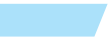


Automotive



investukraine.com

Deloitte.





Dear Reader,
It is my great pleasure to introduce you to our new publication about attractive sectors of Ukraine, made in partnership with Deloitte.

We developed these brochures to make information about sectors of Ukraine accessible and easy to understand. The booklets provide analysis of economic attractiveness, as well as comparative characteristics and undiscovered opportunities.

Ukraine enjoys a long industrial tradition, robust transportation and technical infrastructure, rich natural resources, strong secondary and tertiary education, a broad network of research and development institutes, and a large pool of technically skilled labor. As a WTO member since 2008 and having signed International Agreements for the Avoidance of Double Taxation with 63 countries, Ukraine is a fair player in the business world, a transparent and predictable partner.

InvestUkraine offers individual support to investors and is here to assist potential investors with setting up production in Ukraine. We offer professional support in obtaining information and analysis, legal advice, site visits, site selection services, assistance in communication with local authorities, and an aftercare program.

I encourage you to consider Ukraine as a place for your future business and discover all the benefits of locating your company's operations in our country.

I look forward to welcoming you in Ukraine.

Sergiy Yevtushenko,
Head
InvestUkraine

State Agency for Investment and
National Projects of Ukraine



A favorable geographic position, vast consumer market, ample resources and high level of education – all these factors ensure great investment potential for the economy of Ukraine.

At present, Ukrainian market is at the development stage. There are many niches and opportunities for introducing new players and strengthening the positions of existing ones. However, most of Ukraine's industries lack investments, though international investors are highly interested in them. We believe that foreign investments will be very successful and promote economic growth if a favorable investment climate is created in Ukraine.

To assist you in determining the most promising areas to invest in and get an insight into Ukrainian market, Deloitte experts in cooperation with InvestUkraine have conducted this research.

We hope that this overview will be useful and interesting for all companies interested in investing in various industries of our country.

Vladimir Vakht,
Managing Partner
Deloitte

Table of contents

1. Executive summary	5
2. Sector overview	5
3. Market shares	10
4. Overview of local producers	11
5. Legislation	12
6. Organizations and associations of the sector	13
7. List of references	14

1. Executive summary

Ukraine is the third-largest passenger car market in Eastern and Central Europe after Russia and Poland (221 thsd cars sold in 2011). Ukrainian market gradually recovers from severe economic and financial crisis of 2008-2009 when sales collapsed from 643 thsd units in 2008 to c.170 thsd units in 2009 -10.

Market recovery started in 2011 is expected to be further influenced in the long run by:

- recovery of personal disposable income;
- growth of car lending;
- low cars density as compared to other European countries;
- high potential for replacement of old cars.

These factors are expected to help retain double-digit annual growth rates of Ukrainian car market in 2013-2015.

Similar to passenger cars, commercial vehicles market started to recover from the crisis. Double-digit annual growth rates are expected in 2012-2015 as the economic recovery continues, freight transportation volumes increase and lending picks pace.

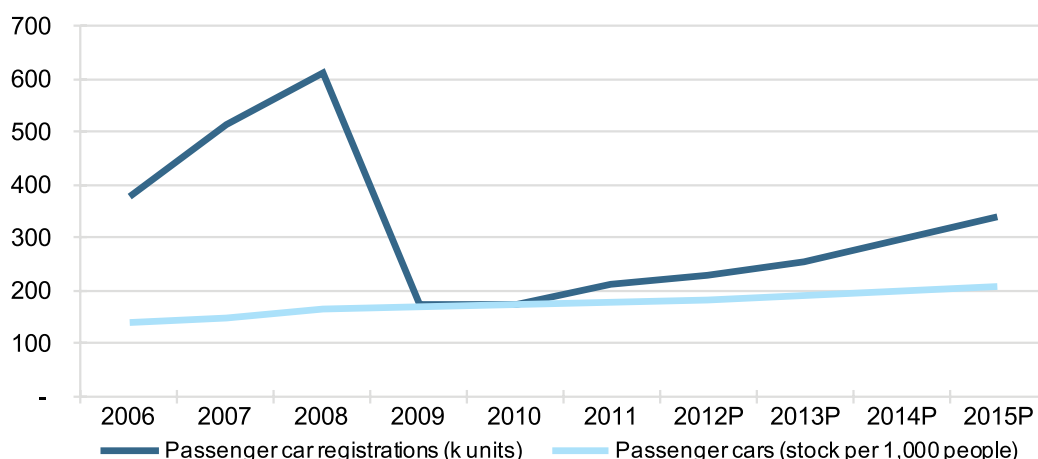
The most popular passenger car brand VAZ (produced by Russia's largest carmaker AvtoVAZ or assembled locally) continues to dominate the market. HYUNDAI became the second top brand while local ZAZ (Zaporizhzhya Automotive plant) was on the third place.

2. Sector overview

Passenger cars

Ukraine is the third-largest car market in Eastern and Central Europe after Russia and Poland (ranked 13th in Europe). In terms of market growth in 2011 versus 2010, Ukraine ranked second in TOP-15 European markets with impressive 36% growth rate.

Market dynamics in terms of car registrations (k units)



P - projected

Source: Economist Intelligence Unit, Auto-Consulting, Ukrautoprom

The highest car sales volumes during the recent years were in 2008 (610 thsd units) which made Ukraine the 7th largest market in Europe. However, severe economic and financial crisis in 2008-2009 resulted in 15% GDP and personal

disposable income decrease and rapid depreciation of national currency. Respectively, passenger cars market collapsed to c.170 thsd units per annum in 2009 -10.

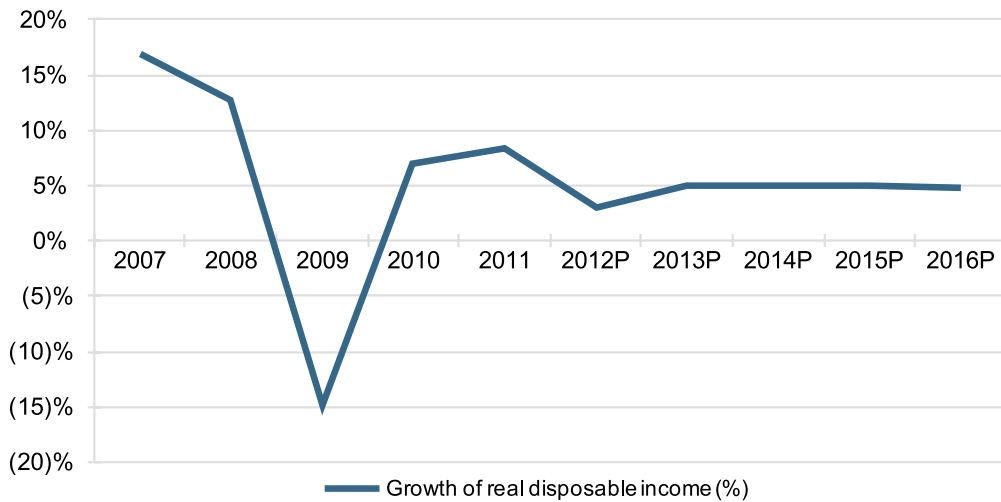
Market recovery started in 2011 is expected to be further fueled in the forecast by:

- recovery of personal disposable income;
- growth of car lending;
- low cars density as compared to other European countries;
- high potential for replacement of old cars.

These factors are expected to retain double-digit annual growth rates of Ukrainian car market in 2013-2015.

Personal disposable income

Real personal disposable income dynamics



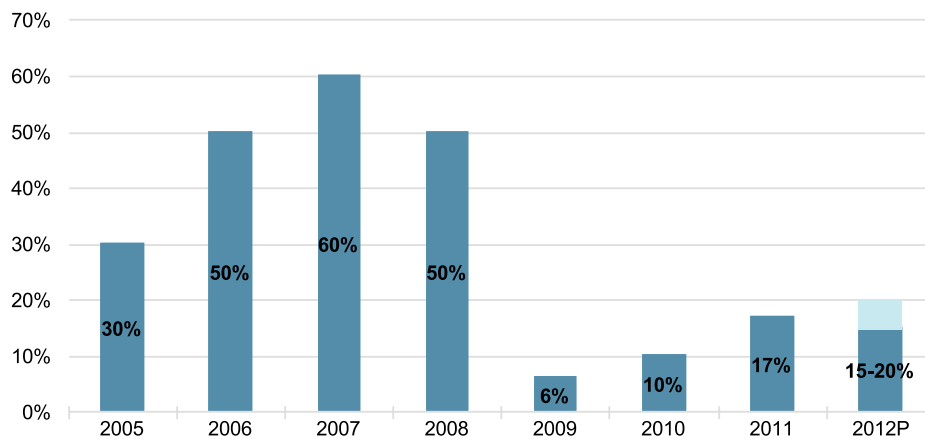
Source: Economist Intelligence Unit

Real disposable income recovered from 15% decline (2009) in 2011. Due to deterioration of external environment real disposable income

growth is expected to slow down to 3.1% in 2012 but then return to c.5% growth per annum.

Car lending

Share of car lending in total car sales

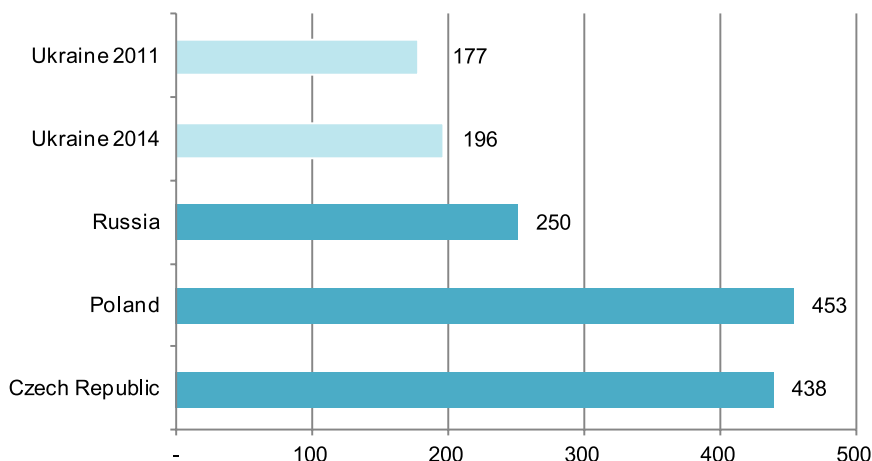


Source: AUTO-Consulting

As a result of financial and economic crisis share of cars bought on credit decreased from 50-60% of total car sales in 2006-2008 to only 6% in 2009. Car lending recovery started

in 2010 (10%) and continued in 2011 (17%). Lending is expected to steadily increase in the future approaching pre-crisis levels.

Passenger cars per 1k population



Source: Economist Intelligence Unit, Deloitte's estimates

Car density which is estimated to be c. 177 per thousand people at the end of 2011 is significantly lower than in comparable European countries. Car density in 2014 is forecasted to be c.200 cars per thousand people, still far below

the levels of EU countries in Central Europe (400-450 in Poland and Czech Republic and c.300 in Slovakia and Romania) and even lower than 2011 car density in Russia (250).

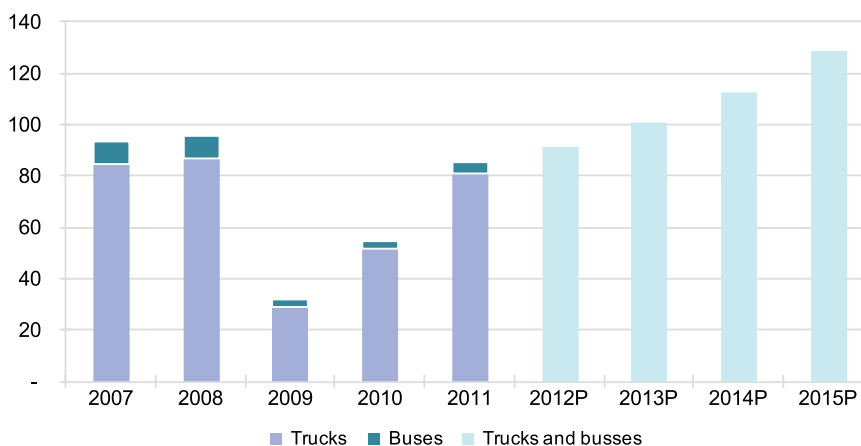
Old cars replacement

Based on Global Insight, currently c. 75% of Ukrainian cars are older than 8 years (total passenger car fleet at the end of 2010 was 6.5 m

cars). Old cars replacement represents high potential (estimated c.300 thsd cars annually depending on dynamics of real personal income).

Trucks and busses

Trucks and busses registrations (k units)

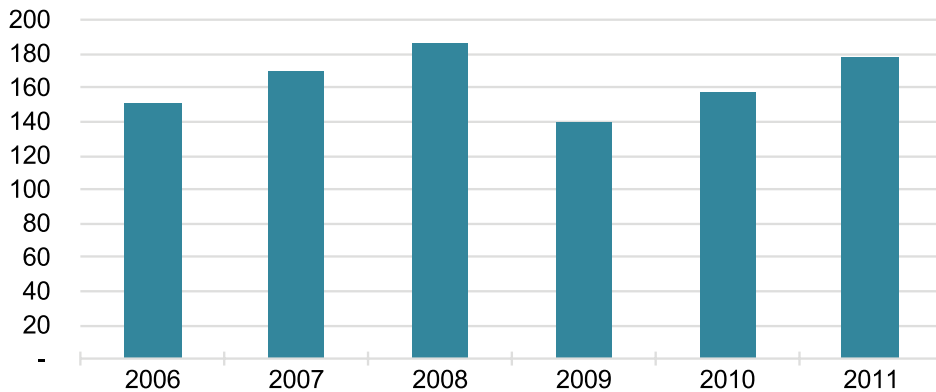


Source: Economist Intelligence Unit, State Statistics Service of Ukraine, Deloitte estimates

The 2009 recession significantly decreased demand, but now the market is undergoing a strong rebound, and double-digit annual rates of growth are expected in 2012-2015 as the

economic recovery continues, freight transportation volumes (slightly below the 2008 level in 2011) are growing and credit growth picks up.

Freight transportation by commercial vehicles (m tons)



Source: State Statistics Service of Ukraine

The strong rebound in 2010 and 2011 is likely to have stemmed from demand related to construction work ahead of the 2012 European football championship, which Ukraine co-hosted with Poland.

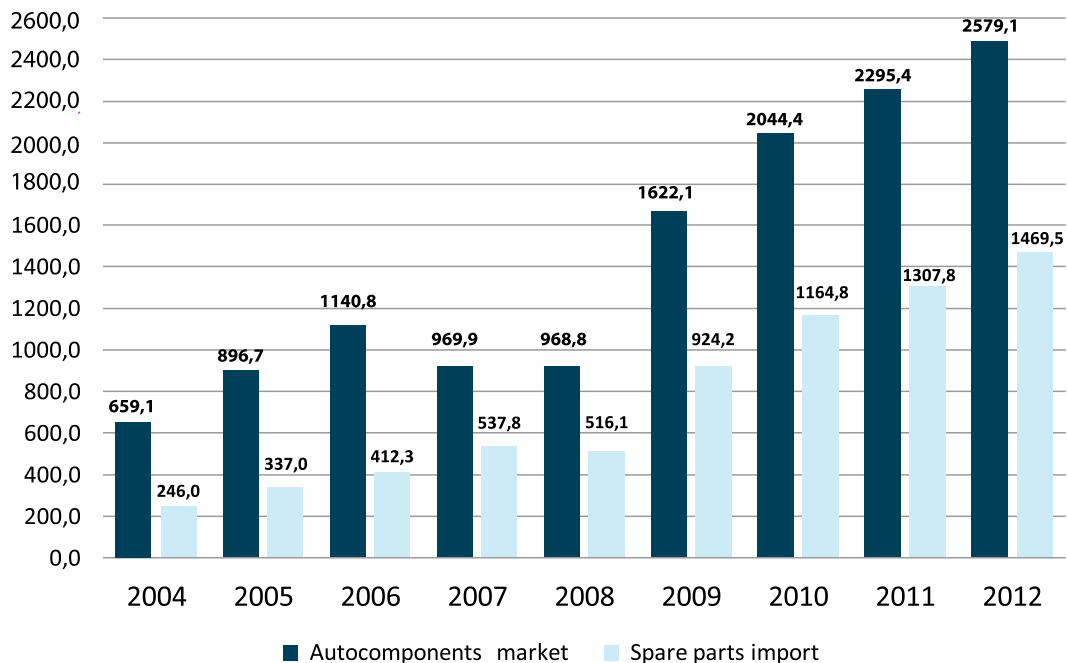
In addition, need for replacement of trucks will remain high in the future, boosting demand for new commercial vehicles.

Automotive spare parts market

The Ukrainian spare parts market can be divided into four parts:

- market of original parts (OES),
- market of original non-branded parts,
- market of non-original and customized products,
- market of non-licensed products.

Autocomponents market turnover in 2004-2012 (USD m)



Source: State Statistic Committee

Ukrainian automotive components market has dynamic environment and is constantly growing as can be seen from the graph above: from 2004-2012 automotive components turnover grew from USD 413,1 m to USD 2579,7 m, im-

ported spare parts grew from USD 246 m to USD 1469,5 m. It should be noted that imported spare parts for the last four consistent years constituted slightly more than a half of the total turnover.

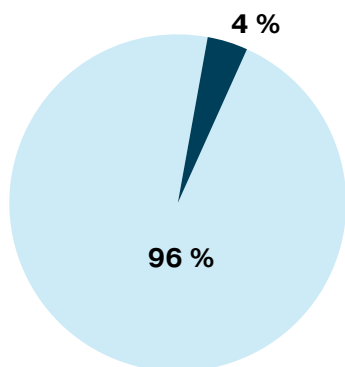
Automotive components turnover by categories 2008-2012

	2008	2009		2010		2011		2012 (projected)	
	USD m	USD m	Growth,%	USD m	Growth,%	USD m	Growth, %	USD m	Growth,%
Spare parts	-	1586,6	-	1839,2	15.9	1960,6	6.6	2117,4	7.9
Oils	101,8	117,7	15.0	147,5	25.9	165,7	12.3	176,1	6.3
Tires	289,0	500,6	73.2	630,9	26.0	772,8	22.5	805,8	4.3
Accumulator batteries	61,9	80,2	29.6	101,1	26.1	108,4	7.2	112,9	4.2
Total	452	2285,1		2718,7		3007,5		3212,2	

Spare parts constitute around 60% of automotive components turnover. Production of rubber tires comprises significant part of Ukrainian automotive components market. The graph

below shows market shares of two main Ukrainian tires producers in 2011: "Rosava" (96 % of the market) and "Dniproshyna" (4 %).

Structure of the tires production in 2011, %



■ "Rosava" ■ Dniproshyna"

"Rosava" is the biggest tires manufacturer in Ukraine and one of the leading companies in CIS by quality of manufactured product. Company manufactures tires with two trademarks «Rosava» and «VALSA» and produces tires for customers from Germany, Turkey, Great Britain, Russia and others. Having the best high tech mixing equipment in CIS countries "Rosava" also produces rubber compounds for other manufacturers.

"Dniproshyna" supplies international markets with a wide assortment of more than 150 tire models. It also manufactures 2,000 items of rubber-technical goods. All produced goods equally comply with national and international requirements.

Majority of foreign manufacturers in Ukraine are situated in the western regions of the country and are predominantly export oriented. Main foreign manufacturers are:

"Kromberg&Schubert" – German company producing wiring systems for passenger cars in Volyn region;

"W.E.T. Automotive" – German company producing heating systems for car seats in Trans-Carpathians region;

"Forschner" – manufacturing of electric circuit cables for cars of different brands. More than 1000 types of products (Transcarpathian region);

"SE Bordnetze" – production of assembly units, parts and accessories for automobiles, global manufacturer of cable products for "Volkswagen";

"Yazaki" – manufactures electrical equipment for engines and vehicles. Investments totaled EUR 31.7 m. Today about 2,000 people work for "Yazaki" in Transcarpathian region;

"Prettl Kabel" – sets of ignition wires for engines and other types of wires for vehicles. (Khmelnitsky region);

"Leoni Wiring Systems" – an international manufacturer of wire, cable and wiring systems in Lviv region;

"Kostal" – development and manufacturing of technologically advanced electronic and electro-mechanic products for the automotive industry (Kyiv region);

"PPA" – subsidiary of Anreas Quellmalz GmbH, Germany. Specializes in manufacturing of high precision small plastic parts by molding and assembles some individual units for cars. (Lviv region).

Major local manufacturers are:

“Luhanski Accumulators” – manufacturing of accumulators (Luhansk region);

“Agro-Spivdruzhnist” – manufactures repair kits for partial or complete repair of water pumps, air compressors, repair kits for bushes and starter brushes, cooling systems, engine pads, spacers for axles and gearboxes for trucks, tractors and agricultural machinery (Zaporizhzhya region);

“Poltava motor-aggregate plant” – specializes in manufacturing pneumatic brake equipment

for KrAZ, MAZ, UralAZ, KAMAZ, ZIL and BelAZ trucks, trailers, buses and trolleybuses (Poltava region);

“AVTRAMAT” – biggest Ukrainian manufacturer of plungers and engine sets (Kharkiv region);

“Kremenchuk wheel plant” – plant manufacturing wheels for automobiles, tractors and agricultural machinery (Poltava region);

“Chernihiv Mechanical Repair Plant” – produces spare parts for automobiles, agricultural machinery, brake drums, reverse gear blocks, transmission, caps and many other varieties of spare parts. (Chernihiv region).

3. Market shares

Passenger cars

TOP – 5 passenger car brands

No	Brand	2011 (units)	2010 (units)
1	VAZ	29,025	24,901
2	HYUNDAI	22,774	13,848
3	ZAZ	20,380	14,900
4	TOYOTA	13,731	10,005
5	RENAULT	11,944	8,529

VAZ cars, Russian brand, continued to dominate the passenger cars market in 2011. VAZ vehicles (economy segment) are mainly produced by Russia's largest carmaker AvtoVAZ (or VAZ) or assembled locally.

Number 2 ranked HYUNDAI showing 65% growth in 2011 versus 2010 and narrowed the gap with VAZ. ZAZ, brand of local Zaporizhzhya Automotive Plant, became #3 in 2011 accounting for 10% of total sales.

Busses and commercial vehicles

Ukrainian trucks market is dominated by imports mainly from European Union and Russia. Share of imported trucks comprised 89% in 2011 while local production was only 11%.

GAZ (Russia) was the most popular brand in the registration of new vehicles in 2011, representing 18% of the total, then GAZ with 14% of new vehicles registrations and FIAT (11%). Major local trucks producers are ZAZ (ranked #6) and AutoKrAZ (majority of trucks is exported).

TOP – 5 truck brands

No	Brand	2011 (units)	2010 (units)
1	GAZ	3,499	3,626
2	VOLKSWAGEN	2,843	2,148
3	FIAT	2,094	1,892
4	RENAULT	1,588	1,000
5	CITROEN	1,111	603

TOP – 5 bus brands

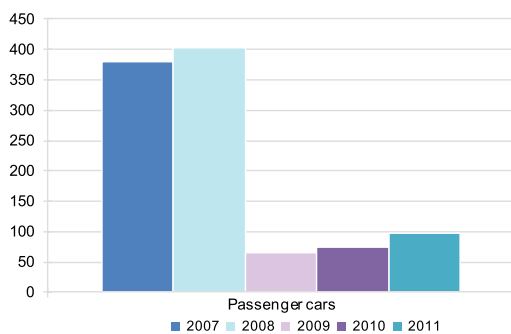
№	Brand	2011 (units)	2010 (units)
1	BAZ	1,199	645
2	RUTA	594	260
3	GAZ	441	464
4	PAZ	330	248
5	BOGDAN	306	268

Local players are very strong on bus market enjoying increased orders in 2011 from EURO 2012 host cities.

Buses fleet in Ukraine remains rather outdated and will require replacement in the middle-term perspective driving local production.

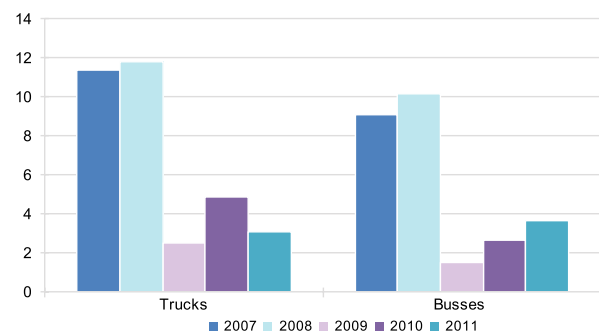
4. Overview of local producers

Passenger cars production in Ukraine (k units)



Source: Ukrautoprom

Buses and trucks production in Ukraine (k units)



Key local producers

Company	Brand 2011	production (units)			Location	Production capacity
		Passenger cars	Trucks	Buses		
ZAZ (UkrAvto)	Nissan, Toyota, ZAZ (Forza, Lanos, Tavriya etc), Chevrolet Aveo, Adam Opel, Daimler AG, GM DAT, VAZ, TATA, Chery, KIA	59,360	1,202	300	Zaporizhzhya	Up to 150,000 cars per year. Production volumes are steadily increasing.
Bogdan Corporation	Bogdan, Hyundai, Lada, Subaru, Isuzu, Hyundai truck	20,240	649	144	Cherkasy, Lutsk	120-150 thousand cars. Up to 90,00 buses and trolley buses, as well as about 15,000 trucks and specialized equipment
Eurocar	Volkswagen, Seat, Skoda	11,656	-	-	Transcarpathians region, Uzhgorod district	Up to 100,000 cars a year
KrAZ	KrAZ, FAW, REXTON, KYRON	6,329	200	-	Kremenchuk, Poltava region	

Company	Brand 2011	production (units)			Location	Production capacity
		Passenger cars	Trucks	Buses		
AutoKrAZ	Dump truck KrAZ, chassis KrAZ, platform truck KrAZ, fifth wheel tractor KrAZ, timber truck tractor KrAZ	-	1,018	-	Kremenchuk, Poltava region	7,250 cars per year
CJSC «BAZ» (Etalon Corporation)	BAZ-A079 «Etalon»	-	232	1,163	Prolisky	1,700 buses per year
ZAO «Chernihiv Automobile Plant» (Etalon Corporation)	BAZ, GAZ, CHAZ	-	-	571	Chernigiv	Monthly Issue 150 buses
LAZ	Laz, NeoLaz, AeroLaz, InterLaz, CityLaz	-	-	97	Lviv	
AntoRus	«Anton» & «Ruslan»	-	-	84	Kherson	
Chasiv Yar Bus	RUTA, GAZ	-	-	551	Donetsk region, Chasiv Yar	
Cherkasy Bus	Isuzu	-	29	828	Cherkasy	

5. Legislation

No special requirements for licensing are imposed on activities related to production of cars or spare parts. However, such activities involve compliance with specific technical standards.

The basic regulatory act is the Law of Ukraine “On automotive transport” that establishes the basic requirements for vehicles.

There is no specific authority that regulates automotive production. However all the industrial business activities in Ukraine are controlled by the State Committee on Industrial Safety, Labor Protection and Mining Supervision and State Sanitary-Epidemiological Service of Ukraine.

In regards of corporate income tax (hereinafter referred to as “CIT”) there is no special treatment of the activities connected with automotive

manufacturing field. CIT is currently calculated at a flat rate of 21%. CIT rate will be reduced to 19% from 1 January 2013 until 31 December 2013 and to 16% from 1 January 2014 onwards.

Value added tax (hereinafter referred to as “VAT”) currently levied at a rate of 20% of the taxable value of domestic supplies, imported goods and auxiliary services. The VAT rate will be reduced to 17% from 1 January 2014.

Excise duty is imposed on the cars and car bodies. The excise duty shall be paid by the producers and importers of the cars and bodies. The excise duty for the cars depends on the engine displacement and its range for the new cars is from EUR 0.03 to EUR 1.09 per cubic centimeter. The amount of excise duty for new car body is EUR 109 for one item.

6. Organizations and associations of the sector

Association	Description	Web-site
Ukrainian Motor Vehicle Manufacturers Association «Ukraudoprom»	<p>The founders of «Ukraudoprom» are more than 20 leading Ukrainian enterprises of motor industry. Among them are: «ZAZ» Plc., «LAZ» Plc., «AvtoKrAZ» holding company and others. There are 18 main concerns of domestic automotive industry - members of association for today.</p> <p>The main task of Association are representative office and defense of interests of the Ukrainian auto producers in international and state institutions, and also coordination of enterprises efforts in motor industry sphere with taking into account world progress of production of transport vehicles trends.</p>	ukraudoprom.com.ua
Ukrainian Union of Car Owners	Public organization for car owners. Accounts 540 thsd members.	www.uacards.com
Association of Importers and Distributors of Automotive Components, «AIDA»	Non-profit organization established by leading companies of automotive components market	association-aida.com.ua
Dealers Association of Cars With Mileage	The main goals of the Association are to create a civilized secondary market for car and protect the interests of car dealers operating in this market.	sprobegom.ua
Ukrainian Association of Automobile Carriers (VAAP)	Founded in 1997 as a voluntary association of business entities in sphere of automobile transport to coordinate and combine efforts of participants to protect their economic, technological and social interests.	vaap.org.ua
Ukrainian Association of Auto Importers and Dealers (VAAID)	The main activity is to protect interests of the official importers and dealers in Ukraine.	No official site (info@vaaid-expo.com.ua)

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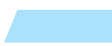
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