



LEADING IN PRODUCTION EFFICIENCY

OOO DÜRR SYSTEMS RUS

READY TO GO GLOBAL? OPPORTUNITIES FOR TURKISH AUTOMOTIVE SUPPLIERS IN RUSSIA

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Istanbul, November 20, 2014



RUSSIA

» Basic Data



Russia		Germany	
Size:	17,1 Mio. km ²	Size:	0,367 Mio. km ²
Population:	143.3 Million	Population:	80,8 Million
Density of population:	8,3 inh. / km ²	Density of population:	230 inh. / km ²
Time Zones:	11	Time Zones:	1 CET
Administration:	83 federal subjects	Administration:	16 Bundesländer

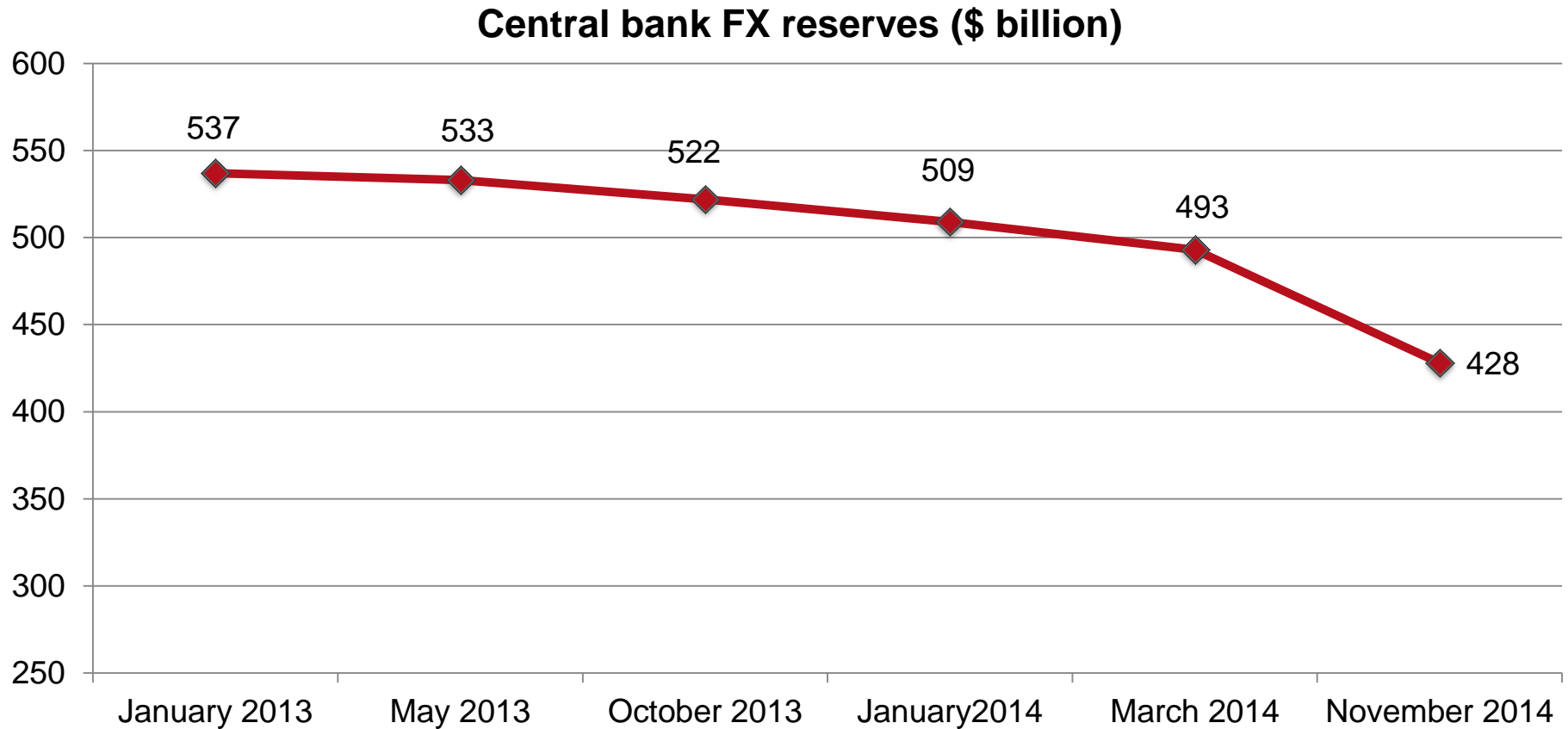
Source: AHK, Russland in Zahlen, Frühjahr 2013

MACRO ECONOMICAL INDICATORS

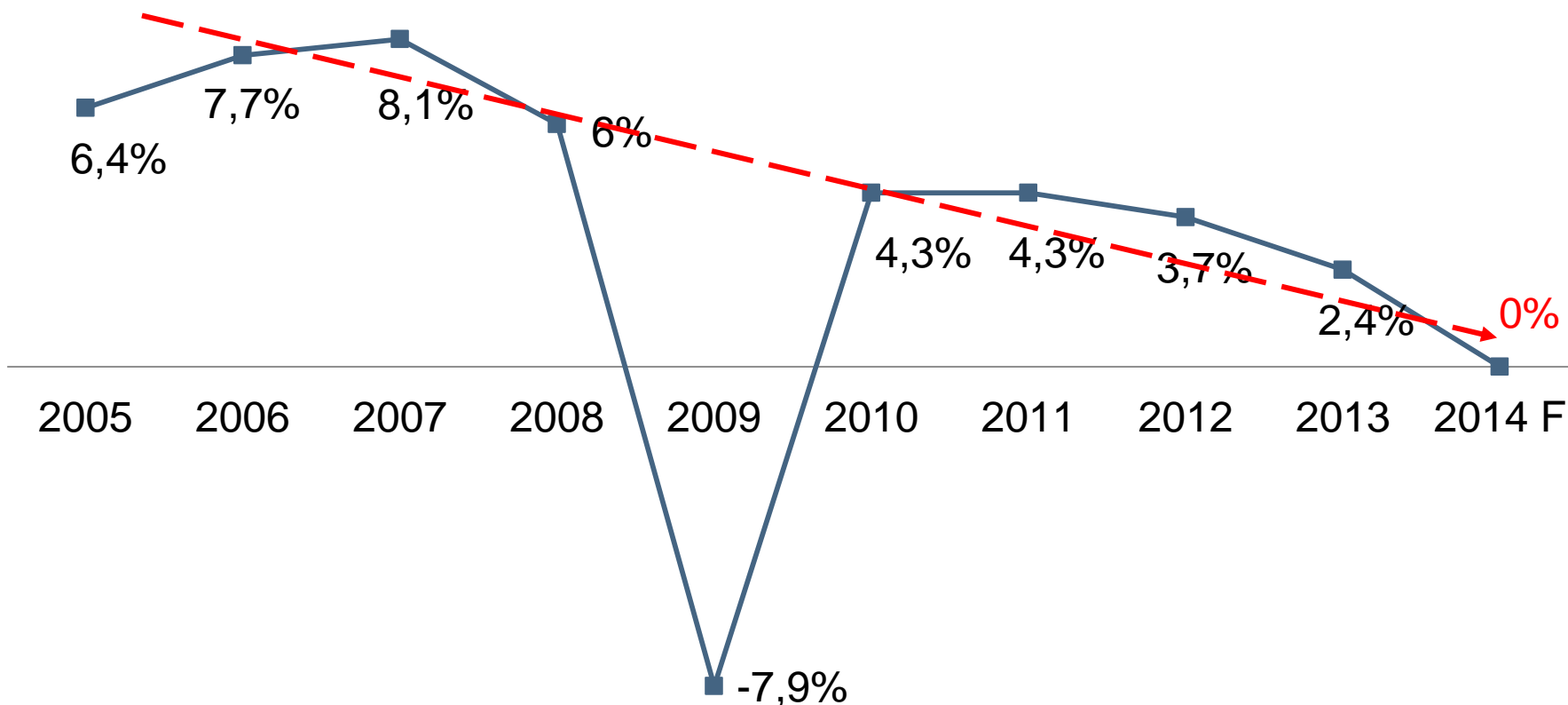
	2009	2010	2011	2012	2013
GDP	-7,9	4,3	4,3	3,4	1,3
Industrial output	-10,8	8,2	4,7	2,8	0,3
Retail Sales	-5,5	6,3	7,2	5,7	3,9
Inflation	8,8	8,7	6,1	6,6	6,5
Unemployment rate	7,9	7,6	6,5	5,3	5,5
Real wages	-2,8	4,4	4,9	8,2	5,2
Oil price (Urals in \$)	80,7	78,2	109,6	110,8	108,4
Export (\$ bn)	303,4	400	522	529,3	526,4
Import (\$bn)	191,8	248,4	323	335,4	317,8
Ruble/Euro (year end)	43,4	40	41,5	40,1	45,1

Source: AHK, Russland in Zahlen, Herbst 2014, Dürr

RUSSIAN CENTRAL BANK FX RESERVES DEVELOPMENT

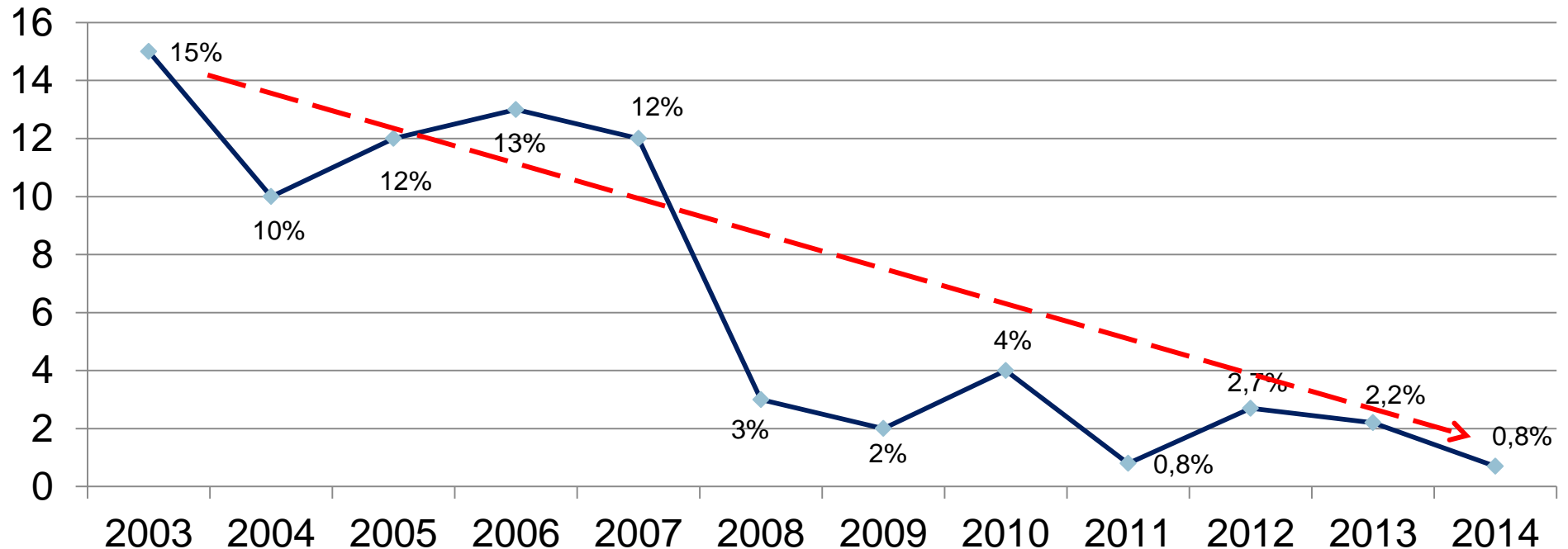


GDP-GROWTH IN RUSSIA



Quelle: AHK, Russland in Zahlen, Frühjahr 2014

DEVELOPMENT OF THE REAL INCOME IN % INFLATION ADJUSTED, INCOME LESS MANDATORY DEPOSIT

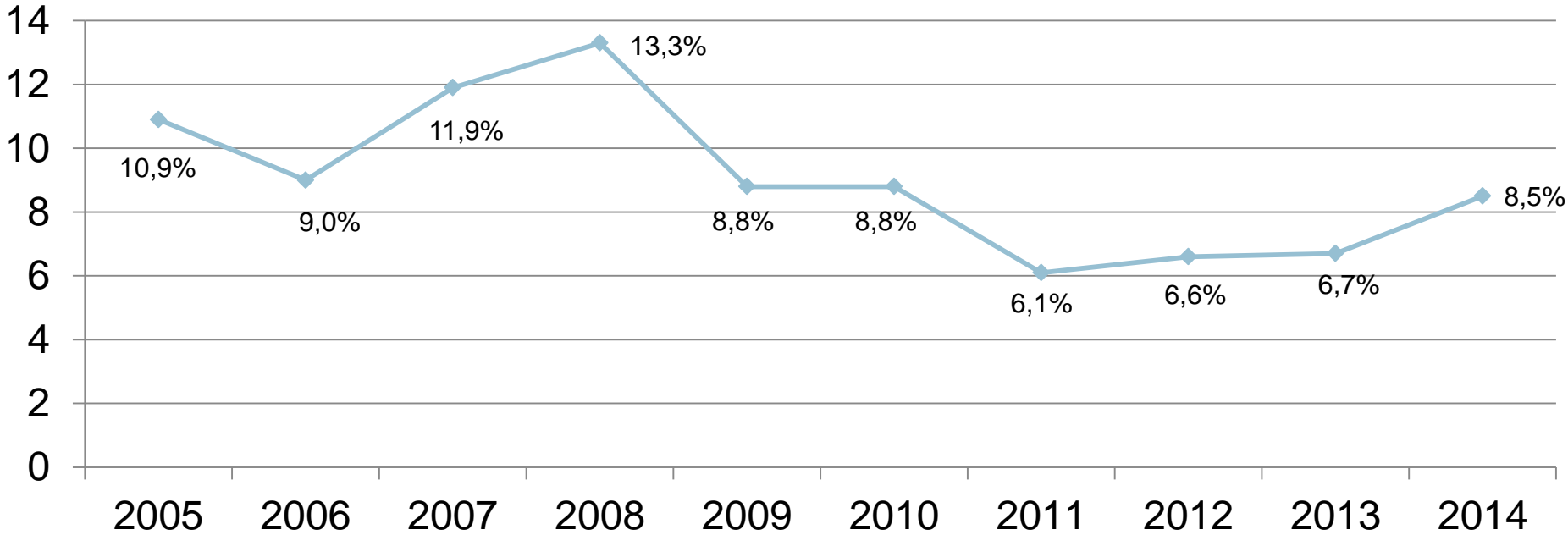


» The increase of the real income in the year 2012 was due to increased spending's of the government service. That way president Putin redeemed some of his election promises.

DEVELOPMENT OF THE INFLATION RATE IN RUSSIA



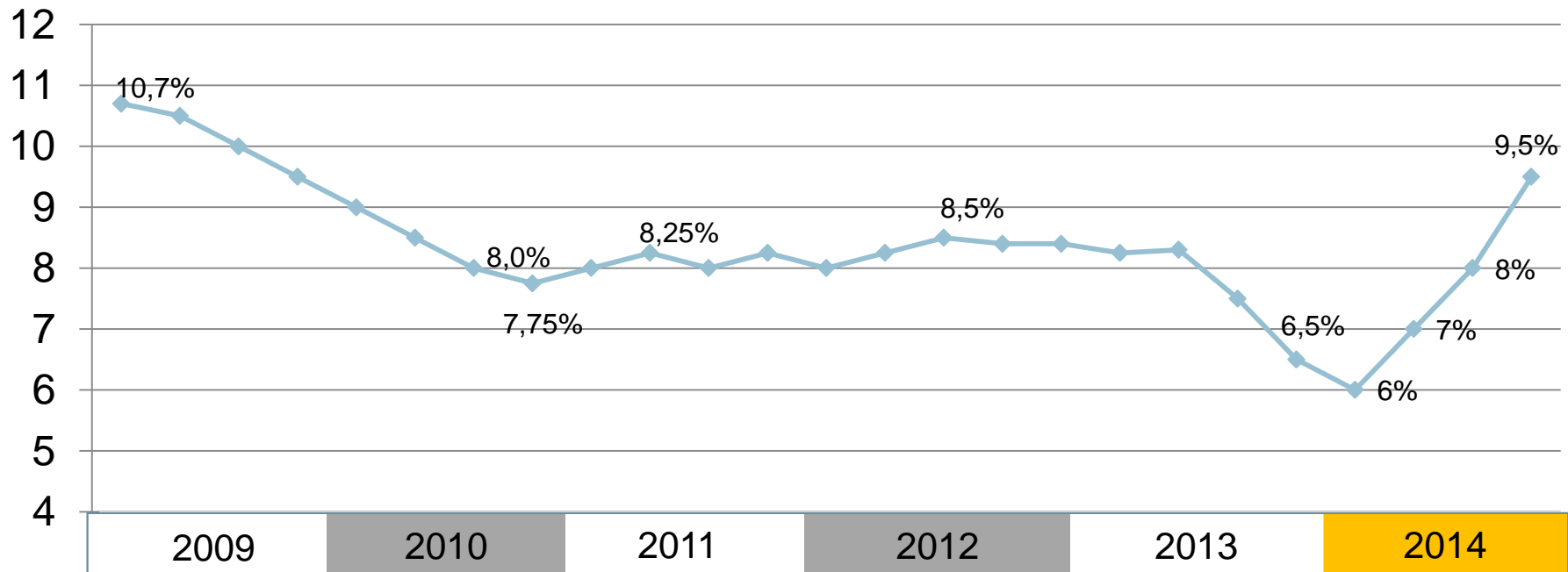
Inflation Rate in %



» The inflation rate is way too high. In 2011 and 2012 there was a tendency of decrease but it is now too high in order to invigorate credit disbursement

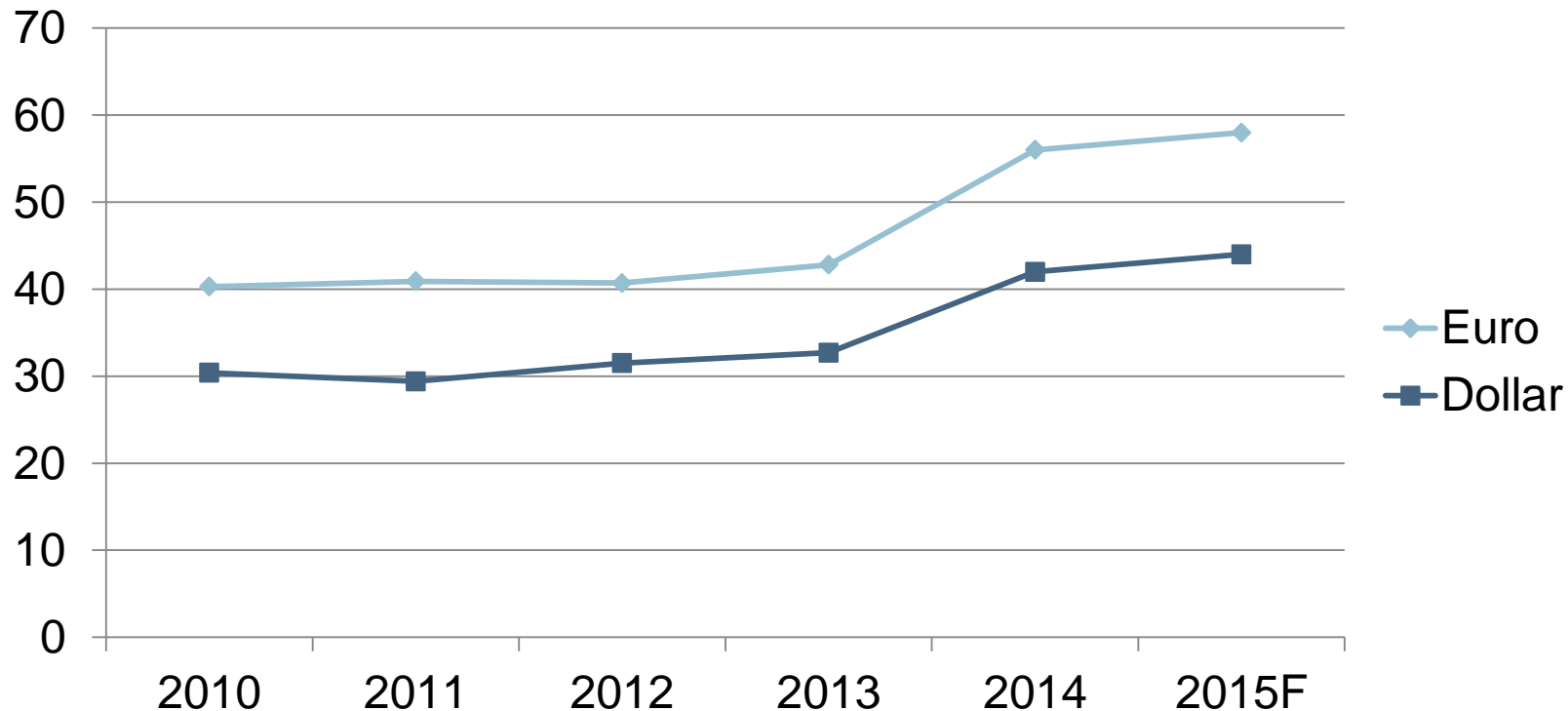
DEVELOPMENT OF KEY INTEREST RATE (IN %)

Key Interest Rate in %



» The Russian federal bank withholds the governmental pressure and kept the national interest rate stable in the year 2013. Due to the weakening ruble the central bank increased the key interest rate in 2014 already four times from 6% to 9,5%

CURRENCY EXCHANGE DEVELOPMENT (IN RUBLE)

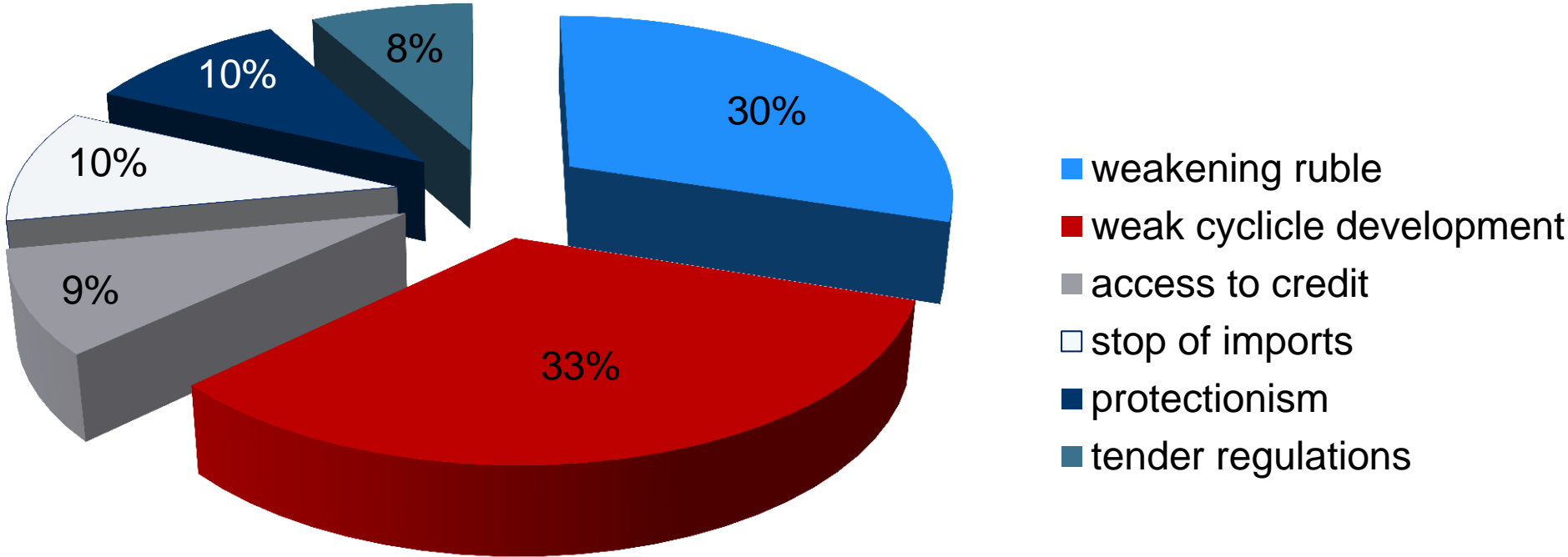


» From 2010 until 2013 the currency exchange rate proved to be predictable for investors. Currently the situation changed and the ruble is in a free fall due to weakening oil price and the decision of the central bank not to intervene anymore.

WHICH SURROUNDING CONDITIONS AFFECT YOUR BUSINESS IN RUSSIA?

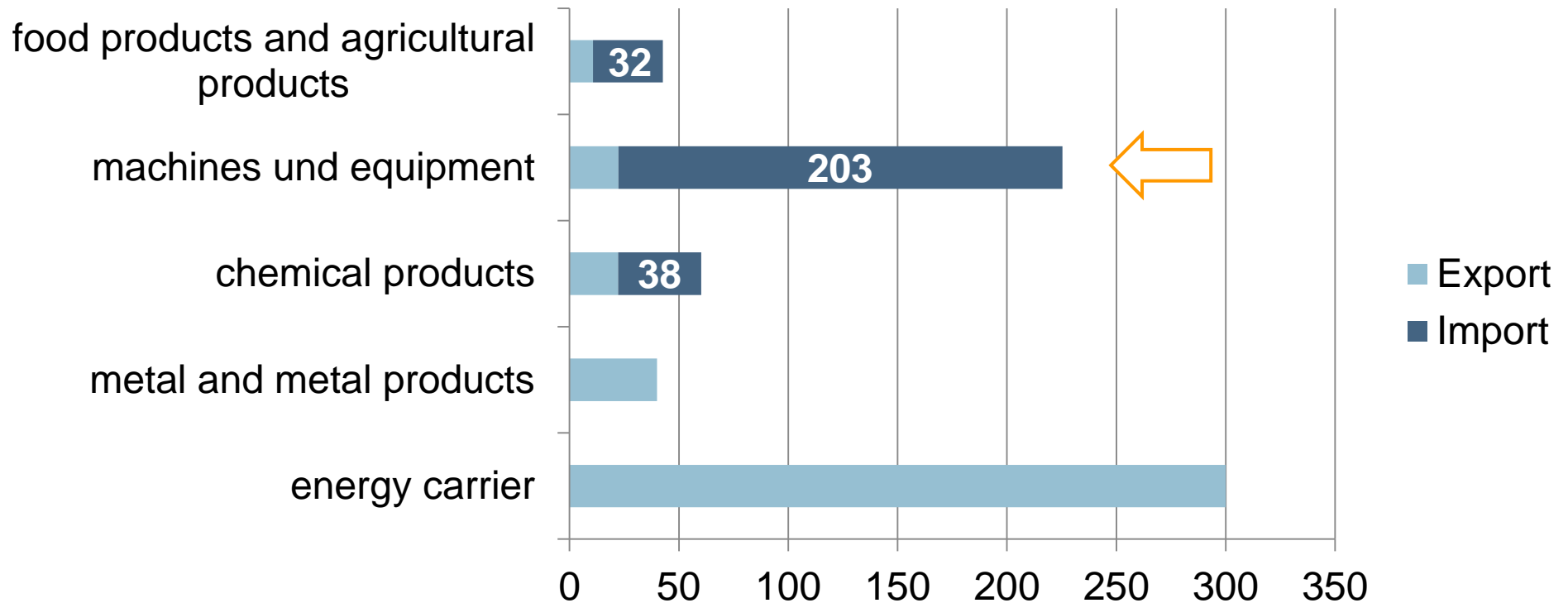


What kind of surrounding conditions are affecting your business currently ?



Source: AHK, Umfrage zur aktuellen Situation 2014

MOST IMPORTANT IMPORT AND EXPORT GOODS (2013 IN BILL. EURO)



» The dependence on the export of oil and gas is serious. In relation is the part of exported manufactured equipment rather small. On the other hand industrial products dominate (machinery and equipment) on the importation side. This **results in growth opportunities for the European, Turkish and Chinese Industry.**

THE CURRENT CRIMEA CRISIS AND THE EFFECTS ON BUSINESS



THE RUSSIAN ECONOMIC AND BUSINESS OUTLOOK PERFORMS LIKE THIS:

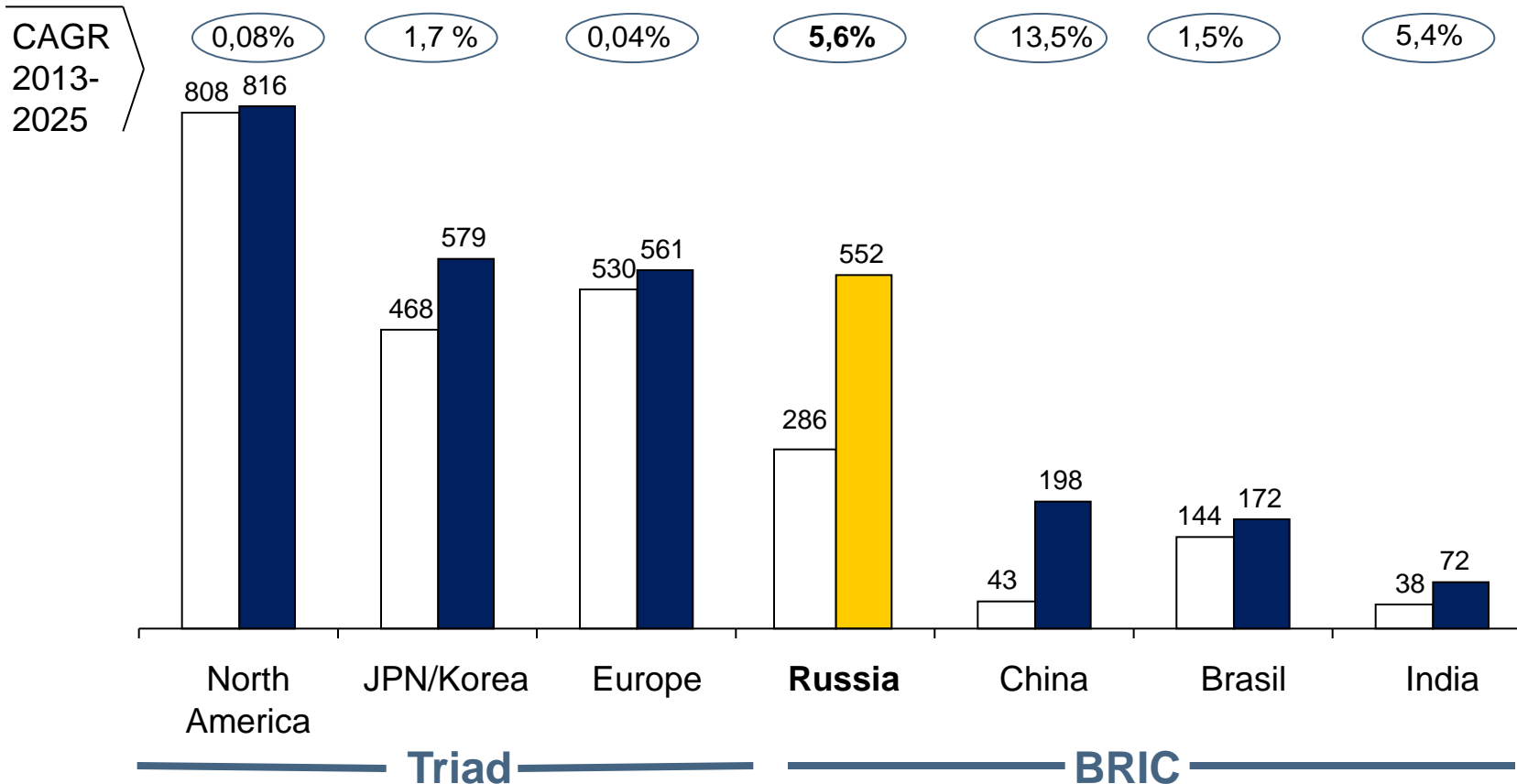
- Oil price over \$105 means economy ticks long nicely and western business runs steadily or better
- Oil price around \$98 -105, economy still fine and business still good at marginally softer levels
- Oil price at \$92-98, then ruble comes under more pressure and confidence starts to wobble but enough reserves to protect currency and to keep inflation under control
- Oil **\$82-92**, then economy comes under some strong strain and reserves used to greater extent and confidence and growth affected with 0.5% to 0.7% of GDP knocked off
- Oil below \$80, then severe strain on economy and challenged to avoid noticeable negative growth without stimulus and economic restructuring

RUSSIAN PASSENGER VEHICLE MARKET



DENSITY OF CARS PER 1000 INHABITANTS IN COMPARISON

Cars per 1,000 inhabitants



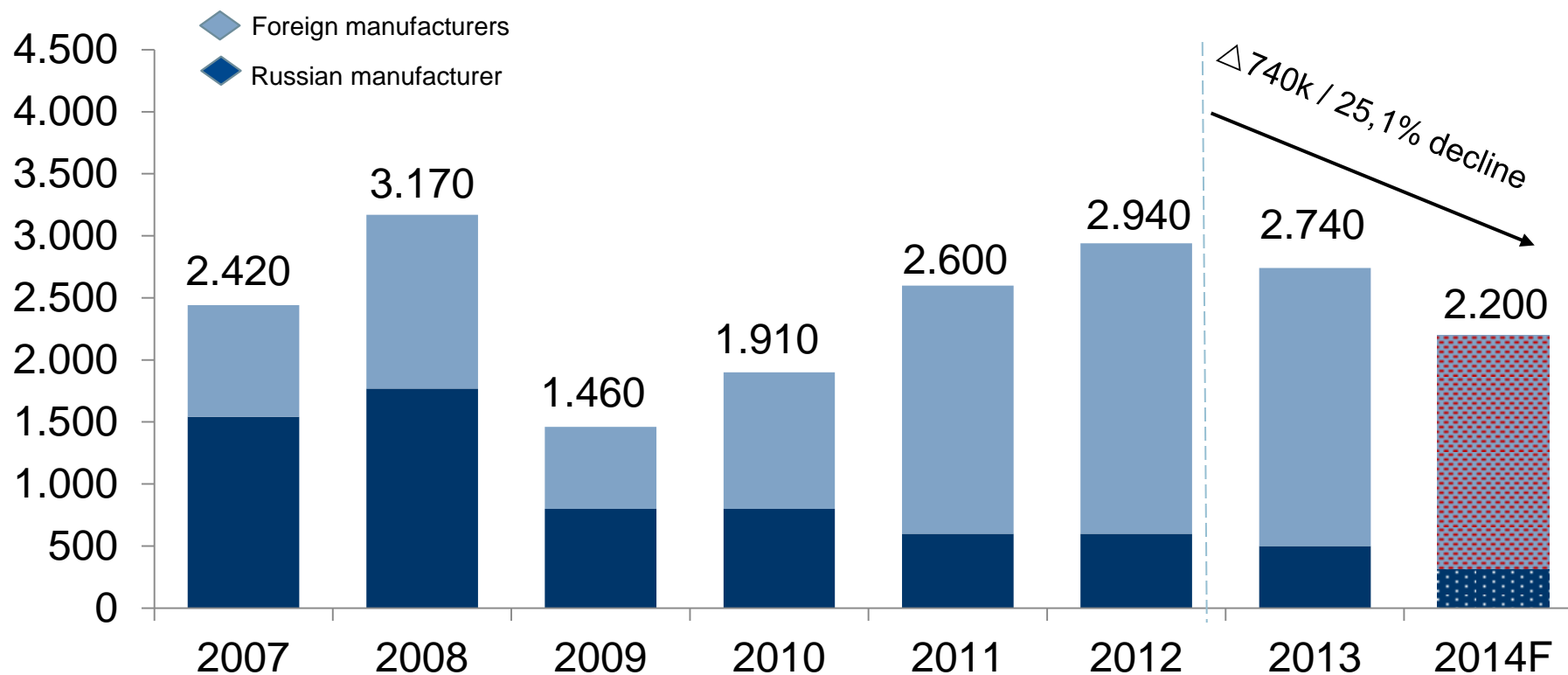
OVERVIEW OF THE VEHICLE SALES IN RUSSIA



SALES NUMBERS & DEVELOPMENT 2007-2014 F

Units / Year in 000s *

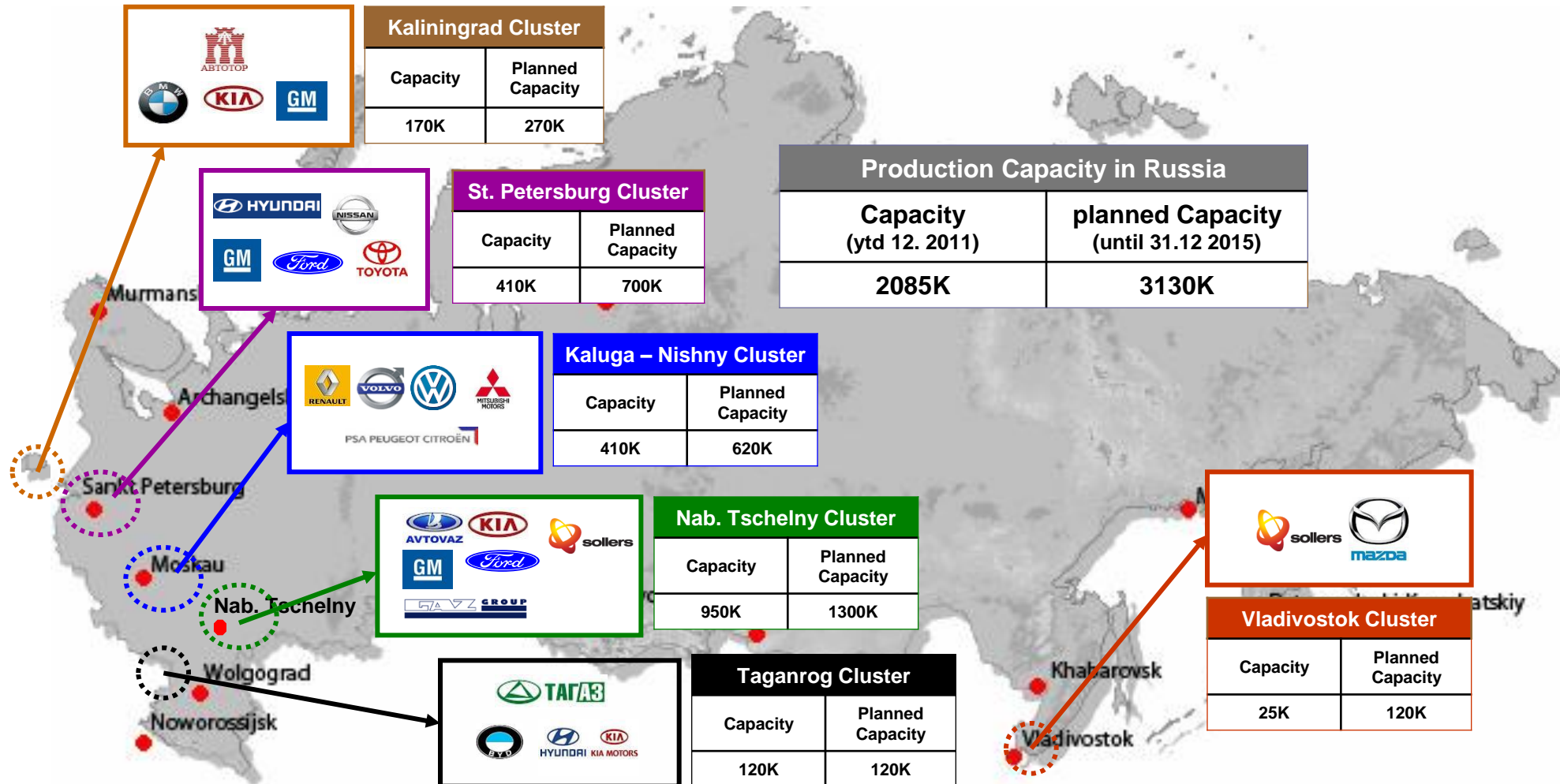
- Source: Auto Value/ Dürr -



AUTOMOTIVE CLUSTER IN RUSSIA

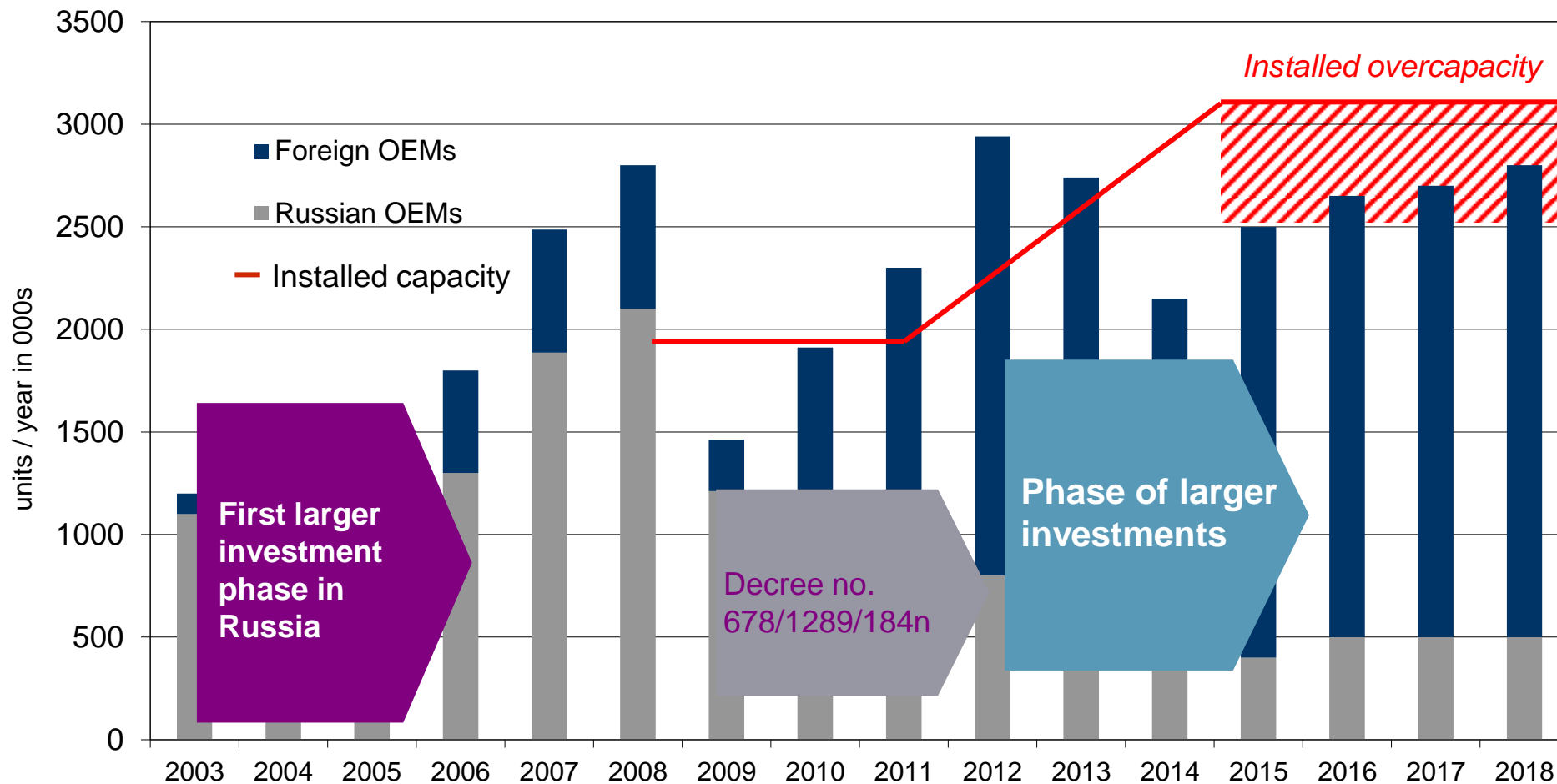


INSTALLED CAPACITY 2011 AND PLANNED CAPACITY UNTIL 2016

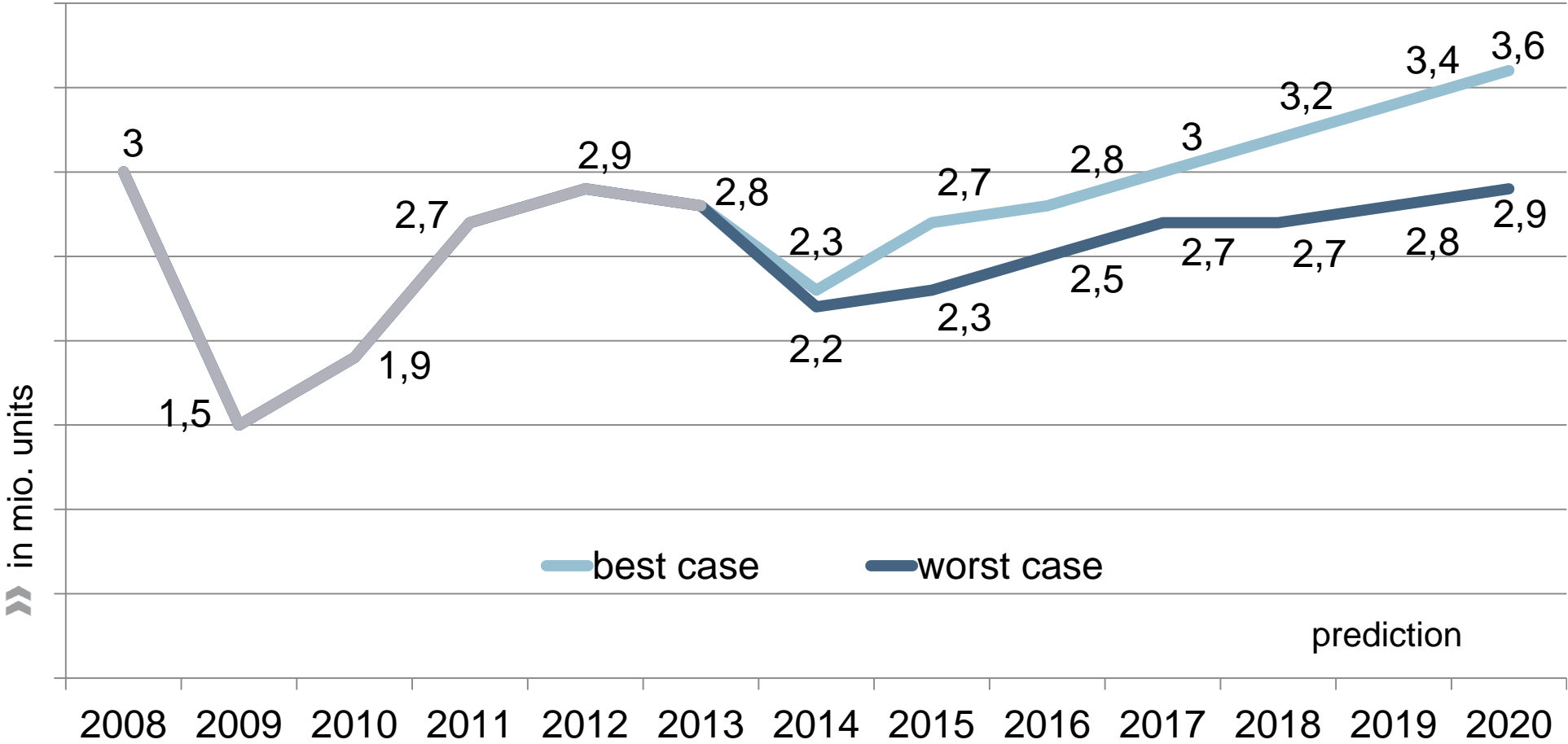


Source: Manufacturer / Dürr

DEVELOPMENT OF AUTOMOTIVE INDUSTRY IN RUSSIA



GROWTH SCENARIO FOR THE RUSSIAN CAR MARKET 2014 - 2020



AUTOMOTIVE INDUSTRY IN RUSSIA



CHALLENGES AND CHANCES

For the development of a production site or legal entity in Russia the following conditions apply:

- The new localization law (166/566)
- The fact that Russia has to source more locally in the future due to the weakened ruble (imports are getting more expensive and restricted)
- Controllable framework requirements (lessons learned)
- Managing the currency exchange risk (accounting in local currency, hedging with forwards)
- Avoidance of import tax and VAT wherever possible
- Eliminate the language barriers
- Most of the car manufacturers in Russia will depend on their traditional suppliers in Russia and will support an industrial settlement
- Be global act local

INFRASTRUCTURE INVESTMENTS IN RUSSIA



UNTIL 2030 THE RUSSIAN GOVERNMENT IS PLANNING TO INVEST UP TO **125 BILLION** EURO INTO NEW INFRASTRUCTURE PROJECTS



- » Russia has to invest massively into the development of new infrastructure. The building of new roads and railway tracks as well as the investments into new sea- and airports is extremely important for the future development of the country.

RUSSIA'S STRENGTHS AND WEAKNESSES



(Strengths)

- large domestic market
- consumption oriented population
- developments of the infrastructure and the regions
- gold- and currency reserves
- proper state finances
- WTO membership

(Weaknesses)

- strong dependence on oil and gas exports
- high inflation
- bureaucracy and corruption
- no support for small and medium enterprises
- weak infrastructure
- not enough qualified personnel

RUSSIA'S OPPORTUNITIES AND RISKS

(Chances)

- infrastructure development
- investment for the soccer world championship in 2018
- need for modernization
- energy saving and environmental issues
- privatization and structural reforms

(Risk)

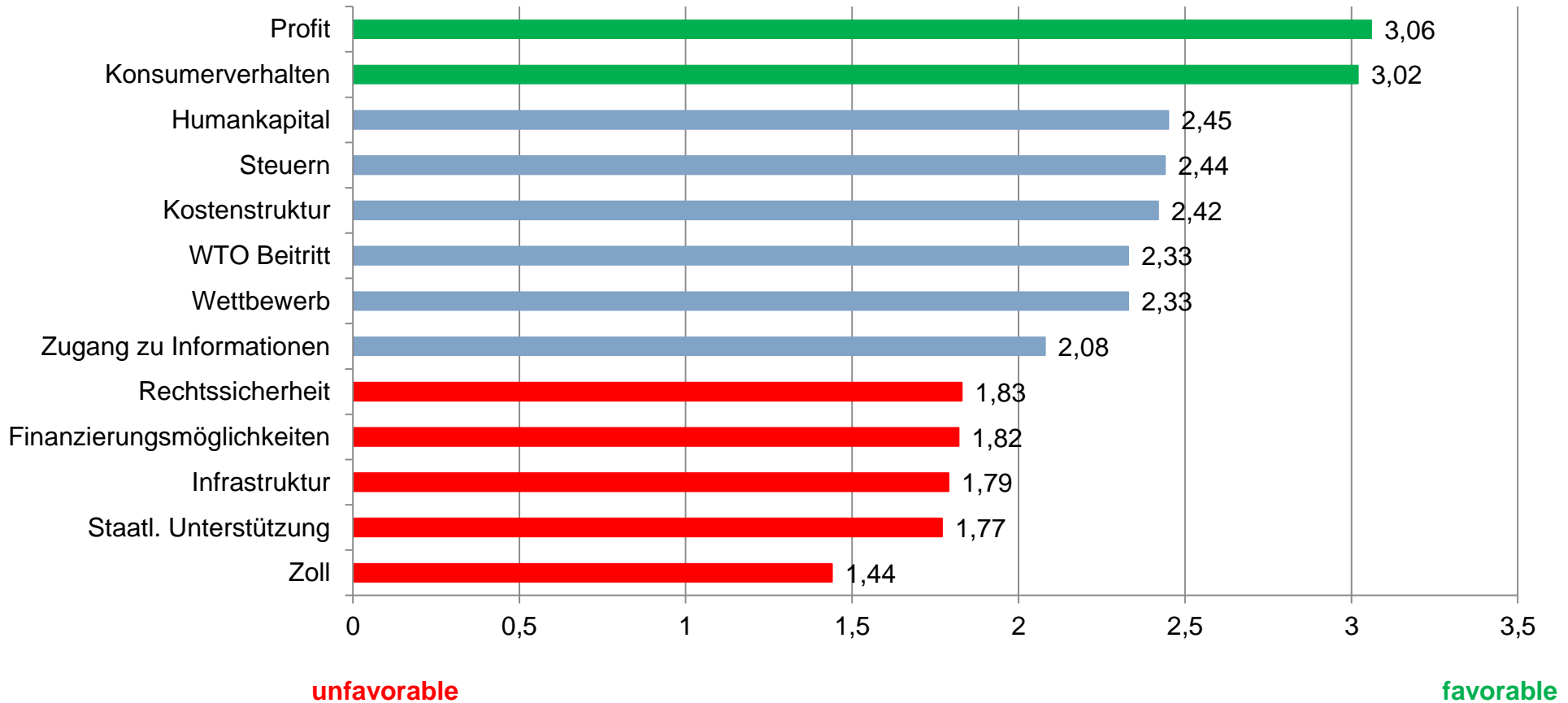
- demographic development
- high interest rates
- external shocks
- protectionism
- arbitrariness “despotism”
- political risks “Crimea crisis”

BUREAUCRACY IN RUSSIA

- » Every businessman in Russia is monitored by 20 public servants
- » In the year 2013 more than 1,5 Million public servants are employees in Russia. During the time of the Soviet Union only 700.000 people worked for the public service
- » Organizations calculate in Russia 15-30% of their spending for corruption payment
- » The need for forms and paperwork is six times higher in Russia compared to Germany

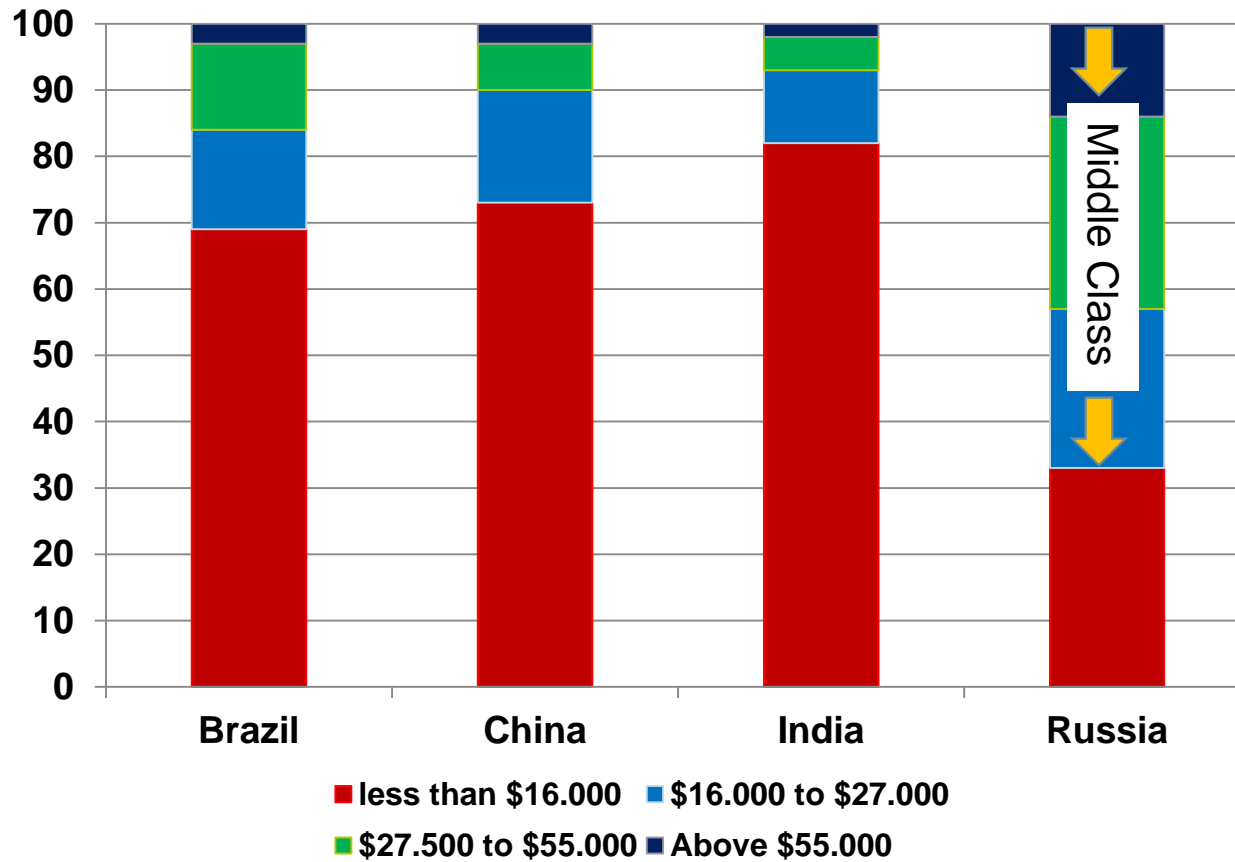


THE ADVANTAGES AND DISADVANTAGES OF THE RUSSIAN MARKET



INCOME DISTRIBUTION IN BRIC MARKETS

Distribution of households by income band (%) 2014



Based on \$16,000 annual median household income as defining a **middle class** household, then **in Russia fully 68% of households are middle class**, whereas this segment represents only 27% in China, 18% in India and 31% in Brazil.

GOVERNMENT DEBT AS A % OF GDP, ESTIMATE FOR 2014, CEE AND SELECTED COUNTRIES

CEE weighted average	43%
Poland, rising 57%	Kazakhstan, stable 13%
Hungary, stable 78%	Croatia, rising 57%
Czech Republic, rising 48%	Serbia, rising 64%
Russia, rising 11%	Slovenia, rising 65%
Ukraine, rising 40 %	Estonia, rising 10%
Romania, rising 38%	Latvia, falling 42%
Bulgaria, stable 19%	Turkey, stable 37%

» Germany 76,9% Greece 174,1%

STILL SOME REMARKABLE FIGURES

Some Key Figures

1. Western companies **sell 4-6 times more per capita in Russia than in China and India**
2. **Russian GDP per capita is 3-7 times larger than in China and India**
3. Russia remains one of the most profitable markets in the world for western investors (admittedly profit trends are under pressure in the last 9 months but comparatively good). **Customers will pay for quality and thus brands do well**
4. Similar ROI in Russia has proven to be one of the best in the world and even BP (who had so many public problems) reported huge profits in Russia --- among the best in the world for BP
5. It is expected that Russia will become the largest consumer good market in Europe in 2025
6. Despite the current slump, the Russian automotive sector could be the largest in Europe by 2018 and **is already No. 2**
7. It is the largest mobile phone market in Europe today, with a saturation of 230m phones (compared to 100m in Germany)
8. Nominal wages and real wages (after inflation) were the highest in Europe and among the highest in the world in 2010-13. They have now declined by 2-3% but this is still among the best figures in Europe
9. Unemployment at 4.9% is close to record Russian lows and among the lowest in Eurasia

TO BE SUCCESSFUL IN RUSSIA

CRITERIAS

- local presence (language barriers, products in local currency and imported)
- innovative and high quality products
- after sales service und spare parts sales locally
- qualified and motivated employees
- the use of local content wherever it is possible (prevention of import tax and logistic costs)
- partnership with local suppliers (qualification and certification of suppliers)
- advertising material especially for the needs of the Russian market
- Local network (decider, coaches, political supporters)
- The art of improvisation
- A lot of patience and endurance

ADJUST THE RISK PROFILE AND PREPARE FOR THE FOLLOWING



Recommendations for OEMs and Suppliers

»» What to expect?

- ➔ Market **recovery is not expected** in the near future, rather a further decline is anticipated
- ➔ Crisis likely to **last another 15 month**, further escalation is possible
- ➔ Automotive **sanctions** – even if not economically reasonable – are **possible**

»» Recommendations

- ➔ **Adjust local cost base** to new market scenarios (lower fix costs)
- ➔ **increase local content in Russia** (at low investments)
- ➔ Maintain **relationship** with Russian customers/authorities
- ➔ Investigate in **diversification** (railway and aircraft business)
- ➔ Examine **opportunities in other CIS states**

Source: Roland Berger market update, Dürr

WHAT COMES NEXT?

Kazakhstan

Commonwealth of Independent States



In the far east of Kazakhstan, a new car production plant is being built. On an 18-hectare plot, Azia Avto is building a full-cycle car production plant for Lada, Skoda and Kia. The plant is expected to start production in 2017. The total investment is \$500 Mio.



RESUMEE

A



The massive oil-backed system of Russia emits now to its borders. The transformation of the world energy market could lead to a drop in the oil price between 20 and 30 percent! Due to the current Ukraine crisis the Russian economy still faces the next 15 months with very slow GDP growth.

B

According to forecasts by the Russian Ministry of Economics, the GDP in 2014 will grow zero percent but should return to 3.7 percent in 2018. For 2015 and 2016 a GDP growth of 1.4 percent, respectively 2.2 percent is forecasted

C

The Russian market for passenger cars and light commercial vehicles will 2014 not reach the 2013 sales figures of 2.7 million vehicles. Industry experts see opportunities for the growth of foreign brands. The localization of production remains in trend

D

The Russian market will remain on a middle risk scenario a good, solid, large, single-digit organic sales market for years to come. Experience shows vividly that those who have pulled out before in 2007 bore a financial and reputational cost. **Russians are like elephants and remember when you treat them poorly**

Conclusion



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