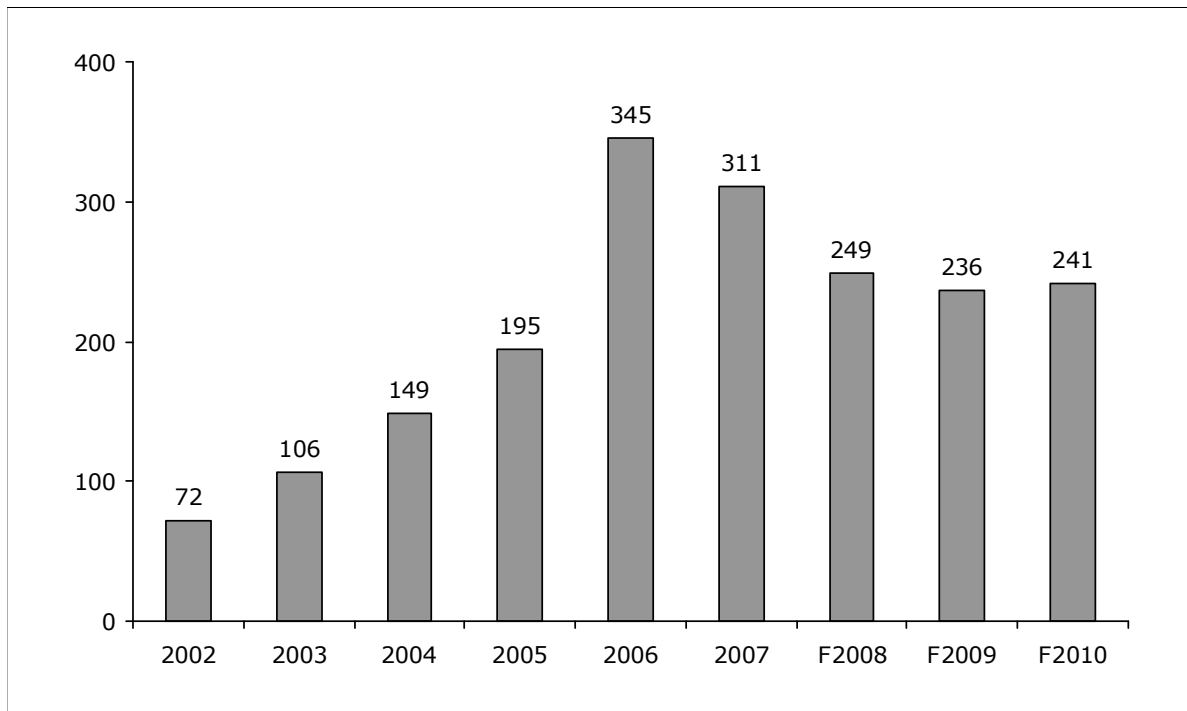


Figure 16: Import of Used Cars into Kazakhstan, in 1.000, 2002-2010

Source: Various, Globis Analysis

There is a limited effect of used car imports on the new car market in Kazakhstan. Both markets were growing over the last years, showing the great demand in Kazakhstan for any kind of passenger car. Of course, without heavy imports of used cars, the new car market would have grown even faster. But imported cars mostly are of lower value and cater to a segment of customers who would neither be able nor willing to buy a new car.

5.2.3.3 Regulatory environment

The regulatory environment in Kazakhstan concerning car legislation is relatively stable. Neither tariffs nor sales taxes are subject to frequent changes.

However, there are some factors that might have influence on the new car market:

- Kazakhstan is currently negotiating the entry to WTO. It is unclear, if and when negotiations can be concluded successfully. Official sources say it could be as early as this year, 2008. The impact of WTO for the new car

market is mixed. Kazakhstan has no import quota and tariffs are already low, with 10% on new and used cars. A reduction will not speed up the market dramatically. WTO could have an effect for the future, since it will hinder Kazakhstan to introduce higher tariffs. This could be the case, if the government opts to strengthen the local automotive industry. Today, manufacturing activities are limited, but with Nissan announcing to manufacture cars in Kazakhstan and other OEMs thinking of it, the Kazakhstani government could try to give additional incentives through higher import tariffs on CBUs for the establishment of a manufacturing facility for the local market.

- Also, there are some current moves to improve road safety and to establish a more organized market. Cars with right-hand-steering wheels were banned from Kazakhstan starting from January 1, 2007. This decision has evoked some criticism. Approx. over 100.000 cars are affected by this decision and these cars can not be used any more. The measure has a one-time effect on the new car market, which was very small. People who had to abandon their cars rather bought used cars than new ones.

5.2.3.4 Car Financing

The availability of car financing has a strong impact on the new car market, especially with customers preferring larger and more expensive cars as is the case in Kazakhstan.

Car financing is not yet widespread in Kazakhstan but it is growing heavily. While in 2005 about 90% of purchases were financing through cash, today it is 60% (see Figure 17).

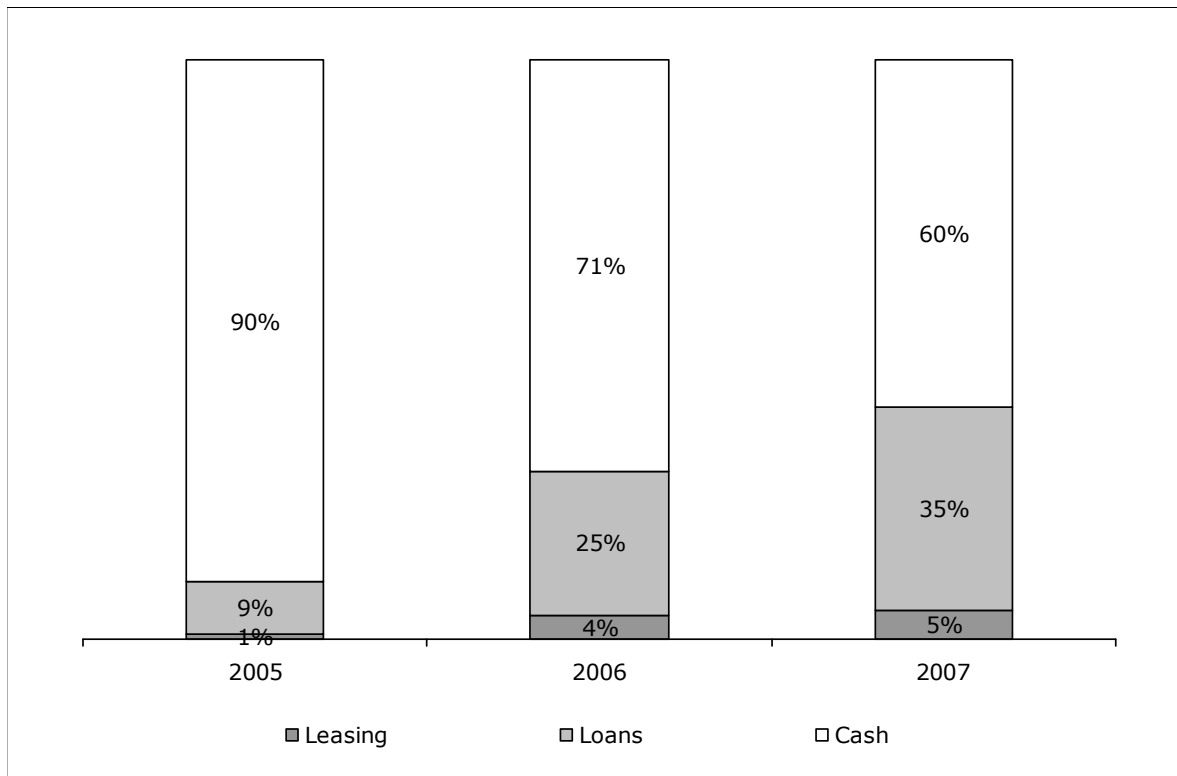


Figure 17: Share of Financing Arrangements for New Car Sales, 2005-2007

Source: Globis, Toyota Kazakhstan

The main form of financing is loans. Leasing is more an option for businesses but overall has a very limited market share. Loans are mainly handed out by normal banks (to about two-third). The rest of loan arrangements is handled through the financing arm of dealers and OEMs.

Interest rates have recently been adjusted because of the increasing inflation. Today, they are between 14% and 18% and given the current rate of inflation of over 10% they are relatively attractive.

There is also a widespread market for used car financing. While a few years ago there was a 50% share of used car financing in total financing arrangement, today it is much more new car financing. However, the market for used car financing should not be neglected. It might become more attractive in the future to import used cars with higher value. Then financing is essential. Today, interest rates on used car loans are about 2 percentage points above those for new car financing.

5.2.3.5 Dealership Networks / Distribution Systems

Dealership networks represent the reach of OEMs to their customers. In Kazakhstan, as in many other markets as well, automotive dealers are independent businesses, mostly bound to an OEM by contractual arrangements. Currently, only few dealerships are multi-brand dealers. This rate is supposed to grow slightly.

There is a clear trend towards chain building in automotive dealerships, hence making OEMs more dependent on its dealers. Still, new official dealerships open only slowly. The expenses needed for compliance with the OEM's quality standards are considered too high for many want-to-be-dealers. Today, many still act as grey dealers. For this reason, the number of authorized dealerships is still low (see Table 9) and about 25% of all new car sales are made by grey dealerships.

Not all major brands are represented in Kazakhstan as of yet. Suzuki was introduced to the market in 2007 only. Mazda has no official presence in the market yet and Mitsubishi, under the name of Rikom-Kaz, is currently entering the market together with Rolf, one of its Russian dealers. Growth in dealerships comes from these new brands currently entering the market. It is also likely, that other Chinese brands like Great Wall will enter the market soon.

Company	Represented Brands	Outlets
Bipek Auto	AutoVAZ, UAZ, KamAZ, IshMash, Skoda, Suzuki	15
Virazh (LKW,Bussen)	Kia, Daewoo, GAZ, KAMAZ	14
Merkur Group	VW, Audi, Porsche, Ford, Volvo, Land Rover	12
Astana Motors	Toyota, Subaru, Hyundai, BMW, Nissan	12
AGES	Kia	10
Toyota Tsusho Kazakhstan	Toyota, Lexus	10

Company	Represented Brands	Outlets
Alma Motors	Skoda	7
Altin Auto	Nissan	6
M-Auto	Volvo, Ford	4
Blue Star of Kazakhstan	Mercedes, Chrysler, Dodge, Jeep	3
KazAutoGAZ	GAZ	2
Allur Auto	Fiat, Alfa Romeo, Ferrari, Maserati, Suzuki, Ssang Young	2
Aristan Auto	Peugeot	1
JFC	Honda	1
Favorit Auto	FAW	1
Vostok Avto	Cherry	1

Table 9: Authorized New Car Dealerships in Kazakhstan, 2007

Source: Globis

5.2.3.6 Consumer preferences

There is no local brand in Kazakhstan. Hence, consumer preferences are not biased by any loyalty to a local brand.

For all Kazakhstani consumers, reliability is a key criteria when buying a car. New brands, for example from China, therefore, will have a hard time convincing the customers of their quality.

Price and economy of a car are the second and third most important criteria when buying a car (see Figure 18). That price matters, one can see at the strong growth of used car imports in recent years.

Topics like serviceability (68%) and availability of spare parts (67%) rank surprisingly high. Service is a key issue when buying a car in Kazakhstan. This is different to other countries with a developing automotive market. People are not too much concerned with service, in the first place.

Comfort ranks high, with 73% of people considering it important when buying a car. This goes hand in hand with consumers preferring larger cars from the upper, SUV or MPV segment. Kazakhstan today is no market for smaller, low-end cars.

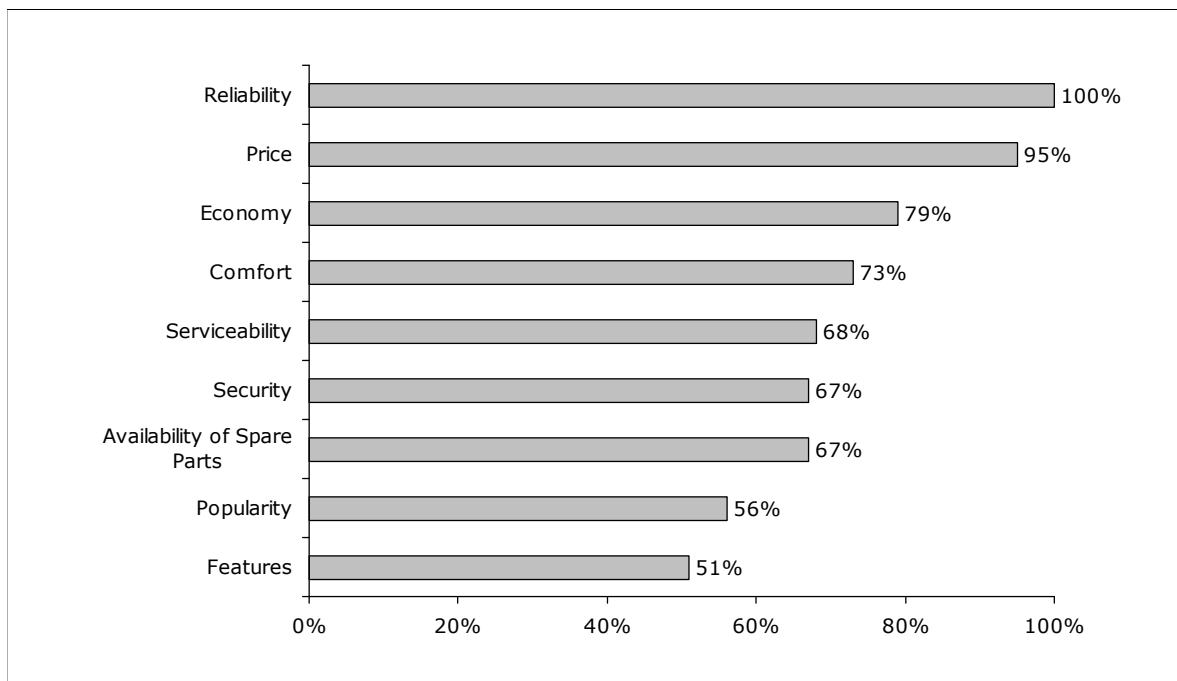


Figure 18: Key Criteria Influencing Car Choice in Kazakhstan, 2006/2007

Source: IGM

6 Kazakhstani Components and Spare Parts Market

6.1 Car Production and Suppliers

6.1.1 Production

Kazakhstan has not a long history of car production. There is no local brand in Kazakhstan. With the help of the Kazakhstani government, Bipek Avto, the official importer of VAZ in Kazakhstan, set-up an assembly operation in Kazakhstan and became the first operation of its kind in Kazakhstan. In 2002 the first Lada Nivas were assembled through Azia Avto. Since then, the model range assembled through Azia Avto has been increased steadily and today includes VAZ, Skodas and Chevrolets. The production output in 2007 was at around 9.000 units (see Table 10). Most of the components are shipped into Kazakhstan from other manufacturing plants of the respective OEM. Chevrolet is shipping components from South Korea, for example. There are no other assembly or manufacturing operations of passenger car OEMs in Kazakhstan, as of yet.

Brand	Model	2003	2004	2005	2006	2007
Lada	Niva, Samara	2.500	3.000	1.960	2.350	4.500
Skoda	Octavia, Superb			400	1.500	3.000
Chevrolet	Lacetti, Epica, Captiva					1.300
Total		2.500	3.000	2.360	3.850	8.800

Table 10: Production Volume of Azia Avto by Brand, 2003-2007

Source: Azia Avto, Globis

AvtoVAZ is currently (mid 2008) showing strong interest in Azia Avto and wants to take over at least 25% plus one share in the company. Together with AvtoVAZ partner Renault they are said to increase production to over 100.000 units annually. However, plans have not yet materialized.

Through an official fund, the “Kazyna Sustainable Development Fund”, the Kazakhstani government is active in attracting further investments: End of 2006 there were rumours that DaimlerChrysler was exploring Kazakhstan to set up an assembly operation in the country. Apparently talks with high level official were arranged but did not result in any activity of DaimlerChrysler.

Nevertheless, Kazakhstan as an automotive manufacturing hub is slowly coming into pace:

- End of 2007 Nissan announced the establishment of a manufacturing plant near Astana. With an investment of about 50 mio. USD, an assembly facility with a capacity of 30.000 units is planned. Production focus are small and middle off-roaders.
- There are still talks with Hyundai and Chinese-car makers to set up production facilities in Kazakhstan, which are not decided yet.
- In 2005, there was a truck and bus assembly operation set up by KAMAZ in Kokschetau in Akmolinskaya Oblast. Production volumes reached 1.500 in 2006 and about 2.500 in 2007.
- In 2006 / 2007, Daewoo Bus set-up an assembly-joint-venture with SemAZ, called “Daewoo Bus Kazakhstan“, to assemble buses mainly for export to other CIS-countries. The capacity is around 1.200 buses annually.
- Some major suppliers like Nokian tyres are currently also setting up production facilities in Kazakhstan.

In 2010, we estimate a production level of over 40.000 passenger cars in Kazakhstan, at very high growth rates (see Figure 19). For the years after 2010 the level will rapidly exceed 100.000 units, probably already in 2012 / 2013.

Today local content in these operation is still very limited. The assembly operations do not provide a major impetus for a growing automotive industry in Kazakhstan. In the long run, however, we expect Kazakhstan to develop into a automotive hub in Middle Asia.

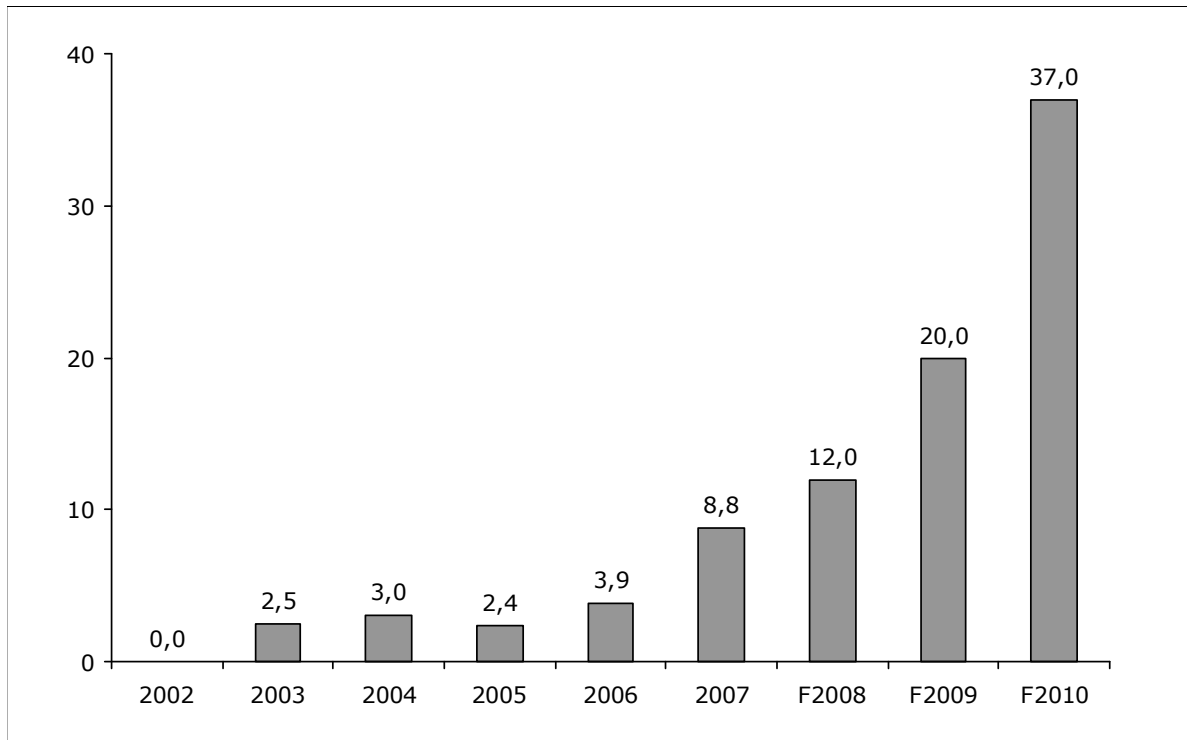


Figure 19: Production of Passenger Cars in Kazakhstan, in 1.000, 2002-2010

Source: Globis

6.1.2 Primary Market and Suppliers

The primary market, that is the delivery of parts, components and services to the assembly line, depends on the volume of new cars manufactured in Kazakhstan, the pricing of components and the value-added of the manufacturer.

Most of today's passenger car production in Kazakhstan is essentially an assembly activity based on CKD kits. Local content is very limited and there is no substantial automotive industry in Kazakhstan which could supply components and parts for car production to the assembly line. OEMs setting up their operations in Kazakhstan will always be faced with the problem of inadequate local suppliers and hence try to limit their local value added and especially the local supply of

parts and components. This is to be expected from Nissan’s new operations in Kazakhstan as well. There are no local content regulations in place in Kazakhstan, like it is the case in Uzbekistan.

Hence, the value of the primary market is limited and also captive to a large extent. For 2008, we expect a local value added of 35 mio. USD, which should increase to about 140 mio. US\$ in 2010 (see Figure 20). The main driver will be the expansion of production activities in Kazakhstan and – to a much smaller extent – the increase in local value added.

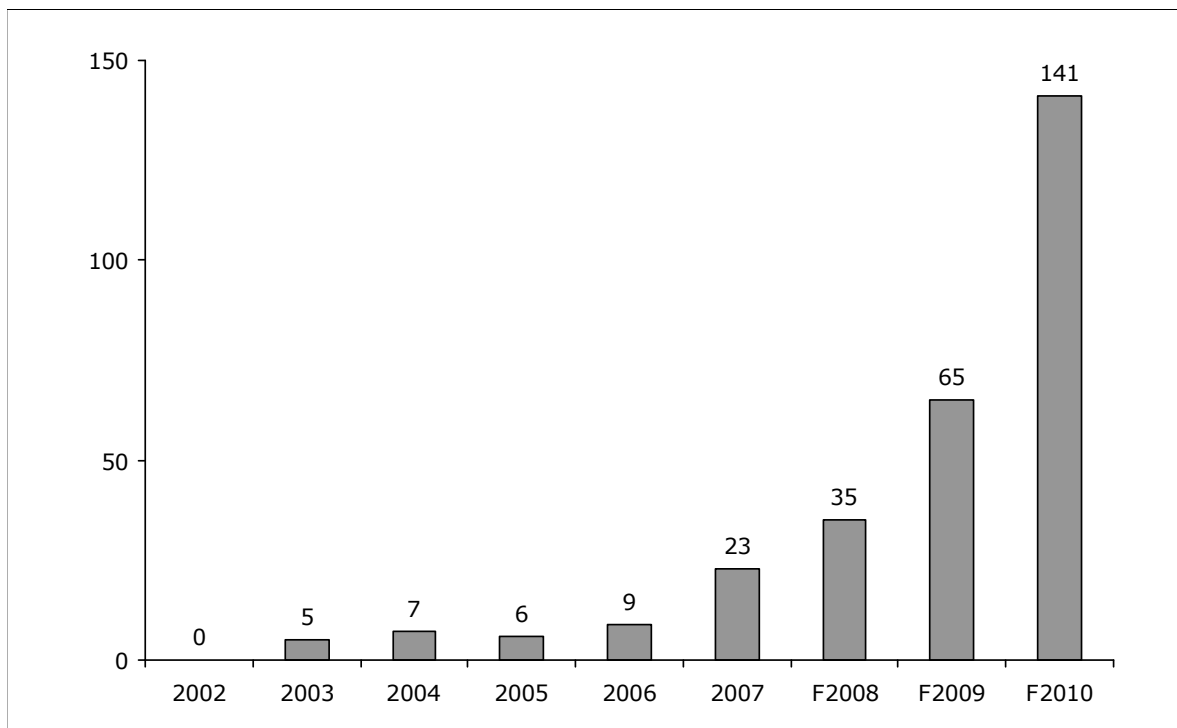


Figure 20: Development of Automotive Components Market, in mio. USD, 2002-2010

Source: Globis

Today there are not more than 10 larger component manufacturers active in Kazakhstan, most of them of domestic origin (see Table 11). They serve the local and the Russian market. Kainar is the best known of these companies, supplying Russian OEMs like Kamaz with batteries.

Enterprise	City / region	Production
Kainar	Taldykorgan	Different types of accumulators

Enterprise	City / region	Production
Incomtyre	Shymkent	Tyres and inner tubes for passenger cars, LCV, MCV, HCV and special vehicles
BM Energy	Taldykorgan	Different types of accumulators
Agro Mash Holding	Kostanai	Diesel engines, agricultural machines

Table 11: Major Kazakhstani Component Suppliers

Source: Globis

A number of foreign suppliers are considering an investment into Kazakhstan, because of its importance as a market itself and because of its access to other interesting markets. Through the Eurasian Economic Community, which shall be a customs union around 2011, Kazakhstan could be an entry point for Russia and other interesting markets in the CIS-region.

End of 2007, Nokian Tyres founded a joint venture together with Ordabasy Corporation, a Kazakhstani investment company. They are planning to produce up to 4 mio. tyres in 2012-2013, with production to start in 2009. Target markets for the venture are Kazakhstan and Russia. Nokian Tyre will hold 10% initially but with the option to increase its share to over 50%. The plant will be in Astana.

6.2 Kazakhstani Aftermarket

6.2.1 Market Segments Aftermarket (OE, IAM, Fakes)

The Kazakhstani aftermarket is poisoned with faked parts. Especially for Russian brands, less so for other foreign brands, the availability and use of faked parts is widespread. These parts originate from China but also from other CIS-countries. For routine service and minor repairs after end of guarantee, about 50% of parts used are faked (see Figure 21). Second in place are IAM parts with about 25%, followed by used and refurbished parts. In total, original parts play a minor role after end of guarantee period.

This picture is the result of various facts:

- The parc is rather old with still very limited numbers of new cars sold. This alone leads to some distortion towards cheap spare parts.
- Russian brands still dominate the parc. These brands are mainly affected by faked parts, also because of the relatively small IAM for Russian brands.
- Many new cars are sold by grey dealers, which do not follow the strict guidance of the OEMs and sell, what appears best to them and their customers.
- The income level of most car owners and the value of the car do justify only the cheapest parts available.

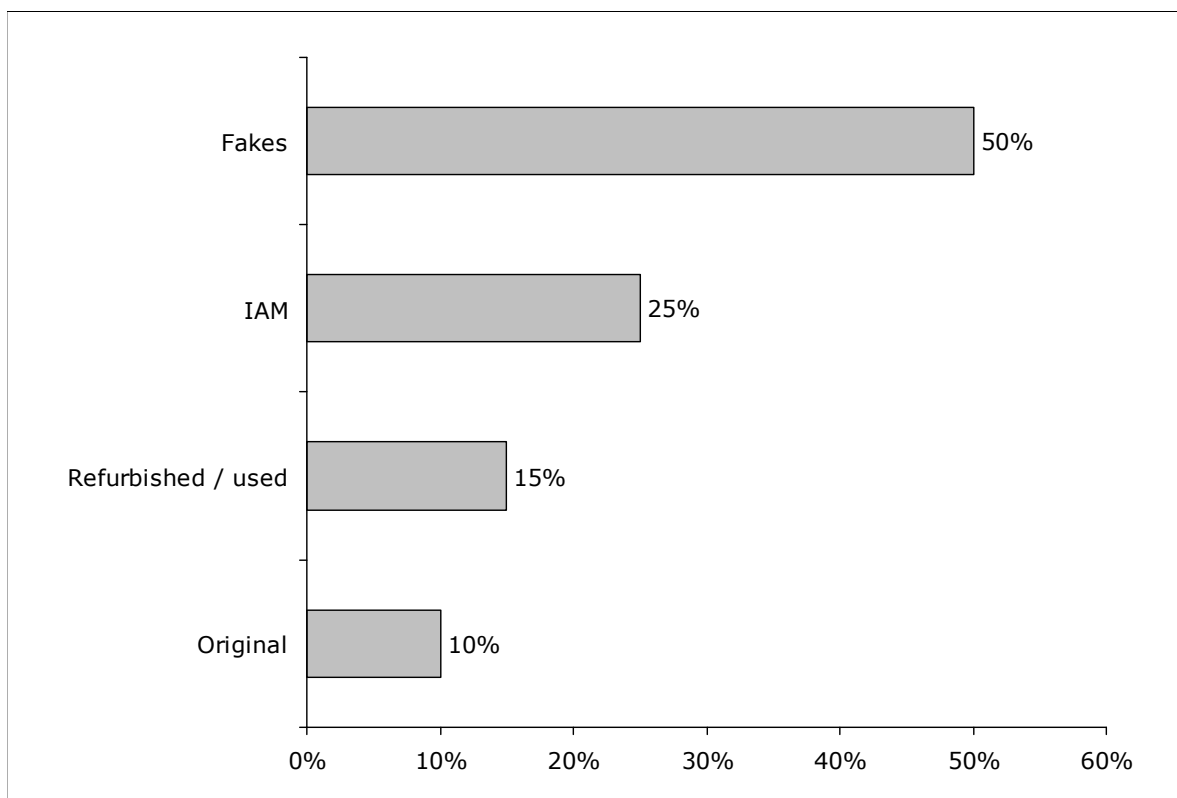


Figure 21: Share of OE-, IAM-, Fake-, Used-Parts for Routine Service, 2007

Source: Globis

6.2.2 Market Size Aftermarket

The spare parts market is mainly determined by the major characteristics of the car parc, e.g. its size as well as age, brand and model distribution. Of course, the personal income situation in respective households is also decisive. Apart from these generic derivatives for the market, there are country-specific factors which influence the parts market:

- Availability and usage of OE, IAM, faked and refurbished / used parts
- Quality of cars, spare parts, fuel and lubricants used
- Regulations, like mandatory routine inspection
- Service center system and servicing habits
- External conditions like road conditions, climate, driving habits

The usage of OE, IAM, faked and refurbished / used parts directly affects the value of the market. Indirectly, the quality of the respective part leads to either a faster wear out and a sooner need for replacement or vice versa. The Kazakhstani market is dominated by faked and used parts which sell at substantially lower prices than even most IAM parts. We estimate a loss of about 50% of the market size as compared to markets with a normal level of faked parts and a good supply of IAM parts. The usage of faked parts is also driven through a inconsistent availability of OE or IAM parts.

Because of the widespread use of not top-quality parts and because of minor fuel quality, the need for replacements through wear-outs or break downs are considerably higher than in more advanced automotive markets. This leads to an increase in the market demand.

There is no routine-inspection-system in place to provide for additional demand. The state of automotive security regulations is at a very basic level, setting quality standards for driving schools and trying to force out right-hand-steering-wheel cars (all done in 2007). Routine-inspection-systems are not an issue yet.

In Kazakhstan there is an estimated 1.000 to 1.500 service stations all over the country, which translates into 2.000 to 2.700 cars per station. This ratio is much better than in Russia (about 4.000 cars / station) but still not adequate.

There is a widespread self-fixing attitude with many private repair garages. The lack of professional servicing possibilities (and the income levels, which currently do not support widespread professional services) is reducing the market substantially.

External conditions in Kazakhstan work in favor of the parts market. Harsh climate in winter, bad road conditions and also bad driving habits lead to more repair and replacement work as compared to most other automotive markets.

Based on our market model, the total spare part market in Kazakhstan in 2007 was around 0,9 bn. USD. Based on today's pricing, this market will grow by almost 10% to 1,2 bn. (see Figure 22) in 2010. Major drivers are an increase in the car parc and a further increase in the professionalism of the car service market. The growth of the aftermarket outperforms the growth in the car parc. These numbers include the market for tyres but not for lubricants of any kind.

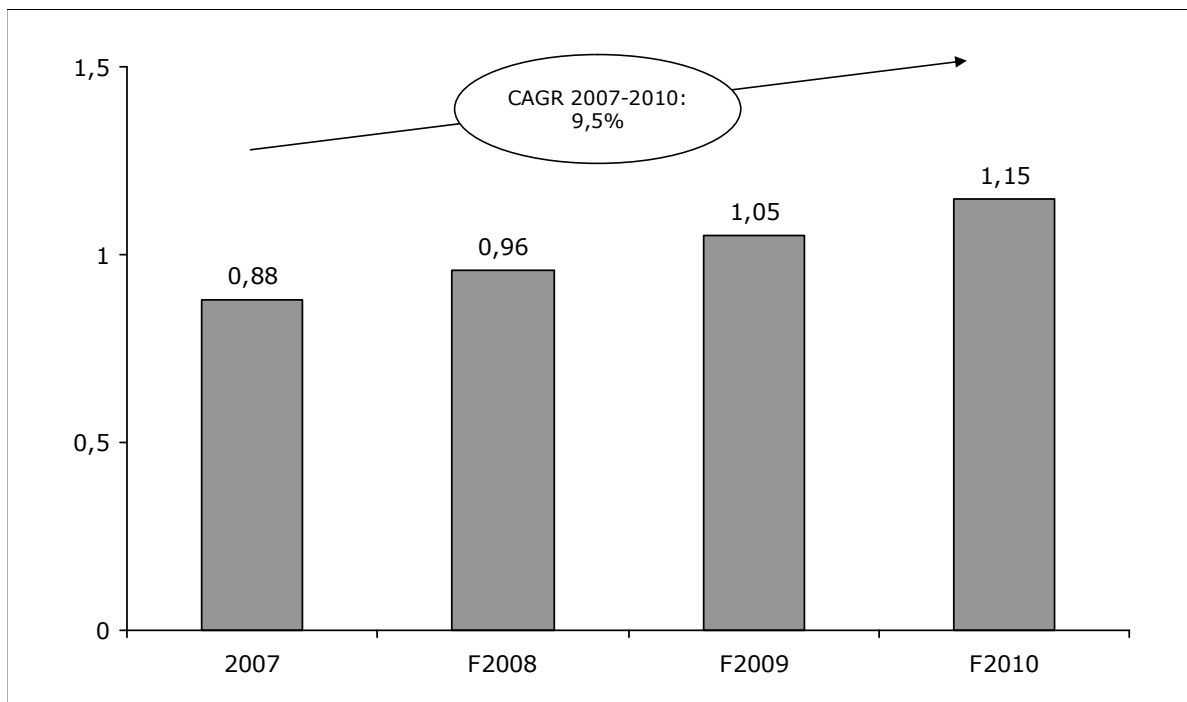


Figure 22: Size of Kazakhstani Aftermarket, in bn. USD, 2007-2010

Source: Globis

The top markets are, in order of size, tyres, brake shoes and shock-absorbers, followed by batteries, brake discs and mufflers. Figure 23 gives an overview of important parts markets.

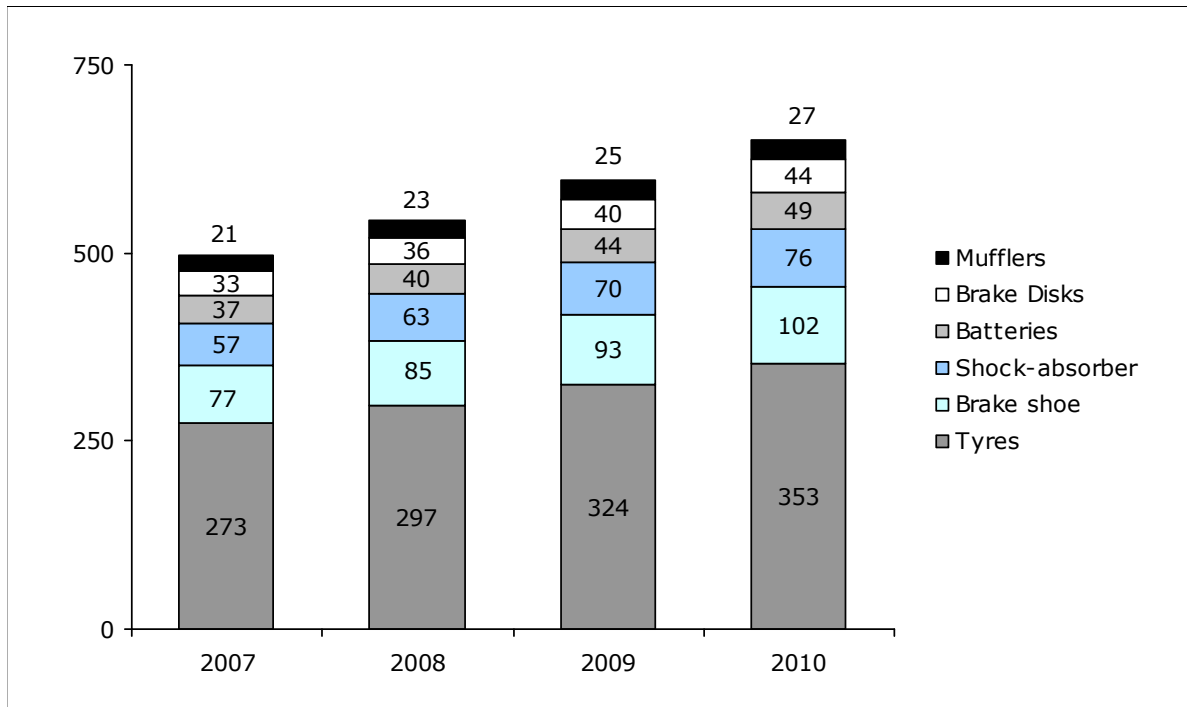


Figure 23: Aftermarket for Important Spare Parts, in mio. USD, 2007-2010

Source: Globis

6.2.3 Distribution System for Spare Parts

Automotive spare part distribution in Kazakhstan is not yet fully developed. There are numerous players which are acting independently and hence relatively unorganized. There are not many major independent importers of spare parts and they so far have not started to build a network of captive service stations. Suppliers such as Bosch do not have a large network of service stations as well. Figure 24 gives an overview of the main distribution channels and the approximate number of players on the respective level.

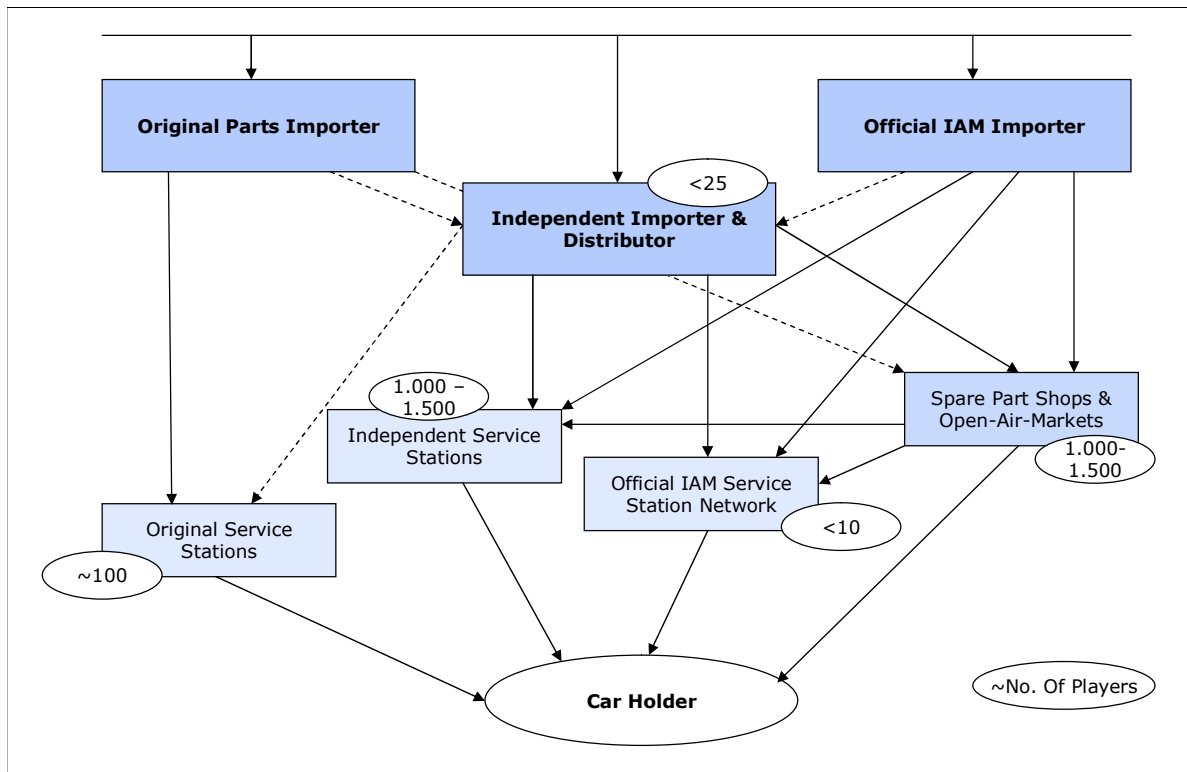


Figure 24: Main Distribution Channels for Spare Part Distribution to Car Holders, 2007

Source: Globis

The most important channel for car holders to buy parts are markets (see Figure 25). About 40% of non-original parts are bought on these markets. These are either one-time gatherings or permanent market places where small parts shops operate a booth in a larger complex full with automotive parts and service providers. About 30% of parts are bought through parts shops and the remaining 30% are sold together with the service (very often, however, with an active choice of the car holder). The internet does not play any role yet.

This situation fits together with a very high share of repairs and maintenance being performed by the car owner. The parts are then bought cheaply on a market or – slightly more expensive – in a parts shop.

This situation makes it difficult for any parts supplier to fully access the Kazakhstani aftermarket. The share of parts bought on markets is basically lost as market potential. It is certain, that this situation will change over time when the market is becoming more mature and structured. For the time being, market access remains a challenge.

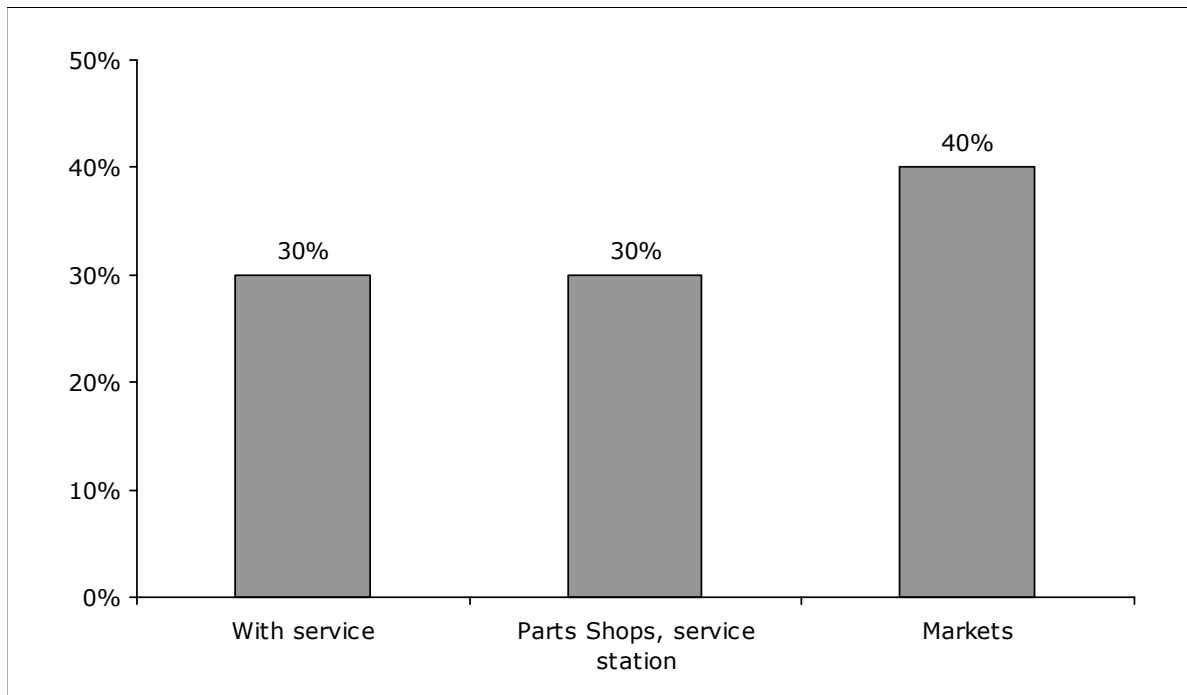


Figure 25: Shares of Spare Parts Sales Channels for Non-OE in Kazakhstan, 2007

Source: Globis

6.2.3.1 Parts Importers and Distributors

Spare parts are mostly imported through smaller importers and distributors. There is still a limited number of larger players. The sales channel structure is a very good indicator of that: The majority of parts (about 40%) is being sold through markets (e.g. smaller players). It is likely that dominant players will form who deliver to service stations and spare part shops. Table 12 gives an overview of some major players with good potential, which offer a broader range of spares.

Name	City / Region	Activity	Markets served	Brands represented
Autoland	Astana	Wholesale / retail	Passenger cars	Non-CIS
Automarket	Petropavlovsk	Wholesale / retail	Passenger cars	CIS and CEE
Avtoselmasch	Karaganda	Wholesale / retail	Passenger cars	Non-CIS
Car City	Almati	Wholesale / retail	Passenger cars	Non-CIS

Name	City / Region	Activity	Markets served	Brands represented
CBC-Trans	Almati	Retail	Trucks, passenger cars, special vehicles	Non-CIS
Delada	Almati	Wholesale / retail	Passenger cars	Non-CIS
EAS (Euro Auto Service)	Almati	Wholesale / retail	Passenger cars	Non-CIS
KSK Auto	Karaganda	Wholesale / retail	Trucks, passenger cars, special vehicles	Russian

Table 12: Larger Independent Importers and Distributors of Broad Range of Spare Parts

Source: Globis

There are no official numbers about the revenues of these companies. However, KSK Auto seems to be one of the largest, with a presence in almost all regions and a strong sales network.

International networks like ATR International or GROUP AUTO UNION have not extended their reach into Kazakhstan.

There are also many speciality importers, very often focused on car lubricants. The following Table 13 gives an overview of larger speciality importers.

Name	City / Region	Markets served	Brands represented	Product range
AMIK-Pavlodar	Pavlodar	Passenger cars	Russian	Car filters, oils, other car chemicals and lubricants
Avtomir-JASO	Kokshetau	Passenger cars	Russian	Motor oil, transmission oil, filters, batteries, tires, automobile chemistry and other spare parts
Dinamo Auto Centre	Karaganda	Passenger cars	Non-CIS / Russian	Car lubricants, batteries, tyres

Name	City / Region	Markets served	Brands re-presented	Product range
ReP Oil	Astana	Trucks, passenger cars, special vehicles	Non-CIS / Russian	Lubricants (oils), motor chemical products, motor care goods, special and cooling fluids, filters for cars and trucks
Kostanai-Kama Trade House	Kostanai	Trucks, passenger cars, special vehicles	Russian	Tyres
Avtomir-Yaso	Kokshetau	Trucks, passenger cars, special vehicles	Russian	Motor and transmission oils, tyres, batteries, special liquids, paintwork, car glasses, car bodies
Quantum Automotive	Almati	Trucks, passenger cars, special vehicles	Non-CIS / Russian	Car batteries and oil lubricants

Table 13: Larger Independent Speciality Importers and Distributors

Source: Globis

Given this situation, even the access to the more organized parts sales channels (service stations and spare part shops) is a detailed businesses. With no larger, full range importers or wholesale businesses around, getting a broad access to these sales channels is not easy.

6.2.3.2 Spare Part Shops

Spare part shops are a main distribution channel for parts to service stations as well as to the car owner. There are many smaller spare part shops with different specialisations in the Kazakhstani market. Only a very small fraction has an extensive product range. Most of this shops also engage in some kind of importing and wholesale activity. The market is not yet well structured so that parts shops are

mainly businesses for the local distribution of parts. The owners of these shops often purchase their parts directly from abroad, frequently from the Arab Emirates (then via Internet).

Parts shops often can not be readily distinguished from markets. Markets in its organized form are locations with many smaller shops, repair businesses and car traders at a single location. So markets can partly be seen as parts shops. With this definition there are about 1.000 to 1.500 parts shops in the country. In addition, there are many individuals engaging in the trade of parts but without being formally registered.

The advantage of the shops is, of course, its proximity to the customer (garage or car owner). They have both a logistics and financing function.

6.2.3.3 Service Stations

In Kazakhstan there are currently about 1.000 to 1.500 registered service stations for cars. This results into 2.000 to 2.600 cars per service station, which is above Russian average but far from coverage in mature automotive markets. There is room for substantial growth of professional car service businesses.

About 100 service stations are authorized service stations of OEMs. These are part of the respective official dealerships. Currently, enlarging the network of authorized service stations is as difficult as enlarging the official OEM's dealer network. Local automotive businesses still shy away from the large cost burden and the necessary fulfilment of the manufacturer's quality standards. As there are many grey car dealers, there are many "independent" service stations offering service for particular brands – without being officially authorized.

Currently, there are no major independent service chains in Kazakhstan. Their formation is likely but the market is still in its developing stage. Also, large suppliers like Bosch have not established their own network of local service stations – although Bosch, for example, is present in Kazakhstan.

Given this non-mature state of the sector, it is not surprising that many Kazakhstans try to fix their car themselves – at least in case of minor repair and mainte-

nance issues. Based on expert surveys we estimate this share to be about 30% (see Figure 26). The largest service channel, however, are the many small repair shops present in Kazakhstan, which buy their parts through shops, markets, order directly abroad or order through Kazakhstani wholesale businesses. About 50% of service is delivered through this channel.

More structured forms of service are used less often. Original service is used at a level of 5% after guarantee period, which is to be expected from an emerging automotive market.

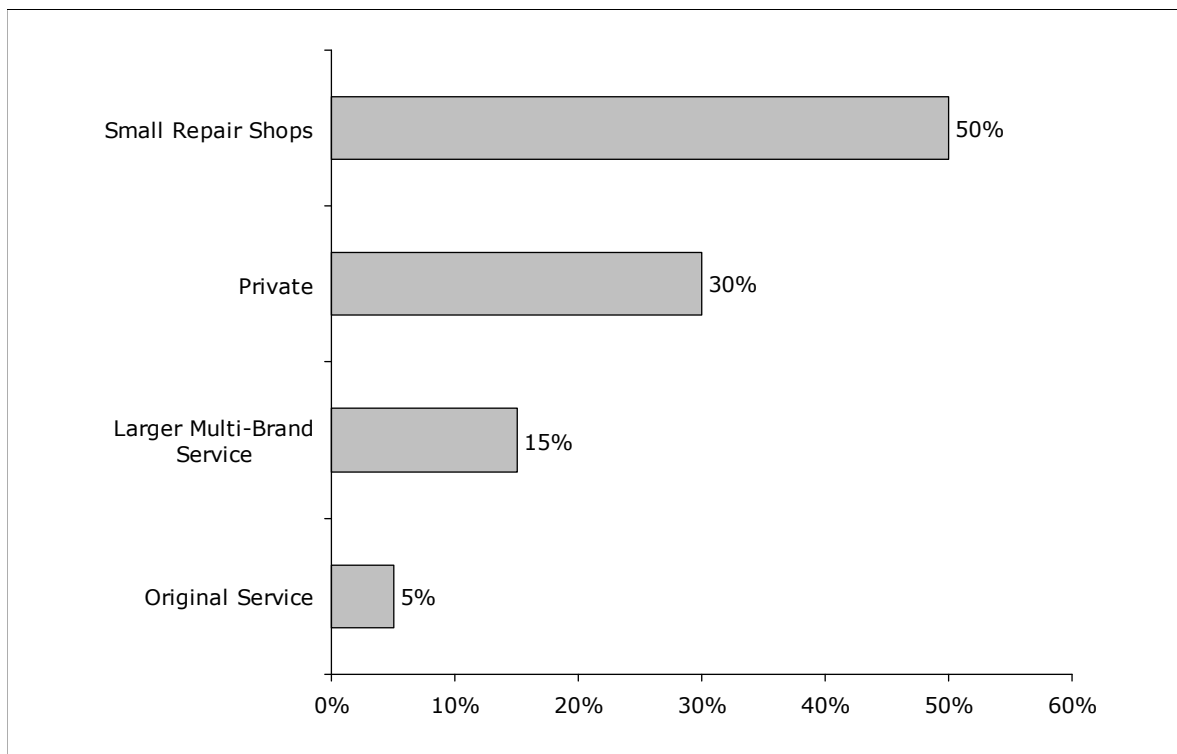


Figure 26: Share of Service-Channels Used for Car Repair and Maintenance, 2007

Source: Globis

6.2.3.4 Other Supply Channels

There are also other supply channels for customers to get spare parts. Some Kazakhstanis simply drive to Russia (which in rare cases is the better option to get parts). Many others, however, buy parts directly from Western Europe – with Germany being the preferred destination.

The internet does not play any role as a parts sales channels within Kazakhstan – at least not yet. It is more used by parts shops to order from their suppliers abroad.

7 Opportunities and Risks

The automotive market in Kazakhstan is in a phase of stable growth. Although the growth rates of earlier years can not be maintained, the market will grow further at double digit rates. Since the market is not settled yet, there are numerous opportunities in the Kazakhstani market:

In the new car market, all brands will benefit from the growth. The market for smaller cars at good prices is not yet developed. With rising cost of energy people might appreciate the idea of owning a smaller but more efficient car. Another factor will be the gradual improvement of the road network and traffic regulations.

The market for grey dealers will shrink. Authorized dealers, which are not numerous in Kazakhstan yet, will have the chance to grow exceptionally.

Service is an issue the awareness of which will increase strongly over the next years. There are no service chains yet and professional, independent service businesses are still rare.

Parts distribution is just developing and there is no larger importer and distributor with a substantial market share. Many parts and service businesses import on their own.

For suppliers, the Kazakhstani automotive market does not provide major opportunities. There might be small opportunities gained when production and local content are expanded. It is more interesting to set up a production facility in Kazakhstan to serve other countries of Eurasia, especially Russia. With a customs union through the Eurasian Economic Community, Kazakhstan could be a good entry point into the Southern parts of Russia.

There is some political risk involved in Kazakhstan since it is not a real democracy and the legal system is not fully independent. However, the situation has been stable over the last years. Kazakhstan's bureaucracy entails some form of risk. Corruption is widespread and there is not much done in Kazakhstan without it.

In the current situation, high inflation rates and the unwillingness of banks to provide funds are challenging. There is a risk that growth will be jeopardized and the market will lose its momentum. We do not see a major risk in this issue but the development needs to be monitored closely. The other risks involved are more operational in nature and are more extreme in developing countries than in mature industries in general.

8 Appendices

8.1 Industrial Production in Regions

Region	2005	2006	2007	Share 2007	CAGR 2005-2007
Akmolinskaya	69.278	98.114	136.324	2%	40,28%
Aktubinskaya	485.422	554.882	643.935	472%	15,18%
Almatinskaya	180.490	222.907	264.602	41%	21,08%
Atiraukskaya	1.071.754	1.226.017	1.359.332	514%	12,62%
Ost-Kazakhstanskaya	260.236	410.079	481.528	35%	36,03%
Zhambilskaya	74.366	80.348	98.471	20%	15,07%
West-Kazachstanskaya	501.690	591.466	713.190	724%	19,23%
Karagandinskaja	517.281	730.304	844.584	118%	27,78%
Kostanaiskaja	179.593	174.265	227.142	27%	12,46%
Kizilordinskaya	339.679	513.319	634.474	279%	36,67%
Mangistauskaya	767.801	967.322	1.107.258	175%	20,09%
Pavlodarskaya	308.129	351.389	458.185	41%	21,94%
Nord-Kasakhstanskaya	37.339	43.598	52.485	11%	18,56%
Süd-Kazachstanskaya	141.229	141.057	169.271	323%	9,48%
Astana	60.230	78.575	116.334	69%	38,98%
Almati	236.399	306.541	380.551	327%	26,88%
Total	5.253.000	6.509.896	7.703.839	383848%	21,10%

Table 14: Industrial Production in Regions, in mio. Tenge, 2005-2007

Source: Statistical Office of Kazakhstan

8.2 Major Kazakhstani Cities

	City	Inhabitants (in 1.000)	Oblast
1	Almati	1.275	Almati
2	Astana	580	Astana
3	Schimkent	540	South-Kazakhstanskaya
4	Karaganda	452	Karagandynskaya
5	Aktobe	400	Aktobinskaya
6	Taraz	335	Zhambylskaya
7	Pavlodar	330	Pavlodarskaya
8	Kizilorda	300	Kyzylordinskaya
9	Semipalatinsk	298	East-Kazakhstan
10	Ust-Kamenogorsk	280	East-Kazakhstan
11	Kostanai	230	Kostanayskaya
12	Uralsk	211	West-Kazachstanskaya
13	Petropavlovsk	203	North-Kazachstanskaya
14	Temirtau	171	Karagandynskaya
15	Aktau	167	Mangystauskaya
16	Atyrau	152	Atyrauskaya
17	Ekibastuz	130	Pavlodarskaya
18	Kokschetau	127	Akmolinskaya
19	Taldikorgan	118	Almatynskaya

	City	Inhabitants (in 1.000)	Oblast
20	Rudni	100	Kostanayskaya
21	Turkestan	99	South-Kazakhstanskaya
22	Balkhasch	74	Karagandynskaya
23	Baikonir	70	Baikonir

Table 15: Main Kazakhstani Cities

Source: Globis

8.3 Regulations and Fees for Car Imports from Non-CIS

Upon import of cars into Kazakhstan from non-CIS-countries, the following fees and regulations apply:

- Customs duty at 10% of the car value (15% for used cars older than 10 years), but no less than 0,1 EUR per ccm
- Excise tax (only for cars with motor capacity > 3.000 ccm): 10% of the car value, but no less than 0,5 EUR per ccm
- 15% VAT
- 50 to 100 EUR for customs paper work.

9 Abbreviations

ACEA	European Automobile Manufacturers' Association
Bn.	Billion
CAGR	Compounded Annual Growth Rate
ccm	Cubic Centimeters
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
EU	European Union
EurAsEC	Eurasian Economic Community
F	Forecast
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IAM	Independent Aftermarket
Mio.	Million
No.	Number
OE	Original Equipment
OEM	Original Equipment Manufacturer
SOC	Shanghai Cooperation Organisation
sq. km.	square kilometre
SUV	Sport Utility Vehicle
USD	US-Dollar
VAT	Value Added Tax
WTO	World Trade Organisation

Globis Consulting

Globis is a market research and consulting company based in Berlin, Germany. We cover mature and developing automotive markets world-wide. Our services include:

- Market intelligence (reports, data, profiles).
- Mystery Shopping (sales and service)
- Vehicle stock audits
- Network development services
- Entry strategies

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