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RENAULT IN RUSSIA: A CLEAR STRATEGY, RESOURCES IN LINE WITH AMBITIONS, AND ALREADY TANGIBLE RESULTS

Convinced of the potential of the Russian market, Renault has made it one of the priorities of its international development. And the results are already visible.

- With a 6% share of the market, Renault was No. 3 in sales in first-half 2011, behind Lada and Chevrolet.
- The market share of the Renault, Nissan and Lada brands is 34.4%, on track to meet the objective of 40% in the "Renault 2016 Drive the Change" plan.
- The Renault-Nissan AVTOVAZ alliance has a total output capacity of 1.1 million units in 2011. The objective is to increase capacity to 1.6 million units a year in 2016, including the output of the Izhavto plant.

Russia is already the Renault group's fourth-largest market (9th in 2010).

With a strong pace of product launches, capacity investment to meet demand and an alliance with the leader of the Russian auto industry, AVTOVAZ, Renault has become a major player on the market and is taking part in the renewal of the country's car market. Renault's ambition is not just to become a leading brand in the B segment, but also to create a broad range of popular vehicles adapted to the needs of local customers.

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Establishing Renault as a key player in a market with considerable growth potential



Since the launch in 2005 of Logan—the first vehicle manufactured by Renault in Russia and the best-selling three-box car in the country—a number of other models have extended the range with very promising results. Sandero, complementary to Logan, already accounts for 20% of sales. Sandero Stepway is a best seller and Fluence and Mégane, launched in 2010, already rank top-ten in their segment. The Renault range in Russia now covers all segments. By year's end, five different vehicles (Logan, Sandero, Fluence, Mégane and Duster) will be produced at the Moscow plant, a record for Group plants. Duster will be launched in 2012 (in two-wheel- and four-wheel-drive versions) backing up Koleos in a market where one in four cars sold is a 4x4. Renault will thus bring customers a broad range of vehicles, with core range models produced locally.

Fast-growing distribution network

Renault sales in Russia are bolstered by a fast-growing distribution network. At end-June 2011, it had 130 points of sale in 86 cities and was present in all cities with over 300,000 inhabitants. Renault plans to have 200 points of sale by 2013 and 260 by 2015. The focus is on the quality of customer relations, and service quality surveys show a very high customer satisfaction rate.

RCI Banque has been supporting the development of the network with sales financing and ancillary services since 2006. More and more Russians are buying their cars on credit, and sales financed by RCI Banque were up 52% year on year in first-half 2011. RCI Banque has financed a total 80,000 car sales since 2006. Today, one in four Renault vehicles is sold with the aid of the Renault Credit program.

Production facilities in line with our sales ambitions

The biggest challenge for carmakers in Russia is having sufficient production capacity to meet demand. The strength of the Alliance lies in its ability to combine capacities and generate synergies between the three partners, Renault, Nissan and AVTOVAZ. The Alliance has three production sites with a total capacity of 1.1 million units a year. The objective for 2016 is 1.6 million. At Renault Russia (Moscow), Renault's first facility in the country, capacity investment in 2010 has doubled output, to 160,000 vehicles a year. AVTOVAZ (Togliatti) has a capacity of 900,000 vehicles a year with three main production lines, including a new B0 line that will produce vehicles for the three partners starting in March 2012. The Nissan plant in Saint Petersburg manufactures 50,000 vehicles a year. The Izhavto plant (220,000 vehicles a year, to be increased to 360,000 by 2016) will further boost this capacity when included in the Group's strategic development plan.

Partnership with Russia's number-one automaker



AVTOVAZ, a full-line carmaker, produces Lada brand vehicles, which account for 40% of Russia's vehicle population. A true industry heavyweight, AVTOVAZ is responsible for 45% of domestic production and represents 27.3% of the market and 0.5% of the country's GDP. Because of this, it benefits from strong support from the Russian government, which has made the company a spearhead of the renewal of the Russian automotive industry.

The partnership, the first to include three groups (Renault, Nissan and AVTOVAZ), is also unique in its ambitions on production, integration and localization. The partners are working together to modernize the productivity and quality of production resources. In early 2011, the Alliance Production Way was applied to the new Lada Kalina line and it will be gradually extended to other activities. Also in 2011, teams of Russian engineers and technicians visited Renault group sites in countries including France, Romania and Turkey to receive training on vehicle and powertrain engineering, manufacturing and quality. The training program, launched on the initiative of and with financing by the Russian authorities, will be followed by other programs and reflects the Russian government's concerted efforts to modernize AVTOVAZ.

The partnership has already made significant progress in terms of purchasing synergies. A joint committee was set up in March 2010 with 100 people (30 from Renault and 70 from AVTOVAZ) to develop the supplier network and improve parts quality. The committee has already produced tangible results. The share of faulty parts at AVTOVAZ has been divided by three since 2009 and continues to fall. To contribute to the emergence of world-class suppliers, Renault

Consulting organizes training courses on quality and productivity resources for suppliers. This training is financed by Renault, the only carmaker in Russia committed to this kind of approach. In a further example of synergies, two teams from Renault and AVTOVAZ are working together to select suppliers for the Lada Largus, a small van based on Logan that will be the first vehicle to come off the new B0 production line at Togliatti. They are taking advantage of the occasion to optimize volume effects with the projects underway in Moscow.

The field of potential synergies remains vast, particularly in engineering, R&D and the use of AVTOVAZ vehicle testing facilities.

The B0 line: the first large-scale project of the Renault-Nissan AVTOVAZ partnership

The new shared production line for vehicles based on the B0 platform (Logan) is of strategic importance for the Alliance. Due to be inaugurated at Togliatti in March 2012, it will have an installed capacity of 350,000 units a year and be able to produce five different vehicle models by the Renault, Nissan and Lada brands using modern facilities. For example, a greenfield paint workshop has been created with a capacity of 60 vehicles an hour. The first vehicle produced will be the Lada Largus. In all, some €400 million have been invested in capacity growth for the B0 line. But this achievement is above all the result of the cooperation between teams that began in early 2010. Some 100 Renault engineers shuttle back and forth between Paris and Togliatti, but the project also involves staff from other countries, including Japan, Romania, Germany and Slovakia. They work hand in hand on all aspects of vehicle production, including powertrain, chassis, bodywork, paint and assembly, applying the Alliance Production Way.

Looking forward

Local integration will be stepped up with the shared development of chassis and powertrains. A center is being set up to produce components, running gear, engines and gearboxes locally, exclusively for vehicles sold on the local market.

Projects are also planned to develop extra capacity in the far east of Russia, where they will benefit from geographical proximity to the sites in South Korea and Japan.

As you can see, Renault is taking all means to ensure that Renault in Russia continues to contribute to the success of the Renault 2016 Drive the Change plan.

RUSSIAN MARKET TRENDS

After a brutal downturn in 2008-2009 following the economic crisis, the Russian car market returned to growth in 2010 with a 30% rise in sales, thanks to a scrappage bonus, an increase in purchasing power and easier access to automotive credit. Growth continues in 2011 with a 55% increase in the first half of the year and sales of 1,235,442 vehicles. The annual total is forecast to rise to 3.6 million vehicles in 2016, making Russia Europe's biggest auto market. Between 2010 and 2017, Russia is expected to contribute 7% of world production growth (source: PwC).

In this growth market, more than half of the vehicles produced domestically in 2010 were foreign makes. This trend is set to strengthen with the implementation of government measures in favor of national production.

Key figures:

Population: 143 million

Total vehicle population: 34 million vehicles

GDP per inhabitant: USD 15,900 (2010 est.). Source: World Factbook, CIA

Average monthly salary: RUB 22,520 (roughly €550)

RENAULT IN RUSSIA

Market share: 6%.

Sales: 74,337 units in first-half 2011, up 76% on H1 2010 (2010 total: 96,466).

Range: Logan, Sandero, Sandero Stepway, Symbol, Clio, Clio RS, Mégane, Mégane Coupé, Scénic, Fluence, Koleos, Laguna Coupé, Latitude, Kangoo, Master, Trafic.

Network: 130 dealerships in 86 cities (June 2011).

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