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RENAULT IN RUSSIA A WINNING STRATEGY FOR GROWTH

Renault is positioned to benefit from the potential of growth of the Russian market, with one subsidiary and a new industrial partnership:

- **Avtoframos sells a complete range of imported Renault cars and produces Logan, the best-selling foreign sedan in its segment**
- **AvtoVAZ (of which Renault owns 25%), is the leading carmaker with 23% of the Russian market**

Russian car market trends

The Russian car market has seen phenomenal growth: 2.7 million vehicles in 2007, 3.2 million in 2008 (estimated) and 4 million vehicles per year expected by 2014. Russia, despite present economic difficulties, is poised to become the largest car market in Europe.

In 2008, foreign carmakers account for an estimated 75% of new car sales in Russia¹, a percentage that has been increasing steadily over the past 8 years.

In light of these trends, Renault's strategy in Russia is three-fold:

1. Local production in its Moscow plant and distribution

As a foreign automaker producing Logan in Russia, Renault benefits from the economic advantages of local production. Due to the huge success of Logan (over 200,000 units have been built), this capacity is currently being doubled, to 160,000, by the end of 2009. At that time, the plant will begin producing Sandero, the hatchback built on the Logan platform. Renault's Russian sales network (currently 74 dealerships and 94 sales outlets) is expanding in order to accompany the strong growth of the Renault brand in Russia, with the goal of being present in every city of at least 100,000 people.

¹ Based on the first quarter results

Source: Autostat Review of Russian Automotive Market, 2007; BCG analysis

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2. Sales of Renault imported cars

As a foreign automaker importing the Renault range into Russia since 1998, Renault has benefited from increasing demand for foreign cars as disposable incomes rose. Renault sells a complete range of vehicles imported into Russia, including the recently launched Laguna sedan, Laguna Estate, Koleos, and starting in November, New Renault Symbol.

3. Partnership with AvtoVAZ

This partnership is part of the Russian government's project to make the automotive industry a global player.

As the strategic partner of AvtoVAZ, the dominant Russian carmaker, Renault will help to renew the Lada product range, leading to increased volumes and market share. The partnership between AvtoVAZ and Renault, launched in February 2008, was designed with a win-win strategy.

- AvtoVAZ will use Renault's vehicle platforms and power trains to provide its products with the technology needed to improve the Lada brand image.
- AvtoVAZ will benefit from synergies with the Renault Nissan Purchasing Organization in order to obtain higher quality from its suppliers.
- Several Renault executives were placed in key positions to help the Russian brand to improve its product plan, engineering processes and quality.

For Renault, the goal of this partnership is creation of value:

- AvtoVAZ is a profitable company with a 4.7% operating margin (end of 2007)
- With much of its production equipment already amortized, and potential to increase capacity to 1.5 million vehicles by 2015 if necessary, this investment will capitalize upon existing resources for optimal returns.
- The first two licenses were sold to AvtoVAZ for 220 million euros. Future licenses may also be sold to AvtoVAZ, increasing Renault's cash flow in the short term and economies of scale in the mid-term.

As AvtoVAZ strengthens its position and its financial situation, Renault will benefit in terms of sales consolidation and increased value of the 25% of AvtoVAZ shares that were purchased for 1 billion USD.

Renault's talent for developing successful international relationships has been clearly demonstrated through:

- the Renault-Nissan Alliance (turnaround of Nissan in 1998), with complete respect for each other's brand identity.
- the revitalization of Dacia (Romania) in 1999, with 100% implementation of Renault standards, leading to an international base for the Logan program.
- the creation of Renault Samsung Motors (Korea) in 2000.

From these three very different experiences, Renault acquired a unique competency in terms of strategic partnerships. The keys to success have been the respect of the partner's identity, the understanding of local customers and markets, standardization of production systems according to best practices for quality assurance, and development of purchasing and engineering synergies in order to create cost savings.

Appendices

Avtoframos

Legal status and distribution of share capital:

Open joint-stock company, 94,1% owned by Renault and .5,9% by the Moscow City Council.

Director: Jean-Michel Jalinier

Workforce: 2,300 employees on December 31, 2007

Activity: production and sales

Background:

1916: Creation of the Société Anonyme Russky Renault in Saint Petersburg.

1966: Signing of a serie of agreements concerning engineering, supply and construction of facilities. Some of the major agreements signed from 1966 to 1983: Moskvitch (automobiles), Kamaz (trucks), Kharkov (tractors), Alexandria (contactors) and Pskov (welding machines).

1968: Opening of the Representation Office.

1998: Creation of Avtoframos, a Russian company under the Russian law with an initial share capital of RUB 124 million (EUR 4.6 million). Avtoframos, equally owned by Renault and the city of Moscow, produces and sells Renault vehicles in Russia.

2000: Increase in the capital of Avtoframos to €90 million, with the City of Moscow contributing buildings and land and Renault contributing cash.

2003: Announcement of a EUR 230 million investment for the production and sales of Logan.

2004: Construction of the Avtoframos plant and preparation of the launch of Logan.

Renault increases it stake to 76% in Avtoframos.

2005: Inauguration of the Avtoframos plant.

Sales launch of Logan.

2006: Inauguration of the after-sales services Centre in Moscow.

Renault increases it stake to 94.1% in Avtoframos.

Dealer network:

74 dealerships in Russia and 94 sales outlets

Vehicles marketed

Renault: Logan, Vel Satis, Espace, Laguna II, Scénic II, Mégane II Sport saloon and 5-door hatchback, Clio III, Clio saloon, Kangoo, Kangoo Express, Trafic and Master.

Production site

Activity: Bodywork and assembly

Production lines: 1

Level of local integration: 50% at the end of 2007

Products produced: Renault Logan, since April 2005

Production capacity: 80,000 unites per year in 2008

Production (units)

	2005	2006	2007
LOGAN	11 377	50 665	72 756

End of 2009

Production capacity: 160,000 units per year

Production of Sandero

Investment: 150 million USD for doubling of capacity

Renault sales results (in units) in Russia:

	2004	2005	2006	2007	End September 2008
TIV cars + LCVs	1 382 872	1 563 396	1 883 670	2 583 606	2 273 936
TIV Russian brands	1 028 665	1 001 395	923 706	938 065	662 096
TIV Foreign brands	354 207	562 001	959 964	1 645 541	1 611 840
Renault cars + LCVs	16 126	29 177	72 484	101 166	83 940
% Renault TIV	1,1%	1,9%	3,8%	3,9%	3,7%
% Renault /Foreign brands	4,5%	5,2%	7,6%	6,1%	5,2%

At the end of 2007, Renault was the number 6 foreign brand in Russia. Russia is Renault's 8th largest market.

AvtoVAZ

AvtoVAZ, a totally integrated industrial complex in Togliatti directly employing 105,000 people, was created in 1967. AvtoVAZ has many strengths:

- a production capacity of 1 million vehicles
- a vast sales network covering the entire Russian territory as well as its CIS neighbors
- in-house production of much of its own technical equipment (i.e. robots), steel, aluminum, plastic, electricity, power trains, and parts
- a well-developed local supplier base
- 300 kilometers of conveyor lines

On its four assembly lines, it produces 14 models in six segments.

Lada cars are commercialized in 40 countries.

On February 29, 2008, Renault and AvtoVAZ signed a Memorandum of Understanding in which Renault paid 1 billion USD for 25% + 1 share of AvtoVAZ's shares. Russian Technologies and Renault now own 50% + 2 shares of AvtoVAZ's shares.

Today, 12 people from Renault are employed by Avtovaz, among them:

- EVP, Chief Operating Officer - Yann Vincent
- SVP, Plan, Product Planning and Programs - Hugues Desmarchelier
- SVP, Controlling – Alain Carrere
- SVP, Purchasing - Christian Muller

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