



Finding Quality Partners:

A Review Of The Russian Automotive Component Sector

Russia: Automotive Component
Supplier Development Project

Finding Quality Partners:

A Review Of The Russian Automotive Component Sector

Prepared by:

**The Automotive Supplier Development Project Team
International Finance Corporation**



INTERNATIONAL FINANCE CORPORATION

A Member of the World Bank Group

**Moscow
2004**

TABLE OF CONTENTS

| | |
|--|----|
| PREFACE | 7 |
| I. EXECUTIVE SUMMARY | 8 |
| 1. Many Russian Automotive Component Suppliers are Making Quality Improvements to Join the International Industry | 8 |
| 2. International-Level Quality is Possible..... | 8 |
| 3. Russia Is A Rapidly Growing Automotive Market..... | 10 |
| 4. Foreign Designs and Brands are the Future..... | 11 |
| 5. Government Policy Supports Domestic Production Ventures..... | 12 |
| II. RUSSIAN AUTOMOTIVE MARKET OVERVIEW | 13 |
| Russia: Macroeconomic Overview | 13 |
| Russia: Automotive Market..... | 14 |
| Russian Government Support To The Automotive Industry | 14 |
| Protective Tariffs..... | 14 |
| Presidential Decree No. 135 | 14 |
| Russian Government Automotive White Paper | 15 |
| Rising Sales and Production Volumes | 15 |
| III. IFC SECTOR REVIEW: POTENTIAL SUPPLIER PARTNERS AND CUSTOMERS IN RUSSIA | 18 |
| Review Methodology | 18 |
| Main Findings | 20 |
| Toyota Production System (Lean Production) in Russia..... | 21 |
| Company Profiles | 23 |
| 1 Avtoagregat..... | 23 |
| 2. Avtoarmatura..... | 24 |
| 3. AvtoPribor Factory | 25 |
| 4. AvtoTechnica..... | 26 |
| 5. Detalstroykonstruktsiya (DSK) | 27 |
| 6. Elara | 28 |
| 7. Energotekhmash | 30 |
| 8. Intercos-IV | 31 |
| 9. Kaluga Plant of Automotive Electrical Equipment (KPAE) | 32 |
| 10. Kursk Bearings Company (KBC)..... | 33 |
| 11. Orleks..... | 34 |
| 12. Osvar | 35 |
| 13. Polimerstroimaterialy..... | 36 |
| 14. Samara Cable Company | 37 |
| 15. Samaraavtozhgut | 38 |
| 16. Soate | 39 |
| 17. Soteks | 40 |
| 18. Toplivnye Sistemy (Fuel Systems) | 42 |



| | |
|--|-----------|
| 19. Trek | 43 |
| 20. ZMZ | 44 |
| 21. ZEiM-Line | 46 |
| IV. RUSSIAN OEM REVIEW | 47 |
| AvtoVAZ..... | 48 |
| RusPromAvto..... | 51 |
| GAZ | 52 |
| KamAZ | 53 |
| SOK Group..... | 54 |
| Izh-Avto | 55 |
| RosLada | 57 |
| SeverStalAvto | 58 |
| Ulyanovsk Automobile Factory (UAZ) | 59 |
| Moscow Group Holding | 60 |
| V. FOREIGN OEM REVIEW | 61 |
| Foreign OEMs in Russia | 61 |
| Ford Motor Company ZAO | 63 |
| General Motors – JSV “GM-AvtoVaz” | 64 |
| Renault - JSC “AVTOFRAMOS” | 65 |
| Avtotor: KIA, BMW | 66 |
| TagAZ: Hyundai, Daewoo, Citroen | 67 |
| VI. ANNEXES..... | 68 |
| Annex 1. International Automotive Suppliers in Russia | 68 |
| Annex 2. Russian Automotive Component Suppliers Locations in Russia..... | 70 |
| Annex 3. Information Sources On Russia..... | 71 |
| Annex 4. Sources for the Primary List of Companies | 76 |
| Annex 5. Questionnaire 1 | 77 |
| Annex 6. Questionnaire 2 | 78 |
| Annex 7. Prioritizing the Companies | 79 |
| Annex 8. Selection Criteria: Ranking Scores..... | 80 |
| Annex 9. Selection Criteria: Weights. | 81 |
| Annex 10. List of 54 Companies (Alphabetical Order) | 83 |
| Annex 11. Protective Tariffs | 91 |
| Annex 12. Customs Duties on selected automotive parts as of January 28, 2004..... | 93 |
| Annex 13. Russian OEM Vehicles | 94 |
| Annex 14. Most Popular Foreign Brands in Russia | 97 |
| Annex 15. Top Selling Models of Foreign Cars Sold in Russia | 97 |
| Annex 16. Foreign OEM Vehicles | 98 |
| Annex 17. Decree Of The President Of The Russian Federation No. 135 of February 5, 1998 “On Additional Measures For Increasing Investments For The Development Of The Domestic Automobile Industry” | 99 |



| | |
|---|-----|
| IFC Project Summary | 101 |
| Project Client Firms | 101 |
| Project Activities | 102 |
| Project Achievements and Results | 103 |
| Sponsoring Organizations | 104 |
| International Finance Corporation | 104 |
| US Trade and Development Agency | 104 |

Preface

From 2002 to 2004, International Finance Corporation (IFC), implemented the Automotive Component Supplier Development Project in Russia. This report was prepared by the Project staff and provides information on selected Russian companies that appear to be good potential partners or customers for foreign business. Given the recent rapid growth of the Russian automotive market, such information is timely.

In preparing this report, IFC sent questionnaires to over 200 Russian automotive component supplier firms to select those that are investing in improvements in quality. The project staff then collected detailed information on 21 of the top-ranked companies.

IFC is active in financing projects in the Russian automotive sector, as well as in managing technical assistance projects in the sector. For additional information, or copies of this report, please contact IFC at the appropriate address below.

IFC wishes to thank Jean-Francois Tremblay of Ernst and Young's Moscow office for his encouragement and support in this project. Also appreciated was the advice of the IFC Project consultant Prioritet, itself an excellent source of information on Russian automotive component supplier firms.

IFC Points of Contact

Technical Assistance Projects

Carl Watt, Operations Manager
International Finance Corporation
Moscow, Russia
7-095-411-7555
cwatt@ifc.org

Project Finance

Tatyana Bogatyreva, Investment Officer
International Finance Corporation
Moscow, Russia
7-095-411-7555
tbogatyreva@ifc.org

I. Executive Summary

1. Many Russian Automotive Component Suppliers are Making Quality Improvements to Join the International Industry

The IFC survey of selected Russian automotive component manufacturing firms indicates that:

1. Many automotive component manufacturing firms in Russia are investing their own resources in creating international-level quality management systems.
2. Automotive component manufacturing firms may be found in Russia with ISO-9001:2000 certifications already in place and at least one firm has ISO/TS 16949 certification.
3. The improving firms are found throughout Russia with no specific geographical location. This implies that partners can be found in lower-wage regions of Russia.
4. Most improving firms are interested in partnering with international firms for production ventures

In addition to questionnaires sent to over 200 Russian automotive component supplier firms, IFC staff visited many firms for supplemental information. Some of the more attractive firms are profiled in Section 2. Location and contact information for more than 50 firms are also included in this review.

2. International-Level Quality is Possible

Some companies, such as Ford and Tenneco, have entered the Russian market independently with greenfield operations, bringing with them their own world-class quality management systems and training their own local staff. For those exploring the greenfield route, this report provides information on local quality management system consultants which might assist in the cost-effective training of local employees¹. Successful world-class quality production by Ford and other companies in the automotive and other sectors demonstrate conclusively that Russian employees can rapidly absorb international quality management systems given proper management and work conditions.

¹ See Section 7 in Annex 1.

Many other foreign firms will partner with Russian firms for cost-reduction or other reasons². For these firms the poor appearance of many Russian automotive factories and the low quality of their products can be a major barrier to entering the Russian market with a partner. This IFC study shows that the situation is changing in Russia and that some Russian firms are making progress in adopting international quality management techniques. In early 2004 the Russian authorities published a Russian national automotive standard based on the international automotive standard ISO/TS 16949, and the local sourcing efforts of Ford and GM are accelerating its adoption. Even the Russian Original Equipment Manufacturers (OEMs) are now pushing their suppliers to move to ISO/TS 16949 practices. At least one Russian automotive component producer and one joint venture company were reported to be certified to ISO/TS 16949³ by early 2004.



Assembly area for the Ford Focus windshield wiper system. AvtoPribor, Vladimir, Russia

Furthermore, some foreign consulting firms and OEMs are starting to introduce Japanese techniques for production quality and efficiency improvement (Toyota Production System or Lean Production) in the Russian market. The book Lean Thinking⁴ by Womack appeared in Russian translation in 2003.

However, finding firms that are making real improvements can be time-consuming and expensive. The supplier information in this report provides information on some of those Russian firms that are making efforts to improve their production quality to international levels.

² See Section 4 for a list of foreign automotive suppliers operating in Russia.

³ See Sotex in “Company Profiles” (Section 2), and PES/SCC, a JV with Delphi Corporation, USA, in Samara Cable Company Profile, Section 9.

⁴ Womack, James & Jones, Daniel, Lean Thinking, Simon and Schuster, September 1996. Russian publisher: www.alpina.ru.



3. Russia Is A Rapidly Growing Automotive Market

The business case for the Russian market is rapidly improving. Like China of several years ago, the Russian automotive market is relatively small, but growing quickly. Analysts predict continuing strong annual sales growth of 5 to 20%. Car sales are estimated at between \$11–13 billion in 2003, a 5–10% increase over 2002⁵.

According to Russian Government officials, by 2010 the car market in Russia will reach \$18 billion and some analysts predict \$20 billion⁶. At an annual 5% growth rate the market will reach approximately \$16–\$18 billion by 2010 depending on the data sources used⁷. Sales growth for foreign manufacturers in Russia is expected to be even higher as they increase their market share. For example, Ford Motor Company increased its sales from 3,600 vehicles in 2002 to 20,712 in 2003. The GM-AvtoVAZ joint venture produced almost 30,000 vehicles in 2003, and plans to increase production to 60,000 vehicles in 2004 (see figure 1) and introduce a second vehicle model.

Figure 1

“Chevy Niva” production plans of the the GM-AvtoVAZ JV in Russia



Source: GM-AvtoVAZ

⁵ Reported figures for total car sales in Russia vary by source. See ASM Holding (\$13 billion), PriceWaterHouseCoopers (\$12.3 billion), SeverStalAvto (\$11.2 billion) for 2003.

⁶ The Government “Concept of Automotive Industry Development up to 2010”.

⁷ \$16 billion: data from www.ladaonline.ru, \$18 billion: data from ASM Holding, www.autonews.ru of 03.12.2004.

Figure 2

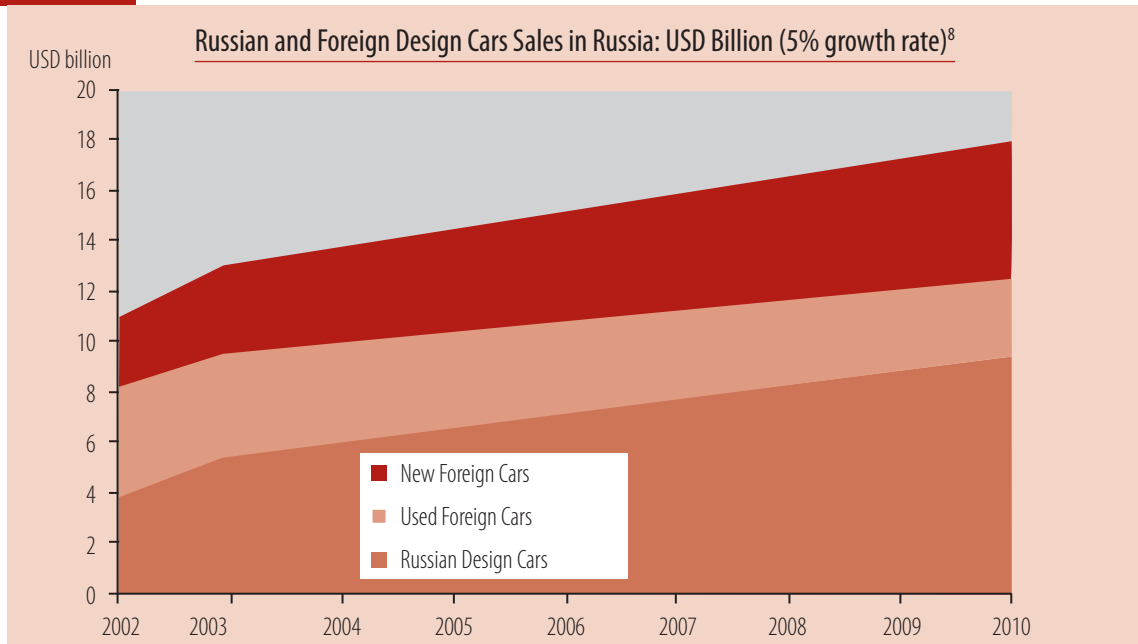
Source: Izvestia

4. Foreign Designs and Brands are the Future

Foreign car designs and brands seem to be set for the biggest gains in the coming years. The market share of Russian-designed vehicles seems likely to continue to decrease for several reasons:

1. The Russian OEMs do not appear to have the funding or technical capability to develop an internationally-competitive car;
2. An internationally-competitive car would require components that are not available from the current supply base in Russia and which would have to be imported or developed, thereby eroding local price advantages;
3. Current Russian designs have lower reliability and performance than their foreign competitors; Russian consumers are clearly unwilling to pay international-level prices for these cars, and,
4. Most Russian OEMs seem to be taking steps to establish production of foreign designs.

Given the high import tariffs for new and used imported cars (see annex 11) and improving income levels, the share of domestically manufactured international brands appears is likely to continue its rapid growth. Figure 3 indicates some conservative projections of current trends to 2010. As this document went to press, data for the first

**Figure 3**

Source: ASM Holding

half of 2004 indicated that imports of foreign cars continued to increase. even after the imposition of protective tariffs, increasing by 280% to 215,200 units compared to 2003 (see “Vedomosti” of August 10, 2004).

5. Government Policy Supports Domestic Production Ventures

Russian Government industrial policy is geared toward providing incentives for both domestic and foreign investors to produce vehicles and components in Russia. High tariffs on imported new and used cars are the main tool of this policy. The new tariffs and taxes approximately double the price of used imported cars and increase new car prices by about 50%⁹. As noted above foreign auto makers already in Russia are reacting by increasing production volumes.

⁸ Forecast Assumptions:

- 5% growth for the total market;
- 8% growth for New Foreign Design Cars;
- Forecast for Used Foreign Design Cars based on the prediction of ASM Holding;
- Growth for New Russian Design cars is calculated as a residual.

⁹ Further details are provided in annex 11.

II. Russian automotive market overview

This section reviews the current situation in the Russian automotive market to supplement the company information.

Russia: Macroeconomic Overview

Below are excerpts from the World Bank Russian Economic Report No. 7, of February, 2004. This overview of the Russian economy is provided in support of the Project contention that the Russian economy and automotive market is likely to continue its growth¹⁰.

Overall, 2003 was another very good year for Russia's economy. Growth of more than 7 percent brought the cumulative expansion since the depths of the 1998 crisis to about 38 percent. As expected, rapid growth was a powerful weapon in the fight against poverty and started to reach the poorest members of society as well, causing the official poverty count to fall from 27 percent to 22 percent by September.

The macro-economy was generally well managed, with inflation coming in at the upper end of the targeted range (12 percent), the ruble's real appreciation against a trade-weighted currency basket continued to 4.1 percent, and a sizeable budget surplus of 1.6 percent of GDP, more than twice the target. There was no sudden and lasting capital flight triggered by the "Yukos affair". Most importantly, domestic investment rates and capital expenditures have recovered from their previous dismal levels and growth is, albeit cautiously, spreading through sectors and regions.

Fast GDP growth this year ensured rapid real income growth that, in turn, almost immediately translated into a decline in poverty levels. Real disposable income grew by 14.5 percent in 2003, while real wages increased by 10.4 percent. The average nominal wage increased by 26.4 percent to 5,512 Rubles (USD 180) in 2003, compared to 4,360 Rubles (USD 140) in the previous year. The decline in the official poverty level has been profound: according to the official definition, the number of people below the subsistence level fell from 27.3 percent in September of 2002 to 21.9 percent a year later.

¹⁰ www.worldbank.org.ru



Russia: Automotive Market

Market size and Federal Government attitude towards investment in the sector are key to international investment decisions. This section provides information on the growth of the automotive market and Russian Government efforts to support the industry.

Russian Government Support To The Automotive Industry

Protective Tariffs

The Russian Federal Government is attempting to stimulate and protect the domestic automotive industry, and import tariffs are the Government's main tool. Increasing import tariffs on new and used cars, trucks and buses, as well as many components, are also aimed at providing incentives for foreign companies to produce inside Russia.

In the Fall of 2003, protective tariffs were extended to cover imported cars over 7 years old. These cars are seen as a key competitor to the low-price Russian OEM new production. Tariffs on used cars over 7 years old were increased from 2 Euros per cubic centimeter to 2.2 Euros per cubic centimeter. The new tariffs can more than double the price of used imported cars and raise new car prices by approximately 50%. Annex 11 provides details on the calculation of the tariffs.

The current customs tariff on automotive components varies from 5-20% and duties on selected automotive components are presented in Annex 12. The market for automotive components has been showing considerable growth in the last several years. Statistical data on production and sales volumes of specific groups of components can be obtained from one or more of the sources listed in Annex 3, sections 1 and 3.

According to the Russian Minister for Economic Development, German Gref, the government is considering further raising tariffs on imported cars for the next three to five years. One reason for this increase is to attract investment in the automotive industry by providing higher margins for foreign companies producing in Russia. Mr. Gref suggests that increases in import tariffs will not have a negative impact on the country as the cost will be offset by the benefits of increased employment and better quality Russian cars. According to Mr. Gref, after Russia's eventual accession to the WTO, import tariffs will be lowered over time in accordance with the WTO rules.

Presidential Decree No. 135

Another measure to stimulate foreign investment in the automotive sector was introduced by former Russian President Yeltsin and is called "Decree of the President

of the Russian Federation no. 135 of February 5, 1998, “On additional measures for increasing investments for the development of the domestic automobile industry”¹¹ According to the Decree No. 135, a foreign car maker assembling vehicles in Russia may import components duty-free in exchange for significant spending on the territory of Russia. Under the decree, the foreign company must spend at least 50% of the value of the production vehicle on the territory of the Russian Federation within 5 years of the start of production. The decree was originally intended to support a venture between the Russian GAZ factory and a unit of FIAT, however the first company to work under this decree has been Ford Motor Company, at its Vsevolozhsk factory, near St. Petersburg. It is important to note that operational expenses other than just component purchases can be counted towards the 50% local content requirement. Perhaps due in part to the perceived difficulty of sourcing in Russia, only GM and Ford have chosen to work under the Decree 135 framework. For example the Renault “AvtoFramos” JV car plant, set to start new assembly operations in 2005, has announced that it will not be making any local sourcing commitments.

Russian Government Automotive White Paper

In July 2002, the Russian Government published a policy white paper titled: “A Concept for the Development of the Russian Car Industry”. The “Concept” is for the period up to 2010 and suggests goals, tasks and priorities to improve automotive industry performance in Russia¹². The Concept has no force of law.

The major objectives outlined in the Concept document are:

- integration of the Russian car industry into the international automotive sector;
- production of vehicles fully compliant with world requirements on environment and safety;
- creation of new production facilities;
- development of competition in the market step by step.

Rising Sales and Production Volumes

At present Russian-owned and managed OEMs still account for upwards of 90% of car unit production in Russia, making them significant potential partners and customers for equipment upgrades and consulting services. However the market share of Russian-designed vehicles seems likely to decrease for several reasons:

- The Russian OEMs do not appear to have the funding or technical capability to develop an internationally-competitive car;

¹¹ Full text of the document is presented in Annex 19.

¹² According to the Concept document, the Russian car market is to grow to 2.5 Million cars by 2010.



- An internationally-competitive car would require components that are not available from the current supply base in Russia and which would have to be imported, thereby eroding any local price advantages;
- Current models have lower reliability and performance than their foreign competitors, Russian consumers are clearly unwilling to pay foreign prices for these cars; and,
- Most Russian OEMs appear to be taking steps to establish production of foreign designs.

Given the high import tariffs for new and used imported cars (see Annex 11) and improving income levels, the share of domestically manufactured foreign design cars appears likely to continue its rapid growth. One observation, often noted in today's Russian auto industry, is the fact that while in 2003 Russian-made cars still had a commanding lead over imports based on unit sales, imports already accounted for the majority of spending on cars in Russia. This is another indication of the Russian consumer's strong preference for foreign-design cars.

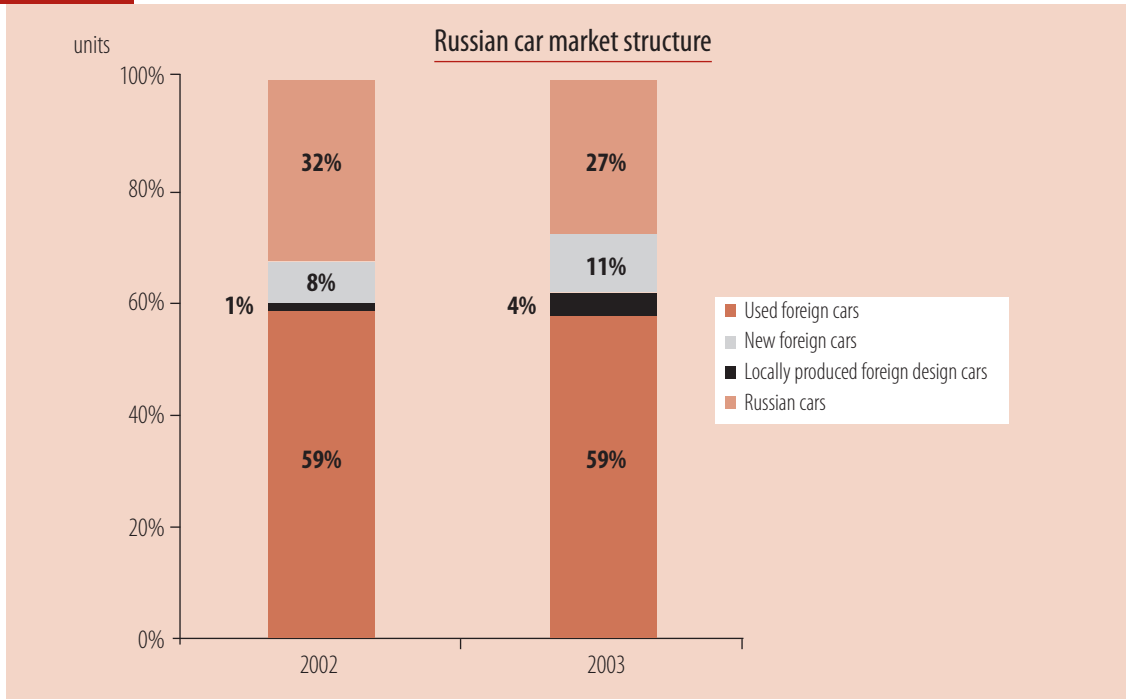
To date, the limited number of Russians able to afford a foreign-design car and the availability of thousands of inexpensive used imports from Europe and Japan, have kept the volume of production of foreign design cars in Russia very low. This situation is likely to change due to:

- Introduction of high tariffs on used and new imports detailed above;
- Increasing income levels, noted above;
- Availability of car loans, now expanding to the various regions of Russia.

Figure 5 indicates the current segmentation of the Russian market prior to the impact of the new tariff increases. The chart indicates the increasing impact of foreign designs being produced in Russia. This effect will only increase after the major increase in import tariffs of late 2003.

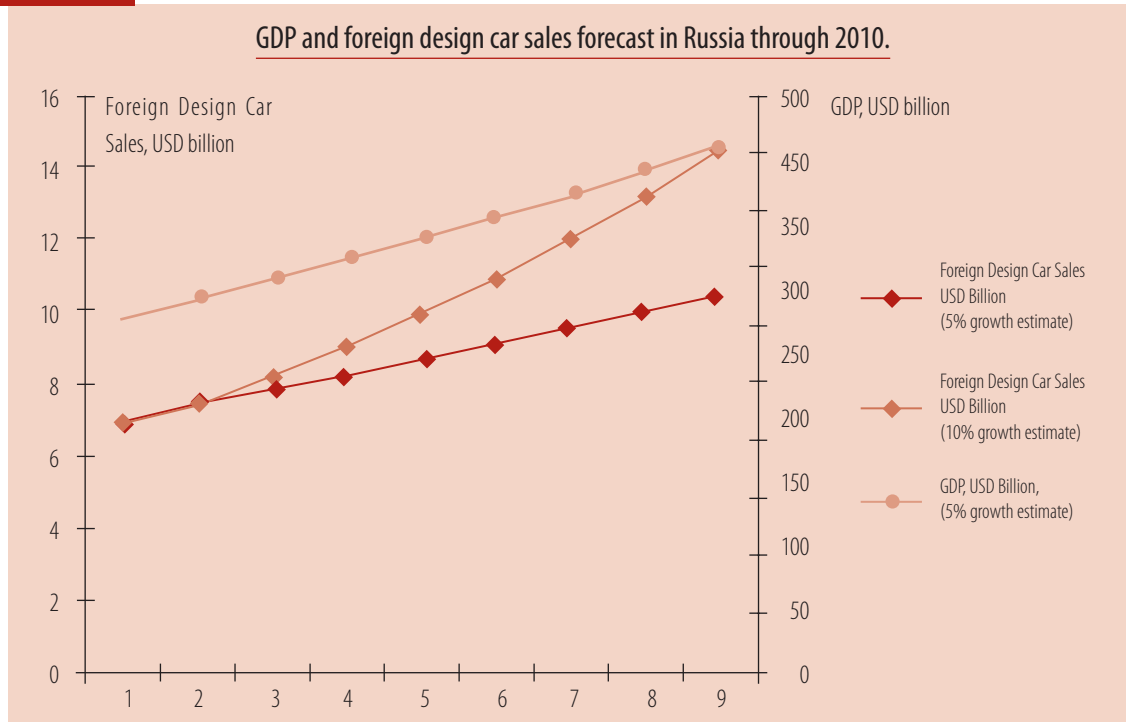
Figure 6 shows GDP and foreign-design car sales in Russia extrapolated to 2010 under two scenarios: conservative (assuming 5% growth rate) and alternative (assuming 10% growth rate), based on one set of market data available in Russia. This data supports the view that 5% annual growth for foreign design car sales in Russia is a conservative estimate.

Figure 4



Source: PricewaterhouseCoopers

Figure 5



Source: World Bank and OECD National Accounts, ASM Holding

III. IFC Sector Review: Potential Supplier Partners and Customers in Russia

This section contains an IFC review of Russian companies that appear to be good potential partners or customers for international investors in the Russian automotive components sector, based on company efforts at quality improvement. This information is intended as a good first step in the search for partners. The information is provided for general use only and should never be relied on for any financial decisions without independent due diligence. The intent of this study is to be of assistance in shortening the time required for partner selection and the required due diligence accompanying any potential business.

Due Diligence and quality certificates in Russia

Due diligence in any developing country should be even more thorough than in the developed world. One issue is International Organization for Standardization quality management system standards (ISO Standards). The Project staff has observed cases, and heard of many more, where quality standard certificates have been awarded to factories in Russia that in fact do not fully comply with the quality standard. Conversely, there also may be smaller factories that have good quality management systems, but have not been able to afford the high cost of certification. Investors should always independently check on a partner's quality management system claims.

Review Methodology

IFC first created a 'long list' of automotive sector firms compiled from several sources listed in annex 2 of this Review. IFC then prepared, distributed and recorded responses to a questionnaire for these Russian firms (see annex 3-4) which provided data on company quality and business performance. The IFC hypothesis underlying the survey is that one of the best ways to judge a Russian supplier is the supplier's own efforts in improving its quality management system. While a foreign partner can provide financing and technology support relatively quickly, developing a

world-class quality management system and mindset takes more time and effort on the Russian side.

IFC staff visited many of the suppliers in the final list to confirm the data provided and gain more information. The company selection method is outlined in the chart below and presented in detail in Annexes 7–9. Table 2 is a list of the companies selected for more detailed study¹³. Reports on these companies are presented below.


Table 2

Top 21 companies of the review in alphabetical order*

| # | Company Name | Component produced |
|---|-------------------------|---|
| 1 | Avtoagregat, OAO | Clutch system, suspension system, wheels and hubs, braking system, door locks and ignition system |
| 2 | Avtoarmatura, OAO | Car antennas, ignition switches and other switches, electrical and plastic components |
| 3 | AvtoPribor Factory, OAO | Instrument clusters, windshield wiper systems, sensors, other automotive electrical products |
| 4 | Avtotechnica, OOO | Floor, ceiling, trunk coverings and sound insulation panels |

*Other good companies exist in the automotive sector in Russia and many good companies desire to enter the sector. Some automotive companies may not have been included in the IFC base lists and some companies may have provided incomplete information in response to survey questionnaires.

¹³ Contact information for each firm from the list is given in Annex 10.



| | | |
|----|---|--|
| 5 | Detalstroykonstruktsiya (DSK) | Fuel tanks, carpeting, window raisers, miscellaneous components |
| 6 | Elara, OAO | Ignition systems; climate control systems |
| 7 | Energotechmash, ZAO | Bumpers, bumper beams, stampings made from thin sheet steel, plastic components |
| 8 | Intercos-IV, ZAO | Automotive body panel dies, other tooling for large- sized stamping, Automotive and other stamping |
| 9 | Kaluga Plant of Automotive Electrical Equipment (KPAE), OAO | Electrical equipment |
| 10 | Kursk bearing company, ZAO | Bearings, engine main bearings |
| 11 | Orleks, ZAO | Thermostats |
| 12 | Osvar, OAO | Automotive lighting; internal lights, headlights, braking lights |
| 13 | Polimerstroimaterialy, OAO | Trunk rugs, floor mats |
| 14 | Samara Cable Company, ZAO | Cables, car wiring |
| 15 | Samaraavtozhgut, OOO | Auto wiring assemblies, windshield washer systems, door lock wiring |
| 16 | Soate, ZAO | Automotive electronics, injection systems, ignition systems |
| 17 | Soteks, ZAO, NP | Polyurethane foam and plastic parts |
| 18 | Toplivnye Systemy, OOO | Fuel injection system elements, cooling systems pumps, electromagnetic valves, gasoline pumps, carburetors |
| 19 | Trek, ZAO | Constant velocity Joints (CV Joints), tie rods, springs, and shock absorbers |
| 20 | Zavolzhsy Engine Factory (ZMZ), OAO | Diesel and gasoline engines, engine main bearings |
| 21 | ZEiM-Line, OAO | Controllers for fuel injected engines, vehicle antitheft systems and diagnostic equipment for electronic systems |

Main Findings

The first main finding of the review, also based on interaction with the industry, is that the Russian automotive industry has clearly gotten the message about international quality requirements and is taking steps to meet the challenge. Most companies surveyed, and even the Russian OEMs, have announced definite plans to move toward compliance with the ISO/TS 16949 international automotive quality management system standard. All of the profiled companies have funded at least some training in quality management improvement through external consultants and most of the top 22 companies have ISO-9001 certifications in place.

Second, the review finds that improving firms are located in several regions of European Russia, and are not concentrated near the higher-wage large cities of Moscow and St. Petersburg. Foreign firms that limit their searches for partners geographically may be missing potential opportunities. Travel to the regions of Russia has become significantly more comfortable in recent years and no longer poses a barrier to doing business in the majority of locations.

Finally, all of the firms surveyed recognize that foreign partners are key to their long-term success and are ready to consider almost any proposal for cooperation with a foreign company. It is important to note that many successful partnership production operations begin with a focused effort to create a separate, limited-size, international-class production area at an existing factory. Such an effort can limit investment risks, produce faster results and can be used as a training tool to expand the quality system improvements to other products. Often these special production areas can be set up as separate legal entities.

Toyota Production System (Lean Production) in Russia

Because the ISO/TS 16949 international automotive quality system standard does not specifically refer to Toyota Production System (Lean Production) techniques, the introduction of these quality and efficiency improvement tools has been slower than other tools like FMEA (Failure Modes Effects Analysis), which are more clearly required in the standard. Several factors are changing this situation for the better. First, the RusPromAvto group has hired the YOMO consulting firm to work with its GAZ factory in Lean Production improvements. GAZ has reported in the press on its dramatic improvements based on this effort. In response, RusPromAvto has been moving trained Lean Production specialists to its other factories. Also, the firm has been very active in bringing its suppliers to the GAZ factory to learn about the new methods. Other international Lean Production consultants appear to be entering the market and some Russian consulting firms are attempting to develop expertise in lean production techniques.

At the same time, Ford and GM have had foreign quality specialists in Russia since 2002 communicating their desires for Lean Production to their Russian suppliers. Ford in particular has operated three localization offices in Russia for work with suppliers. Ford and GM also regularly bring suppliers to see their assembly operations in Russia, which adds to the impact. For example, after visits to Ford's Vsevolozhsk factory, the ZMZ engine factory has begun strong efforts to copy the Ford methods for quality assurance and improvement in final assembly. In addition, the requirements of the foreign OEMs are being studied very intensely and copied as much as possible by the Russian OEMs. In 2003, the book Lean Thinking by Womack was



published in Russian. Geared toward management, this book had a great impact in the US and may have a similar impact in Russia. A Russian market for Lean Production consulting services is likely to develop along with demand for new equipment and components.

COMPANY PROFILES

An IFC representative visited selected companies from the Project list of top companies and profiles of those companies are listed in this section. The location of these companies is shown on the map in Annex 2. Annual sales numbers are listed for those companies that provided this information to IFC.

1 AVTOAGREGAT



- **Main products:** clutch systems, suspension systems, wheels and hubs, braking systems, door locks and ignition systems

Contact information:

General Director: Valeri Ardalyonovitch Smyshlyaev

Quality Director: Vyacheslav Anatolyevitch Smirnov

Address: 1, 2nd Shuiskaya st., Kineshma, Ivanovo region, 155800, Russia

Tel: +7 (09331) 2-35-40; **Fax:** +7 (09331) 2-07-65

Website: <http://www.kineshma.ru>

AvtoAgregat is located in Kineshma, on the Volga River, 400 kilometers east of Moscow. The factory employs more than 500 workers. It was originally founded in 1967 and was privatised in 1992¹⁴.

The company is notable for its quality improvement efforts. At present AvtoAgregat has one shop making brake system components for export. This shop has a certification to the US QS-9000 automotive standard with very low defect rates, and exports production to TRW.

Ownership: Private

Quality system certification: QS-9000 certification awarded by TUV in 2000 for a production area producing for TRW.

Major customers: VAZ, UAZ, LuAZ, KamAZ, PAZ, TRW

¹⁴ Currently the factory is reported to be part of the Russian Automotive Components firm. See www.rac.ru



2. AVTOARMATURA, OAO



- **Main products:** car antennas, ignition switches and other switches, other electrical and plastic components

Contact information:

General director: Alexander Mihailovich Tkachenko

Deputy general director: Alexander Evgenevich Dudarev

Address: 21, Salova str., 192102, Saint-Petersburg, Russia

Tel.: +7 (812) 112-88-73

E-mail: aaplant@rol.ru

Avtoarmatura is located in Saint-Petersburg, the second largest city in Russia. The company was established in 1946 and privatized in 1993. The company employs 912 people. Avtoarmatura produces automotive electrical devices including: antennas, switches, circuit breakers, push-button switches, ignition switches, instrument lights and ceiling lamps. Its products go to almost all auto manufacturers in Russia. Avtoarmatura has a joint operation with Delphi Corporation under which Delphi supplies equipment and components, and Avtoarmatura assembles and supplies the final product (steering column and keypad switches) to local and foreign auto manufacturers in Russia¹⁵.

Avtoarmatura is very interested in expanding its international partnerships. Ford motor company and Avtoarmatura have signed a contract for supply of component parts to the Ford Factory at Vsevolozhsk, a suburb of Saint-Petersburg. Avtoarmatura will supply the Vsevolozhsk plant with antennas.

Ownership: Private

Quality system certification: ISO 9001:2000.

Major customers: GAZ, VAZ, KamAZ, ZIL, UAZ, IzhAvto, MAZ and KrAZ.

¹⁵ Source: US Department of Commerce, BISNIS; Search for Partners
<http://www.bisnis.doc.gov/bisnis/lead.cfm?1257>.

3. AVTOPRIBOR FACTORY



- **Main products:** Instrument clusters, windshield wiper systems, sensors, other automotive electrical products
- **Sales:** USD 68 Million in 2003

Contact information:

General Director: Aleksey Aleksandrovich Melnikov

Quality Director: Eduard Georgievich Raiter

Address: 79, Bolshaya Nizhegorodskaya St., 600016, Vladimir, Russia

Tel: +7 (0922) 32-45-12; 29-72-94; **Fax:** +7 (0922) 21-52-37

Website: www.avtopribor.ru

E-mail: avtopribor@avtopribor.ru

AvtoPribor is located in Vladimir, one of the “Golden Ring” cities, located about 200 kilometers east of Moscow, with a population of approximately 350,000. AvtoPribor was founded in 1932 to supply automotive gauges and other items to the then-new GAZ factory. Today AvtoPribor, like most former-Soviet factories, supplies a wide range of products from automotive instrument clusters, to windshield wiper systems. The factory has about 8,000 employees.

AvtoPribor is certified to ISO 9001:2000 and is working on implementing ISO/TS 16949 practices. During 2002-2003 the factory went through the APQP process with Ford Motor Company, ZAO, of Russia for supply of a windshield wiper system to Ford’s Vsevolozhsk, Russia, Factory. During this period IFC provided assistance to AvtoPribor in the improvement of the factory quality management system. In early 2004, AvtoPribor signed a supply agreement with Ford.

Ownership: Private

Quality system certification: ISO 9001:2000, current certificate.

Major customers: All major Russian OEMs. Strategic goal to supply to foreign OEMs. AvtoPribor has supply contracts with Ford Motor Company and some foreign automotive supplier firms.



4. AVTOTECHNICA, OOO



➤ **Main Products:** Floors, ceilings, trunk coverings and sound insulation panels

Contact information:

General Director: Sergey Mihailovich Konovalov

Address: 6, Travyanaya St., Nizhny Novgorod, 603037, Russia

Tel: +7 (8312) 23-12-43; **Fax:** +7 (8312) 23-12-98

AvtoTechnica is located in Nizhny Novgorod, an industrial city on the Volga River about 500km east of Moscow, with a population of about 1.3 million. Nizhny Novgorod is also the location of the large Gorky Automotive Factory (GAZ) car and truck OEM. AvtoTechnica is a 4-year old private company, supplying automotive floor, ceiling, and trunk coverings and sound insulation panels to Russian Automotive OEMs. The company employs about 120 people.

Ford has offered AvtoTechnica an opportunity to produce the interior rugs and sound insulation for the Focus car. In 2003 the IFC Automotive Components Supplier Development Project worked with AvtoTechnica to support its efforts to implement ISO-9001 practices.

Quality system certification: ISO-9001:2000 and ISO/TS 16949:2002 in process

5. DETALSTROYKONSTRUKTSIYA (DSK)



- **Main products:** fuel tanks, carpeting, window raisers, miscellaneous components
- **Sales:** USD 110 Million in 2003

Contact information:

General Director: Aleksey Ivanovich Zverev

Technical Director: Vladimir Petrovich Maslennikov

Address: Industrial Park on AvtoVAZ territory, Togliatti, Samara region, 445026, Russia

Tel: +7 (8482) 73-94-20; +7 (8482) 73-87-49

The production firm “Detalstroykonstruktsiya” (design and building of machine components and structures or “DSK”) is situated in the city of Togliatti, the Samara Region. The city of Togliatti is also the site of the huge AvtoVAZ factory complex. Togliatti is almost 1000 km from Moscow and 100 km from Samara, located on the Volga River. Togliatti’s population is 730,000.

DSK was created by AvtoVAZ in 1994 to produce miscellaneous components transferred from AvtoVAZ production shops and using production equipment transferred from AvtoVAZ. The company currently manufactures several hundred different items for AvtoVAZ, but the main production is interior carpeting and fuel tanks. DSK has 1,648 employees and works on a build to print basis without its own product development. The factory’s main customer is AvtoVAZ, but some products are supplied to GM-AvtoVAZ and to Ford in Russia. The company has seven English-speaking employees. There are two interpreter/translators on staff.

Ownership: Private.

Quality system certification: ISO 9001:2000 certificate.

Major suppliers: Balakovorezinotekhnika (rubber goods), Balakovo city; Borsky glass-works, Bor; Saratovsteklo (Glass production in Saratov city); Plastic, Uzlovaya Nomatex, Novaya Maina; Utyos, Ulianovsk; SEPO-ZEM, Saratov; Signal, Engels; Debours, Kazan; Shatkovsky Plant of Industrial Standards, Shatki.

Major customers: AvtoVAZ, GM-AvtoVAZ, Ford Motor Company, Vazinterservis, IzhAvto, SeAZ, ZMA, RosLada.



6. ELARA



- **Main Products:** Ignition systems; climate control systems; signal and control systems
- **Sales:** USD 10 Million in 2003

Contact information:

General Director: Gleb Andreevich Ilienکو

Director of Automotive Electronics: Anatoly Nikolaevich Danilov

Address: 40, Moscovsky ave., 428015 Cheboksary Chuvashia, Russia

Tel: +7 (8352) 49-10-05

Website: www.elara.ru; **E-mail:** elara@elara.ru

Elara is located in the city of Cheboksary, capital of the Chuvash Republic of the Russian Federation. Cheboksary is located in 770 km from Moscow, on the banks of the Volga River, between Nizhny Novgorod and Kazan. Cheboksary is an industrial city with a population of approximately 460,000. Since the end of the Soviet Union, the Chuvash Republic has remained a peaceful, integral part of the Russian Federation with a positive attitude towards business and investment.

The factory, originally called the Cheboksary Instrument Building Plant, was opened in 1970, specializing in build to print of complex aircraft electronics equipment. In 1993 the plant was transformed into OAO (Open Joint Stock Company) "Cheboksary Instrument Building Plant "Elara". Since the reorganization of 1993, the company has been working to diversify from its original reliance on defense and aerospace contracts. With the collapse of Russian defense spending in the 1990s, Elara was one of the few defense enterprises to react decisively with painful layoffs. This allowed the firm to have the necessary cash flow to make investments in diversification. Elara has over 5,000 employees, down considerably from Soviet times. Of that number, about 600 are directly involved in automotive production. Elara reports stable high growth in production.

The company has continued to invest in its core electronics business, in particular in production equipment for printed circuit board production, and to use its core competencies to expand into new sectors. The main diversification effort at Elara is into the automotive sector. The company now manufactures about 40 automotive electronics products, accounting for about 10 percent of the company's total production. Elara is reported to be a subcontractor to the Siemens VDO joint venture with the Chistopol Precision Instruments Factory for automotive instrument cluster production. Of the company's 150 design engineers, 70 percent work on the development of automotive components. Elara reports that the automotive business is growing at a rate of about 150% per year and management is considering the possibility of spinning off the automotive business as an independent company in the future.

Elara's current certificate to ISO 9001:1994 was issued in May 2002 by TUV Thuringen. A certification to ISO 9001:2000 is planned. At present, the Company is introducing elements of the ISO/TS 16949 quality system and funding some work with external quality consultants. The Company has implemented a system from OCE (Netherlands) for digital document control.

Elara uses an MRP-2 BAAN system and Pro/Engineer CAD/CAM/CAE software. According to Elara, the company has invested more than 2 million dollars in its application software. Further investments are planned in the future. Elara reports that since 1993 it has invested over 60 million dollars in new equipment, including 27 million dollars in its automotive business.

Most of the senior managers have been working in the Company for over 10 years and the General Director, Gleb Ilyenko, has run the company since it was first founded in 1970. Mr. Ilyenko has taken business management courses in the USA and is anxious to gain new foreign production partners. The company has purchased a US-made Cessna light plane for transportation of visitors to and from Moscow and other locations.

Ownership: Private (51%), Russian Government (49%)

Quality system certification: ISO 9001:1994 certificate was issued in May 2002 by TUV Thuringen. The Company is currently introducing QS-9000 and ISO 9001:2000, ISO/GOST 16949, and ISO 14000 quality assurance and control systems. Elara is starting personnel training in accordance with these plans. Since this is a defense firm, special arrangements must be made to visit some production areas.



7. ENERGETEKMASH



- **Main products:** Bumpers, bumper beams, stampings made from thin sheet steel, plastic components

Contact Information:

General director: Sergey Nickolaevich Ogrin

Address: 40, Morkvashinskaya Str., Zhigulevsk, the Samara Region, 445350, Russia

Tel: +7 (8482) 45-39-75

ОАО Энерготехмаш is located in the town of Zhigulevsk, Samara Region, Russia, not far from the giant AvtoVAZ automobile factory. Zhigulevsk has a population of approximately 50,000. The company was founded in 1953 to supply metal components to hydroelectric and later nuclear power plants. With the collapse of the Soviet Union, the company was privatized in 1993 and began to diversify into automotive components production for the nearby AvtoVAZ factory. At present 75% of the company's production is automotive. 80 percent of the shares in the Company belong to a single shareholder. Energotechmash currently employs approximately 1200 and has a "best supplier" rating from AvtoVAZ.

Energotechmash produces bumpers for almost all models at AvtoVAZ. Other products include bumper beams, trunk reinforcements, thin-steel and aluminum stampings, and some plastic parts. These products are produced on a build-to-print basis and the company can work with CAD documents. Planned investments in new capital equipment are reported to be 5 million euros.

Ownership: Private

Quality system certification: GOST R ISO 9001-96 issued on December 20, 2002 by the Samara Center of Standardization, Metrology and Certification Certificate No. 18130/034 for the right to supply auto components to AO AvtoVAZ issued in 2001.

Major suppliers: Krasnoyarsk Aluminum Plant, Steel from Severstal and Magnitogorsk

Major customers: AvtoVAZ – 65%; Avtoagregat –13%; Vazinterservis – 6%; DSK – 6%; After market – 10%.

8. INTERCOS-IV



- **Main products:** Automotive body panel dies, other tooling for large-sized stamping, stampings for automotive and other industries

Contact information:

Managing Director: Timur Borisovich Shoshtaev - tshoshtaev@intercos-iv.ru

Quality Director: Alexey Ivanov - aivanov@intercos-iv.ru

Address: 25 A, Bolshoy Pr. P.S, Saint-Petersburg, 197198

Tel: +7 (812) 232-14-76; **Fax:** +7 (812) 232-46-79

Website: www.intercos-iv.ru

Intercos-IV was established in 1991 by four individuals for the design and manufacturing of large-sized tooling for the automotive industry. It is located in Saint-Petersburg, the second largest city in Russia. Intercos-IV products include CAD design and machining of large die stamps for automotive bodies. A recent new investor in the factory is the European Bank for Reconstruction and Development. Intercos customers include global automotive OEMs such as Volkswagen and Ford.

In 2003 the IFC Automotive Component Supplier Development Project worked with Intercos-IV in support of its work to supply the Ford Motor Company factory at Vsevolozhsk, a suburb of Saint-Petersburg. Intercos-IV signed a contract to supply body components to Ford in late 2003. Currently Intercos-IV employs approximately 170 people at two sites in Saint-Petersburg and has a capable design staff.

Ownership: Private

Quality system certification: ISO-9001:2000 and ISO/TS 16949:2002 in progress

Major customers: Volkswagen, Ford, Daewoo Motor, Hayes Lemmerz, Caterpillar



9. KALUGA PLANT OF AUTOMOTIVE ELECTRICAL EQUIPMENT (KPAE)



- **Main Products:** Electrical equipment
- **Sales:** USD 40 Million, in 2003

Contact information:

General Director: Anatoly Naumovich Faerovich

Address: 18, Azarovskaya Str., Kaluga, 248631, Russia

Tel: +7 (0842) 55-43-18

OAo (Public Corporation) “Kaluzhsky Plant of Automotive Electric Equipment” (KPAE) is situated in the city of Kaluga about 200 km north of Moscow, with a city population of approximately 350,000.

KPAE was founded in 1941, just before the war, and was privatized in 1992. 50% of the company stock is owned by 10 major owners. Main customers are AvtoVAZ and RusPromAvto’s GAZ factory. 95% of production is automotive and includes fan and windshield wiper motors, motor gearing, windshield washers and various breakers. KPAE employs over 4,000.

KPAE is certified to the Russian standard – R ISO 9001: 2001. Currently the company is working to introduce elements of the Russian GOST 16949 version of ISO/TS 16949. The firm hopes to get to the 16949 level by the end of 2004.

The company reports a capital equipment investment plan but did not disclose any details. KPAE has an independent product development group with about 15 engineers.

Ownership: Private

Quality system certification: certificate to GOST R ISO 9001:2001, December. Elements of GOST 16949 are currently being introduced at the company.

Major suppliers: NLMK, Severstal, Sary Oskol.

Major customers: AvtoVAZ – 50%; GAZ – 20%; KAMAZ, UAZ, ZIL, LIAZ, IZHMASH – 30%.

10. KURSK BEARINGS COMPANY (KBC)



➤ **Main Product:** Engine bearings

Contact information:

General director: Leonid Eduardovich Rogalevich

Address: 23-a, 3rd Agregatnaya Street, Kursk, 305022, Russia

Tel: +7 (07122) 60-2-66

The Kursk Bearing Company (KBC), ZAO (Private Corporation) is located in the city of Kursk, Russia. Kursk is an industrial city about 540 km southeast of Moscow with a population of about 450,000.

The factory was founded in 1972 and in 2002 came under the ownership of the Avto-Prom Trading Group and Unidell Group as a ZAO or private stock company. AvtoProm is a nation-wide distributor of bearings products.

KBC is the 5th largest producer of engine bearings in Russia by volume, producing approximately 1.5 million bearings per month. Total employment is approximately 3,250 and KBC has its own product development engineers.

In November, 2003, KBC certified to the Russian GOST P ISO 9001:2000 quality management standard. Management has set a goal of certifying to the Russian version of ISO/TS 16949 and ISO 14000 in the future. Training programs have been started. KBC has a “best supplier” rating from AvtoVAZ.

Company management believes that investment in new plant equipment is key for remaining competitive in the market. A three-year modernization plan has been prepared.

Ownership: private, main owners are the “Unidell Group”¹⁶ and the “Avtoprom” Trading Group¹⁷.

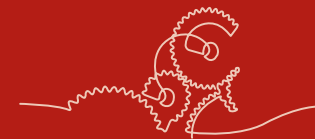
Quality system certification: Russian GOST ISO 9001:2000 certification in November of 2003. Training has been started for Russian ISO/GOST 16949 and ISO 14000 standards.

Major suppliers: Stary Oskol Metal Plant

Major customers: 10% –AvtoVaz; 5% – GAZ; 25% – KamAZ, UAZ, ZMZ, YaMZ; 10% – exports; 50% – machine tool and consumer OEMs.

¹⁶ “Unidell Group” — financial and industrial group. Diversified in industry, agriculture and oil and gas. Contact information. General director: Sergey Demyanov; Tel.: +7 (095) 788-60-35, Fax: +7 (095) 788-60-40; 16/6 Spartakovskaya square, Moscow, 107082, Russia, e-mail: vladimirpe@dels.ru.

¹⁷ Avtoprom: General director: Sergey Vladimirovich Kolesnikov; Tel./fax.: +7 (095) 933-39-77; 17a, Bldg 1, 2 Mashinostroeniya St., 115088, Moscow, Russia; www.tdap.ru; E-mail: mail@tdap.ru



11. ORLEKS



- **Main products:** Thermostats
- **Sales:** USD 12 Million for the first 9 months of 2003

Contact information:

General director: Nikolay Nikolaevich Kostin

Deputy Head of Marketing and Sales: Vladimir Ivanovich Prilipov

Address: 6, Lomonosova Str., Oryol, 302000, Russia

Tel: +7 (0862) 41-01-30; 43-22-34

ZAO Orleks is located in the industrial city of Oryol, about 380 kilometers west of Moscow, with a population of about 890,000 inhabitants. The Orleks factory was founded in 1958 was privatized in 1992 with many of the shares owned by employees. The General Director and his son, the First Deputy General Director/ Financial Director, reportedly control about 29% of the shares. The company has about 3800 employees.

Orleks is a significant supplier of control devices to many sectors in Russia with over 100 types of products and over 160,000 versions in production. These products include temperature and pressure relays, manometric-type pressure difference relays, electronic sensors and temperature control units, pressure converters, and electronic control units, manufactured in large runs or made to order for small quantities. Most of the production goes to the manufacture of consumer and retail goods such as refrigerators, stoves, and air conditioners. Temperature sensors (thermostats) and pressure sensors for the automotive industry make up less than 10% of production.

Management reports that Orleks has been certified to earlier ISO 9001 versions since 1993. At present the company appears to be working on obtaining certification to ISO 9001:2000.

Ownership: Private

Quality system certification: ISO 9001 since 1993. Currently working on ISO 9001:2000.

Major suppliers: ZAO ZMTs-Prommash, Moscow; FGUP Moscow Plant for Processing of Special Alloys, Moscow; GerlingHoltz, Germany; Offenwagner, Germany; ZAO Tekhnopol, Moscow; S-plast, Moscow; Mueller, Germany; IMFI Eugene Precision, France.

12. OSVAR



- **Main products:** Automotive lighting; internal lights, headlights, braking lights.

Contact information:

General director: Vladimir Elpidiforovich Sazhin

Quality Director: Vladimir Semyonov

Address: 13, Zheleznodorozhnaya St., Vyazniki, 601446, Vladimir Region

Tel: +7 (09233) 23-1-95

Website: www.osvar.ru

ОАО Освар is located in the town of Vyazniki, Vladimir Region, Russia. The town of Vyazniki is located in central Russia about 300 km to the east of Moscow, between Vladimir and Nizhny Novgorod.

Osvar was founded in 1967 as a tractor lighting supplier to the planned AvtoVAZ factory in Togliatti. In 1977 Osvar became the first Soviet enterprise to mass-produce halogen headlights. By the 1980s Osvar was the leading automotive lighting firm in Russia and today produces more than 500 products for domestic and export production. The firm was privatized in 1992 and became part of the SOK¹⁸ group in 1999. In 2003 the SOK group acquired an Italian lighting producer and it is possible that some designs from this new firm will be produced at Osvar. Foreign companies interested in working with Osvar would be advised to start at the SOK group level. Osvar employs approximately 4,000 and total factory area is 109,000 m². Investments in machine tool improvement and upgrade will likely be necessary at Osvar, the firm reports that 42% of its machines are 20-30 years old.

In 2002 the company was awarded a TUV certificate to ISO 9001: 2000. Work on an ISO/TS 16949 certification was started in October, 2002. In 2003 Osvar was working with Ford Motor Company to qualify to supply to the Ford factory in Russia.

Ownership: private, member of the SOK group of companies

Quality system certification: July 2002 ISO 9001: 2000 certificate. Work is ongoing in the company to prepare for certification of the compliance of the quality management system to the requirements of ISO/TS 16949.

Major suppliers: Bayer, Germany; Plastik, Uzlovaya; Plastmassy, Moscow; Magnitogorsk Metallurgical Combine, Magnitogorsk; NPMK, Lipetsk; Severstal, Cherepovets; Bilite, Moscow; UELZ, Ufa; Lisma, Saransk.

Major customers: GAZ, AvtoVAZ, UAZ, Roslada, PAZ, KamAZ, ZMA, UralAZ, SeAZ.

¹⁸ See www.sok.ru



13. POLIMERSTROIMATERIALY



- **Main products:** trunk carpets
- **Sales:** USD 2.8 Million in 2003

Contact information:

General director: Vladimir Ivanovich Kisilenko

Address: Promzona, Otradny; Samara Region, 446300, Russia

Tel: +7 (84661) 23-0-15

OAo Polimerstroimaterialy is located in the city of Otradny, Samara Region, Russia with a population of 50,000. This location is not far from the AvtoVAZ factory in Togliatti. The factory was founded in 1973 and privatized as part of the Polad group¹⁹ in 1998.

Polimerstroimaterialy has supplied plastics to AvtoVAZ since 1975 and has been working with Dow Automotive AG since 2000 in the area of adhesives. Almost 90% of the 365 products of Polimerstroimaterialy are for the automotive industry and the firm employs 700. Other products include linoleum.

The company certified to ISO 9001: 1994 in 2000 through TUV Thuringen and is now working on ISO 9001: 2000 certification.

Ownership: private, a member of Polad group of companies.

Quality system certification: The current certificate to ISO 9001:1994 was issued in November 2000 by TUV Thuringen. Undergoing certification according to ISO 9001: 2000, as of late 2003.

Major suppliers: Dow Automotive AG components, Germany, Volgogradorgsintez; Volgogradorgsintez; RusLine, Gubkin, Belgorod region.

Major customers: AvtoVAZ - 70% (includes items for the GM-AvtoVAZ JV), GAZ – 20%; PAZ – 10%.

Delivery of products is controlled by Polad.

¹⁹ Closed Joint Stock Company “Polad” (ZAO “Polad”) was founded in 1991 as a producers’ cooperative manufacturing automotive components, mainly for AvtoVAZ. Contact information: 105 Yuzhnoye Shosse, Togliatti, 445994, Samarskaya Region, Russia; Tel: +7 (8482) 70-15-00; www.polad.ru; E-mail: contactus@polad.ru.

14. SAMARA CABLE COMPANY



- **Main products:** cables, car wiring
- **Sales:** USD 40 Million in 2003

Contact information:

General Director: Valery Fedorovich Kluchnikov

Director for Development: Vyacheslav Rodionov

Address: 9, Kabelnaya St., Samara, 443022, Russia

Tel: +7 (8462) 28-22-40

ZAO Samarskaya Kabelnaya Kompania (Samara Cable Company) is located in the city of Samara on the Volga River, 1100 kilometers southeast of Moscow. Samara is an industrial city with a population of approximately 1.1 million.

The factory was founded in 1955 and organized into a private, closed joint stock company in 1996. It is Russia's largest manufacturer of cables for the communications industry and automotive components account for about 10% of total production. The company employs over 2,300. Samara Cable has an ISO 9001:2000 standard certificate issued by KEMA (Holland). The company holds internal training for improvement of the quality management system and seventeen company engineers have been trained as managers of quality assurance.

In 1995 the company created a Joint Venture with Delphi Corporation, USA, called PES/SCC²⁰, producing automotive wiring, including thin film wires for electronic fuel injection. PES/SCC is the leading supplier of wiring harnesses to AvtoVAZ. On August 22, 2003 the JV successfully passed ISO/TS 16949 certification and is now working on ISO 14001 "Environmental Management System" certification.

Ownership: Private

Quality system certification: certificate ISO 9001:2000 issued in November 1999 by KEMA Quality B.V.

Major suppliers: Raskan, Neftegorsk, Samara region; Elkat, Moscow; Katurinvest, Yekaterinburg; Pyshma, Yekaterinburg; 80% of Plasticizers from Germany

Major customers: AvtoVAZ – 35%; PES/SKK – 35%; GAZ – 20%; Other – 10%.

²⁰ JSC «PES/SCC»: Packard Electric System/Samara Cable Company. Contact information: Managing Director: Hartmut Hengstwerth; Address: 9, Kabelnaya St., Samara, 443022, Russia; Tel: +7 (8462) 76-97-70, 76-97-71, 76-97-72, 76-97-73; Fax: +7 (8462) 55-22-09.



15. SAMARAAVTOZHGUT



- **Main products:** Auto wiring assemblies, windshield washer systems, door lock wiring
- **Sales:** USD 7 Million in 2003

Contact information:

General Director: Alexander Konstantinovich Dorofeev

Technical Director: Vladimir Kireev

Address: 11, Dzerzhinskogo St., Samara, 443093, Russia

Tel: +7 (8462) 66-90-07

Website: www.vos.org.ru

OOO Samaraavtozhgut is a state-owned company under the Government's All-Russia Society for the Blind (ARSB – www.vos.org.ru), and is located in the city of Samara on the Volga River, 1100 kilometers southeast of Moscow, with a population of 1.1 million. Samaraavtozhgut was founded in 1998 by the merger of several ARSB factories.

The firm supplies automotive wiring assemblies to ZIL (Moscow - trucks) and AvtoVAZ vehicles. In addition it carries out assembly of AvtoVAZ components for windshield washer systems; door handles and fuel filter assemblies. The company works on a build to print basis with no product development. It employs about 770 persons, most of whom have vision or hearing disabilities. Management reports that the company is in the process of certifying to the ISO 9001 standard.

Through the support of the European Community's TACIS program, the company has purchased imported machine tools and approximately 70% of the factory equipment is less than 5 years old.

Ownership: State-owned: All-Russia Society for the Blind.

Quality system certification: According to the company management, the company underwent certification in accordance with ISO 9001: 2000. However, the respective certificate has not yet been received by the company.

Major suppliers: Samara Cable Company — wires (up to 70% of all deliveries).

Major customers: AvtoVAZ – 75%; ZIL - 12%; LiAZ – 12%; Other –1%.

16. SOATE

- **Main products:** Automotive electronics; injection systems, and ignition systems;
- **Sales:** USD 40 Million in 2003

Contact information:**General Director:** Anatoly Mihailovich Mamonov**Quality Director:** Yelena Logunova**Address:** 54, Vatutina St., Stary Oskol, Belgorod region, 309530, Russia**Tel:** +7 (0725) 29-6-40**Website:** www.soate.ru

ZAO Soate is located in the city of Stary Oskol, Belgorod Region, which located approximately 650 kilometers west of Moscow, with a population of 212,000. Soate was organized in 1991 as a ZAO (closed joint stock company), on the basis of a Soviet factory dating from 1959 and specializing in automotive ignition systems.

Soate has about 4,000 employees, most of whom are involved in automotive production. At present, the company produces over 150 different types of products, including products for fuel injection, breakerless and breaker ignition systems, electromagnets, electromagnetic valves, car cigarette lighters and various switches. 20% of sales are from the company's meat processing factory and consumer goods. Company customers include almost all the major Russian automotive OEMs with 55 percent of automotive sales to OEMs and the remainder to the aftermarket. Soate reports that it independently develops all its products for the automotive industry with over 70 engineers involved in product development and industrial engineering.

In addition to many modern CNC machines, the company has an electro-plating shop with a capacity of over 1 million square meters per year. There are no employees in the company who speak English. An interpreter/translator is employed on a temporary basis whenever required.

Ownership: private**Quality system certification:** ISO 9001:1994 Certificate issued in December 2001 by TUV Thuringen. Plans for certification to ISO 9001:2000 in January 2004.**Major Suppliers:** NPMK, Novolipetsk; OMZ, Stary Oskol; Vologda Bearing Plant, Vologda; Kursk Bearing Company, Kursk; Samara Bearing Plant, Samara; Magnets, Vladimir and Kineshma; Mikroskhemy, Moscow, Russia. Distribution Center — Stary Oskol, Belgorod Region**Major customers:** GAZ, AvtoVAZ, UAZ, ZIL, Moskvich, IzhMash, KamAZ, MAZ, BelAZ, MTZ, ZMZ, Volga Motors, PAZ.



17. SOTEKS, ZAO, NP



- **Main products:** polyurethane foam and plastic parts

Contact information

General Director: Valery Adolfovich Batmanov

Head of the Automotive Division: Lev Gennadievich Alekseev

Address: 5, Shuvalovsky Proezd, Nizhny Novgorod, 603095, Russia

Tel: +7 (8312) 98-04-08; **Fax:** +7 (8312) 98-04-37

Website: www.soteks.nnov.ru

Soteks ZAO (closed joint stock company) is located in Nizhny Novgorod, an industrial city on the Volga River about 500km east of Moscow, with a population of about 1.3 million. Nizhny Novgorod is also the location of the large Gorky Automotive Factory (GAZ) car and truck OEM. Soteks was founded in 1992 and produces polyurethane foam and plastic parts for the automotive industry. The company employs approximately 200, including a product development staff, some of whom were trained outside of Russia

What sets Soteks apart from almost all Russian-owned automotive suppliers is the firm's ISO/TS 16949 certification, awarded in 2002. The IFC project staff is not aware of another Russian-owned firm in Russia with this certification. The certification is valid for production and sale of polyurethane foam and plastic parts, as well as the development and assembly of automotive seats. This quality level has attracted business not only from all of the major Russian OEMs, but also from Ford Motor Company's factory in Vsevolozhsk, Russia. Soteks continues to fund work with external consultants to ensure continuing improvement of the quality management system.

One reason for the Soteks success in quality is its partnership with the German company Vogelsitze GmbH. Soteks is interested in working with other foreign partners as well. The project with Vogelsitze is for the production of seats for minivans and buses. New production facilities are being built to house new production equipment for this project. Training for Soteks employees is being handled by the German partner. Another production line for integral foam part production (head rests, armrests, grab handles, steering wheels etc.) was opened in December 2002.

Soteks develops its own formulas for flexible foam part production in its in-house laboratory and mixing stations. Foreign consultants are occasionally used to assist the team of chemists. The company has been reporting a steady growth of sales and profit for the last three years.

Ownership: Private

Quality system certification: ISO/TS 16949:1999 (issued on 17.12.2002, valid through 14.12.2004); ISO 9001:2000 (issued on 17.12.2002, valid through 12.2005)

Major Suppliers: “Sarov Avtoservis” ZAO, “Blockform” ZAO, “Sintez” OAO, “Nizhnekamsneftehim” OAO, “Bayer” (Germany), “Dow Chemical” (USA), Akmos (Switzerland), “Gorapur” (Germany).

Major Customers: GAZ, Lear OOO (Nizhny Novgorod), Johnson controls GmBh (Moscow), AvtoVAZagregat, OAO (Togliatti)



18. TOPLIVNYE SISTEMY (FUEL SYSTEMS)



- **Main products:** Fuel injection system elements, cooling systems pumps, electromagnetic valves, gasoline pumps, carburetors
- **Sales:** USD 300 Million in 2003

Contact information:

General Director: Mikhail Igorevich Mazurov

Address: 5, Samoylova Str., Saint-Petersburg, 192102, Russia

Tel: +7 (812) 166 7748

Website: www.topsys.spb.ru

Toplivnye Sistemy, OOO (Limited Liability Company) is located in Saint Petersburg, Russia's second largest city, approximately 750 kilometers west of Moscow. Saint Petersburg is an industrial city with a population of approximately 5 million. The trademark of the products of this firm is PEKAR.

Toplivnye Sistemy, (the name means "fuel systems") was founded in 1929 as the Leningrad Carburetor Plant. In 1999 the plant was privatized with a single majority shareholder. The company employs approximately 2,500, with approximately 1,200 production workers. Product development is handled by a staff of about 200, including 50 design engineers. This team works in AutoCAD, Compass and Inventor software. New products and foreign partners will be key to the future development of Toplivnye Sistemy since their present product line is threatened by the increasing adoption of fuel injection in Russian automobile engines. Management reports the development of new products for fuel-injected motors, and is interested in partnering with foreign firms for new products. Management also reports plans to purchase some new production equipment for new products.

The company's first ISO 9001:1994 certificate was awarded in 1998. The current certificate to ISO 9001:1994 was awarded in 2000. Currently the factory is working to implement ISO 9001:2000 for its next certification. Toplivnye Sistemy is also aware of ISO/TS 16949 requirements and has a long-term plan to certify to this standard.

Ownership: Private

Quality system certification: ISO 9001:1994 standard issued in 2000 by Test SPb. At present, the company is preparing for certification in accordance with the ISO 9001:2000 standard.

Major Suppliers: Zinc - Chelyabinsk; Brass - Krasnoyarsk, Verkhnyaya Salda; Steel- Severstal, NPMZ

19. TREK

- **Main Products:** Constant Velocity Joints (CV Joints), Tie Rods, Springs, and Shock Absorbers
- **Sales:** USD 8.1 Million in 2002

Contact information:

General Director: Andrey Nikolaevich Paduchin

Deputy Director for Human Resources: Vladimir Semenov

Deputy Director for Quality: Evgeny Valentinovich Kogan

Address: 31, Gotvald str, Miass, 456306, Cheliabinsk region, Russia

Tel: +7 (35135) 760-75-31

Trek is located near Miass, in the Southern Urals, 200 km (120 miles) from Ekaterinburg, and 100 km (60 miles) from Chelyabinsk, the region's capital. Miass is an industrial city with a population of approximately 180,000. Trek was founded at the end of 1995 by two private partners, starting with 10 employees and rented production equipment and facilities. Today the Company has two facilities, a two-story office building and a factory. These two facilities are located 10 minutes away from each other by car with a total of 3,500 m² (11,550 square feet) at the production facility. Trek has young and dynamic management and its products are widely advertised and sold throughout Russia.

Trek has made strong efforts to move towards an international quality management system. Trek's first ISO 9001 certificate was granted in 1999, and the current ISO 9001: 2000 and Russian GOST R ISO 9001-2001 certificates were awarded in April 2003. The Company operates a fully electronic document control system and has invested in outside consultants to assist in development of the company quality management system. Trek executives frequently present on their quality systems at Russian automotive conferences.

Ownership: Private

Quality system /certification: ISO 9001: 2000; GOST R ISO 9001-2001 (Russian Standard) in April 2003.

Major suppliers: Du Pont, USA; Bayer, Germany; TK OSPaZ, Orel; Tekhnopol, Moscow; Elastompex, Moscow; Concern Russian Defense Technology, Moscow; Zavod im.Degtyareva, Kovrov; Avtoagregat, Kineshma, UAZ, Miass; MMK, Magnitogorsk.

Major customers: 77% – Distributors, 12% – Dealers, 9% – GAZ, 2% – KamAZ

Average period of delivery to clients: 11 days (as reported)



20. ZMZ



- **Main products:** Gasoline and diesel engines, engine main bearings
- **Sales:** USD 225.5 Million in 2002

Contact information:

General Director: Victor Vladimirovich Klochay

Quality Director: Oleg Viktorovich Vlasov

Address: Zavolzhye-2, Nizhny Novgorod District, 606522, Russia

Tel: +7 (83169) 66-8-42

Website: www.zmz.ru **E-mail:** kv@zmz.nnov.ru

The Zavolski Motorny Zavod OOO (Zavolzhye Motor Factory, Open Joint Stock Company), is normally referred to by its initials, ZMZ. The factory is located on the Volga River, 60 kilometers from the major city Nizhny Novgorod. ZMZ is a highly integrated producer of gasoline and diesel engines and engine bearings. Total employment is approximately 18,000, and ZMZ was founded in 1958. Annual sales in 2002 were reported at \$225.5 million. In 2001 the factory became part of the private Severstal group, which later included ZMZ in a subsidiary, SeverstalAvto Group. Further information on SeverstalAvto is located in the Russian OEM section of this IFC market study. ZMZ may be a good target for international suppliers since it expresses strong interest in out-sourcing many components.

In 2002 ZMZ produced approximately 250,000 engines which are used in off-road vehicles, commercial vehicles, and automobiles throughout Russia. According to ZMZ, the firm plans to supply over 217 thousand engines to RusPromAvto's GAZ factory alone in 2004. The next largest customer is the UAZ factory in Ulyanovsk, a fellow member of the SeverstalAvto Group, and a producer of off-road cars and light commercial vehicles. Mr. Victor Klochay is general director of both UAZ and ZMZ.

To meet increasing market competition, including recent competition from foreign-produced engines specified for some Russian-design vehicles, ZMZ is investing to improve the performance of its engines and their quality. ZMZ reports that its investment plan for 2003 was \$17 million for new equipment and other modernization, as part of a 2002-2004 SeverstalAvto plan for a total of \$52 million in investments. The engine bearings shop has been spun off as independent company.

ZMZ has contracted with the Austrian firm AVL for technical assistance in improving its engine designs to meet demand for engines meeting the Euro 3 standard. The

company goal is to achieve Euro 3 level emissions by the end of 2004. This new engine is planned to contain 70% out-sourced components.

ZMZ also is making strong efforts in quality management system improvement including investments in outside improvement consultants. In 2003 ZMZ certified the factory to the ISO-9001:2002 quality management system. According to ZMZ management, the firm plans now to work toward certification to ISO/TS 16949, the international automotive standard. ZMZ has installed a quality assurance system in final assembly based on the Ford system.

The company is also attempting to expand its international contacts and business. At present ZMZ reports that foundry products are exported to Germany. Some individuals of the company's staff speak English. Translators are available as required.

Ownership: Private, part of Severstal Group's SeverstalAvto Division

Quality system certification: November, 2003 –certificates to ISO 9001:2000, GOST R ISO 9001-2001 standards from "TUV-SERT" & "Russian Register". The certificates are valid until autumn of 2006. The company is working on ISO/TS 16949:2002 standard certification.

Major suppliers: Severstal; GAZ (semi-finished materials); Avtopribor, city of Kaluga; Avtopribor, city of Vladimir; Legas, city of Kostroma; Tarasov plant; Fuel Systems, St. Petersburg.

Major customers: Engines: 44% – GAZ; 39% – UAZ; 5% – PAZ; 12% – after market; engine bearings: AvtoVAZ.



21. ZEIM-LINE



- **Main Products:** controllers for fuel injected engines, vehicle antitheft systems and diagnostic equipment for electronic systems
- **Sales:** USD 8.1 Million in 2003

Contact Information:

General director: Georgy Solovyev

Address: 1, Yakovlev prospekt, Cheboksary, 428020, Chuvashia, Russia

Tel: +7 (8352) 62-8-70

Website: www.zeim.ru

ZEiM-Line is located in the city of Cheboksary, capital of the Chuvash Republic of the Russian Federation. Cheboksary is located in 770 km from Moscow, between Nizhny Novgorod and Kazan on the Volga River. Cheboksary is an industrial city with a population of approximately 460,000. Since the end of the Soviet Union, the Chuvash Republic has remained a peaceful, integral part of the Russian Federation with a positive attitude towards business and investment²¹.

ZEiM-Line was founded in 1994 as a subsidiary of the large Cheboksary Electronics and Mechanics Factory (ZEiM). The main production of ZEiM-Line consists of automotive controllers for fuel injected engines, vehicle antitheft systems and diagnostic equipment for electronic systems and fuel-injected engines. At present the firm has approximately 100 employees.

ZEiM-Line received its first ISO-9001 certificate in 2000, and at the end of 2003 the Company reported itself in the process of obtaining a new ISO-9001 certificate.

The parent firm ZEiM holds an 85 percent stake in the subsidiary, with the remaining 15 percent held by various individuals. ZEiM was founded in 1958 and privatized in 1992. In 2000 ZEiM became a member of the RUSEL (www.rus-el.ru) holding company which includes over 20 plants and companies operating in the electronics sector, with a total of 7 thousand employees. Annual sales of RUSEL are more than \$120 million.

Ownership: Private: ZEiM – 85%; individuals – 15%.

Quality system certificate: The term of ISO 9001: 1994 issued in 2000 expired in May 2003; the Company is in the process of obtaining a new certification.

Major suppliers: PetroinTrade, Saint Petersburg - 12%; EFO, Saint Petersburg – 24%; Alkont, Moscow – 40%; Galina, Saint Petersburg – 7%; Iteptrade, Moscow; SPU Plant, Saint Petersburg.

Major customers: AvtoVAZ – 46%; GAZ – 46%; UAZ – 4%; Aftermarket – 4%.

²¹ A Report on the Chuvash Republic and companies of the region has been made by the US Department of Commerce and is available at: <http://www.bisnis.doc.gov/bisnis/bisdoc/0401ElectroChuvashia.htm>.

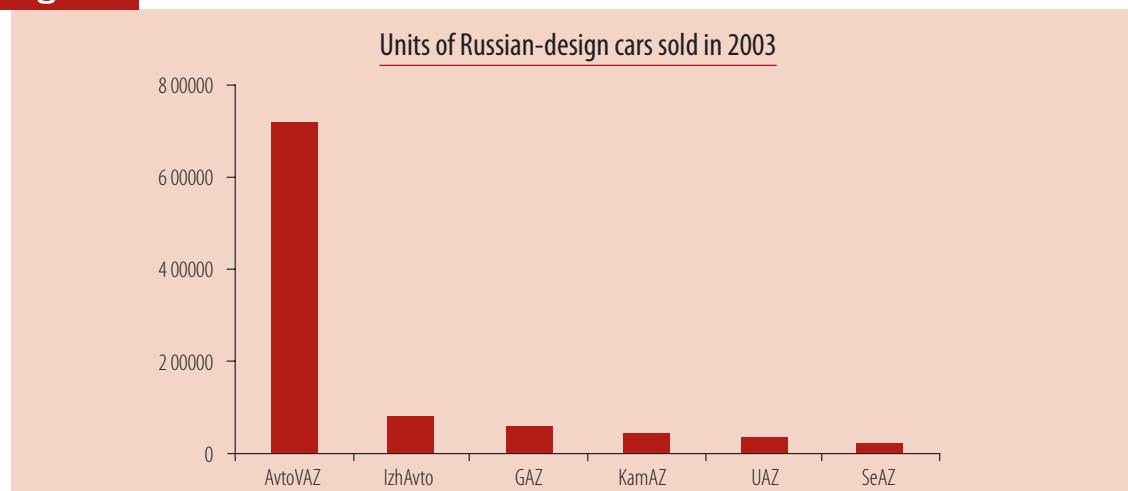
IV. Russian OEM Review

Russian OEMs are of interest to foreign investors since most Russian OEMs are moving toward more foreign participation in their designs and production. In fact most Russian OEMs have either already partnered with a foreign OEM, or are working towards such a partnership. As noted above, these OEMs also account for upwards of 90% of car unit production in Russia as of 2003. To assist foreign firms looking at these OEMs as potential partners or customers, brief summaries of the leading OEMs producing Russian-design cars, along with contact information appear below. These firms are often referred to as the “traditional” Russian OEMs. There are six major traditional Russian OEM groups:

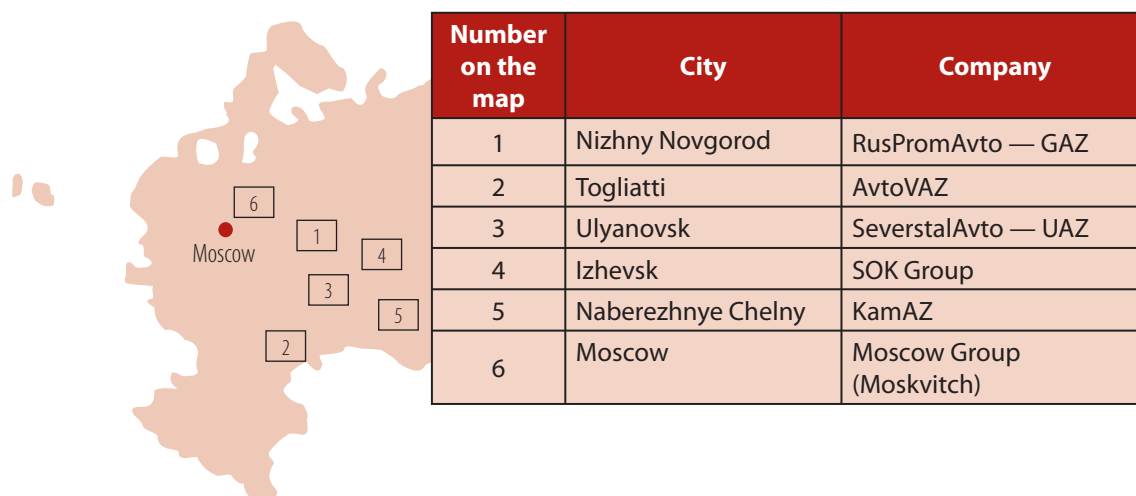
| Group | Main factories | Group | Main factories |
|-----------------|---|-----------------------|---|
| AvtoVAZ: | OAO AvtoVaz OAO SeAZ | RusPromAvto: | OAO GAZ OAO Pavlovo Bus OAO Liaz OAO Ural AZ |
| SOK: | OAO RosLada OAO Izmash-Avto Component Factories | SeverStalAvto: | OAO ZMZ OAO UAZ |
| Kamaz: | OAO Kamaz | Moscow Group: | OAO Moskvich AMO ZIL |

Car production of the major groups is shown on Figure 6, indicating the dominant position of AvtoVAZ. Production locations are shown on Figure 7.

Figure 6



Source: ASM Holding

**Figure 7**Traditional Russian OEM locations in Russia**AVTOVAZ**

CEO: Vladimir Vasilievich Kadannikov

Address: 36, Uzhnoye Shosse, Togliatti, Samarskaya Region, 445633, Russia

Tel/Fax: +7 (8482) 73-82-43; +7 (8482) 73-71-71

Website: www.vaz.ru

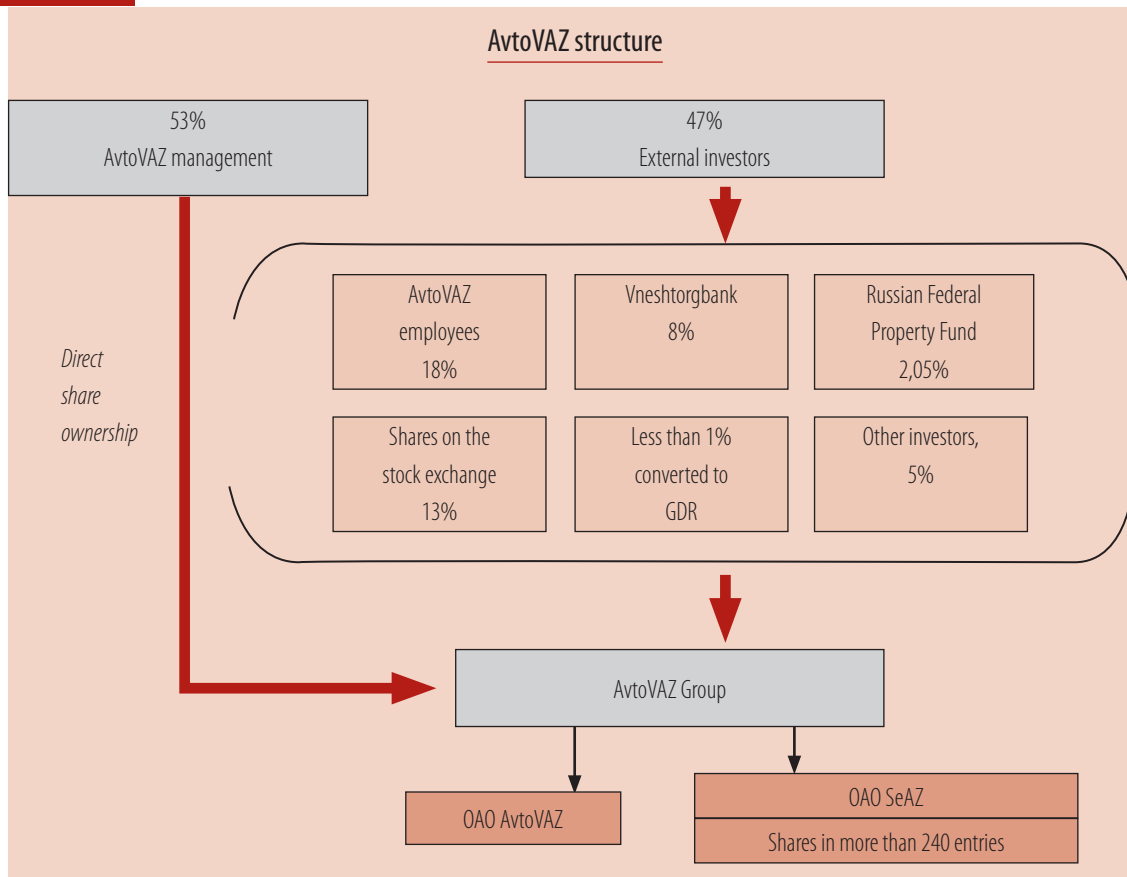
Description

The AvtoVAZ Group is Russia's largest domestic producer of passenger cars and produces many of its own components. The main plant is located in Togliatti, near Samara, and was built as greenfield in 1970 in cooperation with the Italian firm FIAT. Currently the company employs over 120,000 with over 70% of the market. AvtoVAZ has seen its market share and production volumes steadily decline since the end of the Soviet Union. In 2003 the firm produced 699,889 automobiles, compared to 703,000 in 2002²². 2002 sales exceeded 3 Billion US Dollars.

AvtoVAZ was privatized in 1993. According to the investment company Aton, more than 53% of the stock of AvtoVAZ is controlled by company management (See figure 8).

²² "Vedomosti" of February 5, 2004, ASM Holding

Figure 8



Source: Aton

Strategy

With its large facilities and very low prices (\$2,500-\$10,000 – see annex 13), AvtoVAZ has so far been able to maintain its dominance of the domestic car market. This position was strengthened by the introduction of protective tariffs on imports of used foreign cars. However, increasing Russian income levels and financing options mean that AvtoVAZ faces increasingly strong competition from locally-assembled foreign cars as times goes on.

AvtoVAZ appears to be implementing two strategies to meet the challenge of foreign design cars. First, AvtoVAZ has formed the GM-AvtoVAZ joint venture company, co-located with its main factory at Togliatti. The JV produces the “Chevy Niva”, an incrementally improving version of the AvtoVAZ Niva 4x4. Next, AvtoVAZ pushed very hard for the introduction of a new model at the joint venture. In late 2003 GM announced that this will be a Chevy-branded sedan, with the body design and other



elements from GM's Opel Astra, to be called the Chevy Viva (see GM section). It appears that some percentage of components for the new vehicle will be of Russian design and manufacture. As with the Chevy Niva many of these components may be supplied by AvtoVAZ to the JV.

The second strategic effort, from AvtoVAZ itself, will be the introduction of the Kalina car, planned for 2004. The Kalina is apparently designed as a higher-quality successor to the Lada series.

In 2003 AvtoVAZ produced five main vehicles in various versions:

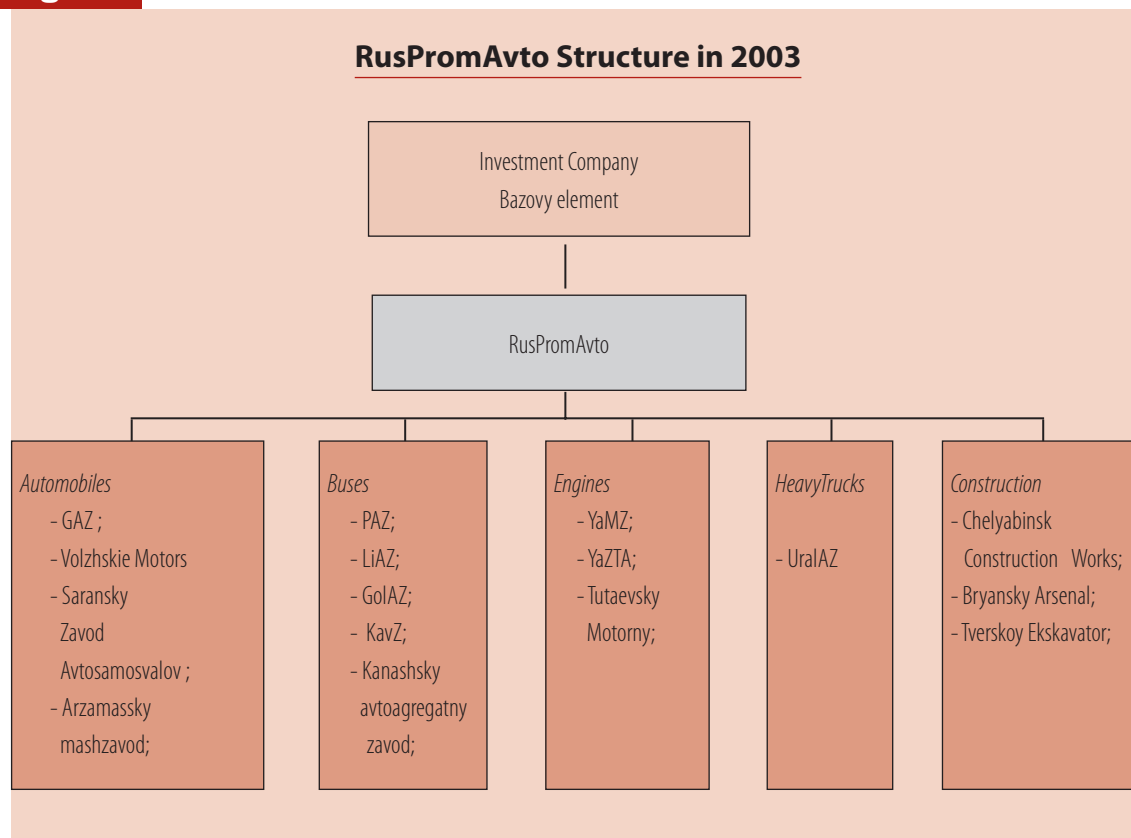
- Klassika (\$5,500)
- Samara (\$6,000)
- Niva (\$9,500)
- Lada (\$6,900)
- OKA (\$2,500)²³

Descriptions and photographs of the main models produced by AvtoVAZ and other OEMs are provided in Annex 4.

²³ Approximate average dealer price in 2003. See www.vaz.ru

RUSPROMAVTO**CEO:** Alexander Yushkevich**Address:** 17, Kotelnicheskaya nab., Moscow, 109240**Tel:** +7 (095) 725-09-90; **Fax:** +7 (095) 720-53-92**Website:** www.ruspromauto.ru**Description and Strategy**

At the end of 2003, The RusPromAvto holding included the following divisions: Nizhegorodskiye Automobiles Division: (GAZ (Gorky Automobile Factory), Volga Motors, Volga Tractor Factory, Saransk Dump Trucks and Arzamas Machine-Building Plant); Bus Division: (Pavlovsk, Likinsk and Golitsyn bus manufacturers); Engine Division: (YaMZ, YaZTA and Tutayevsky Motor Works); Heavy Trucks Division: (Ural Auto Plant) and the Construction-Equipment Division: (Bryansk Arsenal, Tver Excavator).

Figure 9

Source: www.basel.ru



GAZ, OAO

General Director: Alexey Georgievich Barantsev

Address: 88, Prospekt Lenina, Nizhny Novgorod, 603004, Russia

Tel/Fax: +7 (8312) 56-12-25

Website: www.gaz.ru

Description

GAZ is RusPromAvto's largest property and is Russia's largest domestic producer of light commercial vehicles (LCV), minibuses, minivans, and light trucks. The factory also produces the "Volga" passenger car, mass production of which started in 1970.

GAZ was founded in 1932 as a turnkey factory constructed by Ford Motor Company and producing copies of the Ford model A car and model AA truck. Starting in December 1992 GAZ introduced a new mid-size LCV called the "Gazelle". The "Gazelle" is now the company's top-seller and has become widely used throughout Russia. At the end of 2003 dealer prices for Volga cars were approximately 6 thousand US Dollars.

According to its preliminary financial results, in 2003 GAZ produced and sold 56,783 vehicles, which is a decrease of 8,865 units over 2002.

Strategy

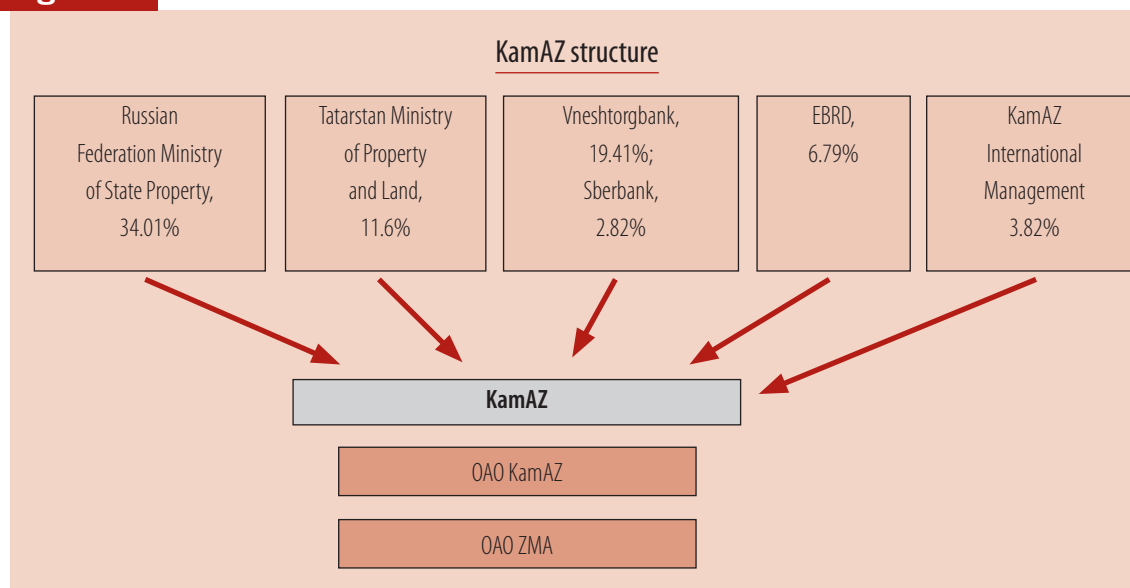
GAZ, and RusPromAvto as a whole, appear to be following several strategies to meet increasing competition in the market. To date the most visible effort has been a contract with the lean production consulting firm YOMO for improvement and training in Toyota Production System (Lean Manufacturing) elements for quality and efficiency improvements. GAZ has reported significant quality and efficiency improvements as a result of the YOMO project and RusPromAvto reportedly plans to spread this effort to more factories in the Group²⁴.

In early 2004 the CEO of RusPromAvto is reported to have stated that the firm will follow the lead of the other Russian OEMs and find a foreign partner for the joint production of foreign-design cars.

²⁴ See "AvtoBiznes" magazine of December, 2003.

KAMAZ, OAO**General Director:** Sergey Anatolievich Kogogin**Address:** 17/2, Bld.1, Verkhneradichevskaya Str., Moscow, 109004, Russia**Tel:** +7 (095) 912-64-80; +7 (095) 912-50-19**Website:** www.kamaz.net**Description**

KamAZ Inc is a leading manufacturer of heavy-duty trucks in Russia, and, like AvtoVAZ, was originally built as a greenfield in cooperation with FIAT. The company was privatized in 1991. Aside from the main product, heavy trucks, the company also produces the Oka car at ZMA (Zavod Microlitrazhnih Avtomobiliy – Plant for Micro-displacement Cars), co-located with the truck factory in Naberezhnye Chelny (Republic of Tatarstan). The Company's ownership structure is presented below.

Figure 10

Source: www.kamaz.net



SOK GROUP

President: Rustem Shiyanov

Address: 7 Proseka, Sanatory “SDP”, Samara, 443125, Russia

Tel/Fax: +7 (8462) 94-02-00; +7 (8462) 94-22-22

Website: www.sok.ru

Description

The SOK Group of companies is a large private company controlling a number of factories in Russia. SOK’s public data indicates that it is the second largest passenger car producer in Russia after AvtoVAZ. The Group’s prime property is IzhMashAvto in Izhevsk, which produces some older AvtoVAZ models under its own brand “Izh”. SOK also controls RosLada, an automotive plant in Syzran – Samara region, which also makes some older AvtoVAZ car models. At least 40 other Group factories produce a variety of automotive component parts or work in other sectors. In 2002 overall car production by the SOK Group totaled 121,172 cars. Total employment in the group is reported to be over 100,000. The ownership structure of the SOK Group is not disclosed, but is widely rumored to include management of AvtoVAZ.

Strategy

The SOK Group appears to be responding to increasing competition in the market by very active efforts to acquire foreign technology and designs. In 2003 SOK announced the purchase of a production license and tooling to produce KIA (Korea) “Spectra” Sedans at Izhevsk. This will enable SOK to make the transition from assembly of Russian-designed cars to a foreign design. The SOK Group reports that it eventually plans to create capacity to produce up to 120,000 units per year of the KIA design.

In addition, the Group has reported that in at least one instance it purchased an Italian lighting components producer, reportedly in order to acquire new product and production technologies²⁵.

SOK has also announced the establishment of a joint venture with an Italian company, Autocomponent Engineering, which is currently supplying steering wheels to the GM-AvtoVAZ JV. The new joint venture will manufacture airbags for both the GM-AvtoVAZ JV and for AvtoVAZ itself. Production of 80,000 steering wheels with air bags is planned for 2004²⁶.

²⁵ “SOK Group is heading out to Europe” – the “SOK Group purchased an Italian automotive lighting producer. The paper doubts that the company will launch business in Europe, rather this investment in foreign assets will allow the company to bring foreign technologies to the production of its automotive components in Russia. Vedomosti, 27.11.03

²⁶ Source: US Department of Commerce, St. Petersburg office.

IZH-AVTO

General Director: Mihail Nikolaevich Dobyndo

Address: 5, Avtozavodskaya, Izhevsk, 426060, Russia

Tel/Fax: +7 (3412) 26-72-67; 26-58-52; 26-71-46, 26-78-00

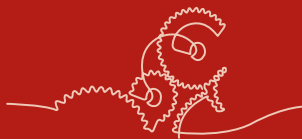
Website: www.izh-auto.com

Izh-Avto, located in Izhevsk, capital of the Udmurtia Republic, produced 78,495 cars in 2003 which is a 19.5% increase over 2002. The Klassica VAZ-2106 and VAZ-2104 accounted for most of its production. Izh-Avto's production has increased by over 500% since 1999. Total market share of Izh-Avto in 2003 was 9.6% and total employment was over 12,400.

Figure 11



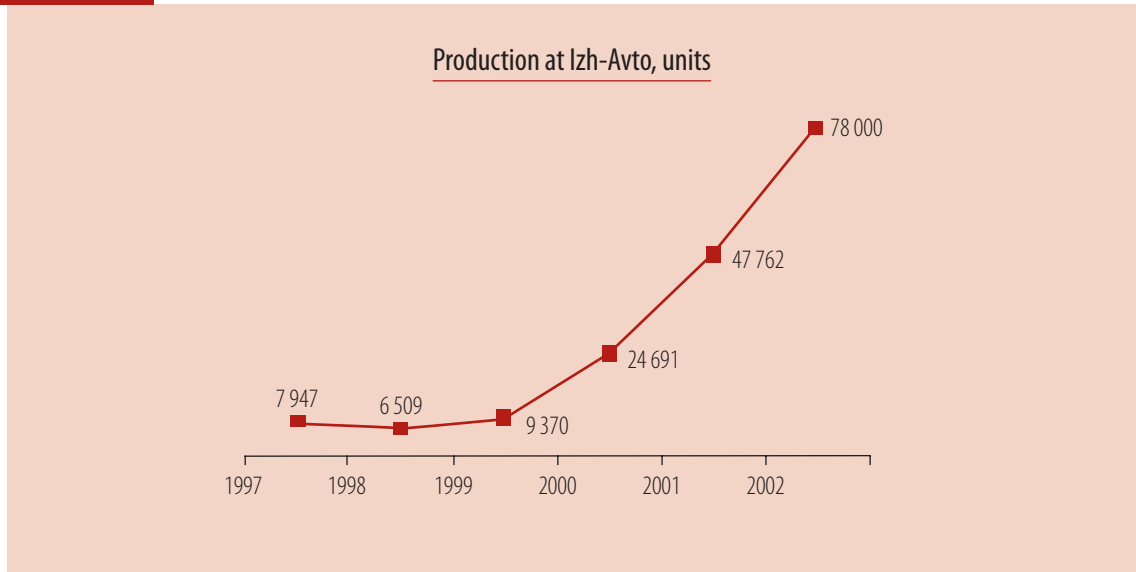
Source: www.sok.ru



Strategy

In addition to the plan to produce the KIA Spectra sedan, Izh-Avto has indicated plans to produce its own new designs in 2004 and 2005. These are the the Fabula 4X4 and the Izh-27171 4X4. By mid-2004 reports indicated that pilot models of both the KIA and the Fabula were beginning to come off the assembly line²⁷.

Figure 12



Source: www.sok.ru

²⁷ "Za Rulem" Magazine of July 2004, p. 136.

ROSLADA

General Director: Vladislav Borisovich Dzilov

Address: 18, Saratovskoe Shosse, Syzran, 446025, Russia

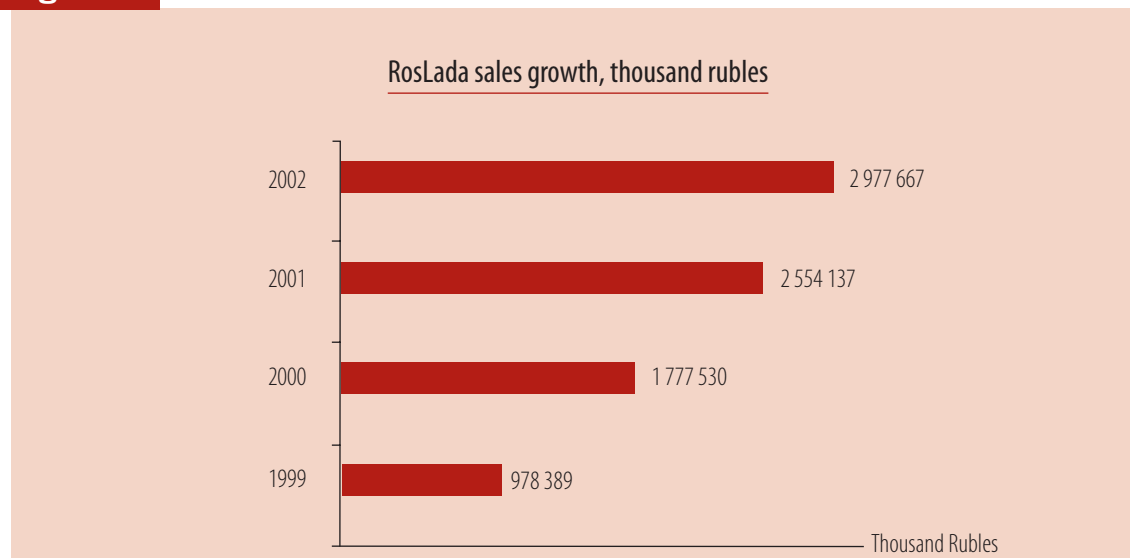
Tel/Fax: +7 (84643) 5-70-39

E-mail: roslada@dtc.syzran.ru

RosLada is located in Syzran (Samarskaya region) and is a former defense plant. In 1998 the factory obtained a license for assembly of the VAZ-2106 Klassica model car. In 2000 the factory added the VAZ-21093 and the VAZ-2104 and in 2002 the VAZ-2107, all variants of the Klassica model.

RosLada reportedly has 1750 employees with sales of almost 3 billion Rubles in 2002 (approximately 100 million US Dollars). Latest data available from the company indicate that in 2003 it produced 28,099 units.

Figure 13



Source: www.sok.ru



SEVERSTALAVTO

General Director: Vadim Shvetsov

Address: 30, Ulitsa Mira, Cherepovets, Vologodskaya Region, 162600, Russia

Tel/Fax: +7 (8202) 56-80-09; +7 (8202) 57-12-76

Website: www.severstalauto.ru

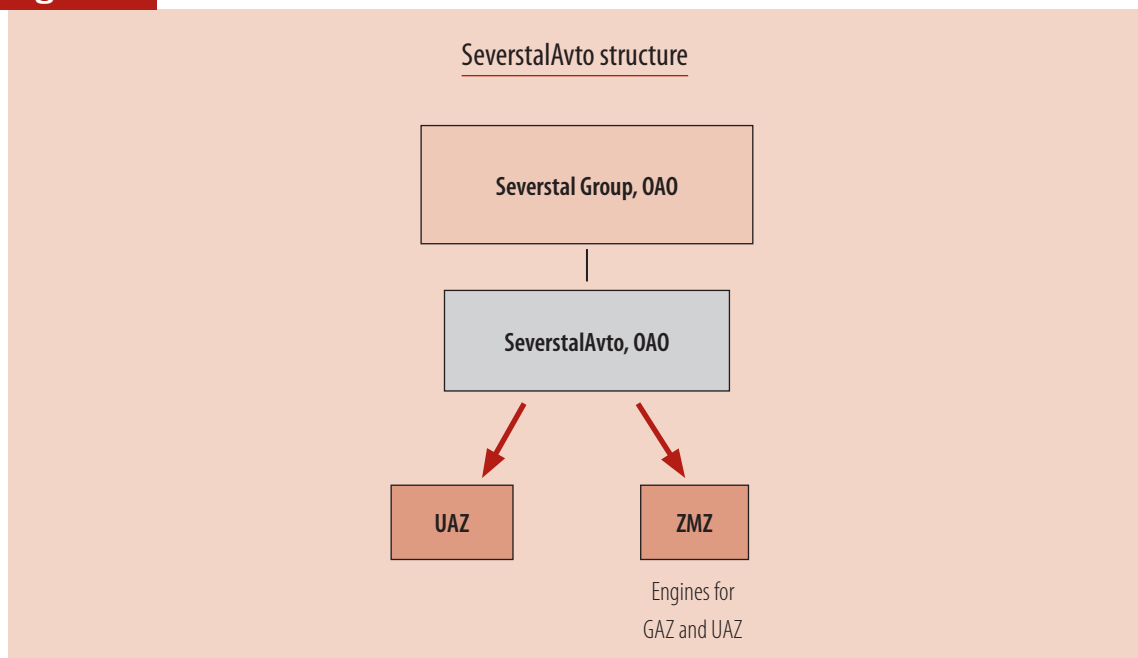
E-mail: severstal@stal.ru

Description

Severstal is a leading Russian producer of steel and metal products including automotive steel. It is the parent company of the SeverstalAvto Group, which consolidates Severstal's automotive properties.

Information on SeverstalAvto's ZMZ²⁸ and UAZ factories may be found below. These two companies share the same general director. Reportedly over 43,000 employees work for the various factories in SeverstalAvto, also referred to as the Severstal Automotive Division.

Figure 14



Source: www.severstal.ru

²⁸ ZMZ engine Factory, see section 3, "Company's Profiles" for detailed information on the company.

ULYANOVSK AUTOMOBILE FACTORY (UAZ), OAO

General Director: Viktor Vladimirovich Klochay

Address: 30, Ulitsa Mira, Cherepovets, Vologodskaya Region, 162600, Russia

Tel/Fax: +7 (8422) 40-60-38

Website: www.uaz.ru

Description

The Ulyanovsk Automobile Factory (UAZ) was established in 1941 and currently manufactures 14 models of small 4x4s and 4x4 minibuses²⁹. UAZ employs over 20,000. 2003 Sales were reported at \$265.5 million, an increase of over 7%, and production was estimated at 32,748 vehicles, a decrease of 2.6%.

Strategy

The main strategy of SeverstalAvto appears to be to partner with a foreign OEM. By early 2004 SeverstalAvto was widely reported to be in final negotiations to form such a partnership. In 2003 the company announced that it would not offer new models, but would upgrade existing models, such as its improved small 4x4, the Hunter.

²⁹ The company and its vehicles are normally referred to by the initials UAZ, pronounced "OO-WAAZ".



MOSCOW GROUP HOLDING

Owner: City of Moscow

Address: 42, Volgogradsky Prospekt, 117607, Moscow, Russia

Tel: +7 (095) 911-09-91; **Fax:** +7 (095) 179-02-09

The City of Moscow government has the main ownership stake in the huge “Lenin Komsomol Automobile Factory (AZLK), factory, also called “Moskvich” which is located inside the city limits. The factory most recently produced cars under the “Moskvich” badge. AZLK has been closed for several years but the city of Moscow has created a joint venture with the French OEM Renault, called AvtoFramos (See section 5 under “Renault”) to operate on a part of the factory territory. At the end of 2003, press reports indicated that the bankruptcy of the main Moskvich factory was still proceeding.

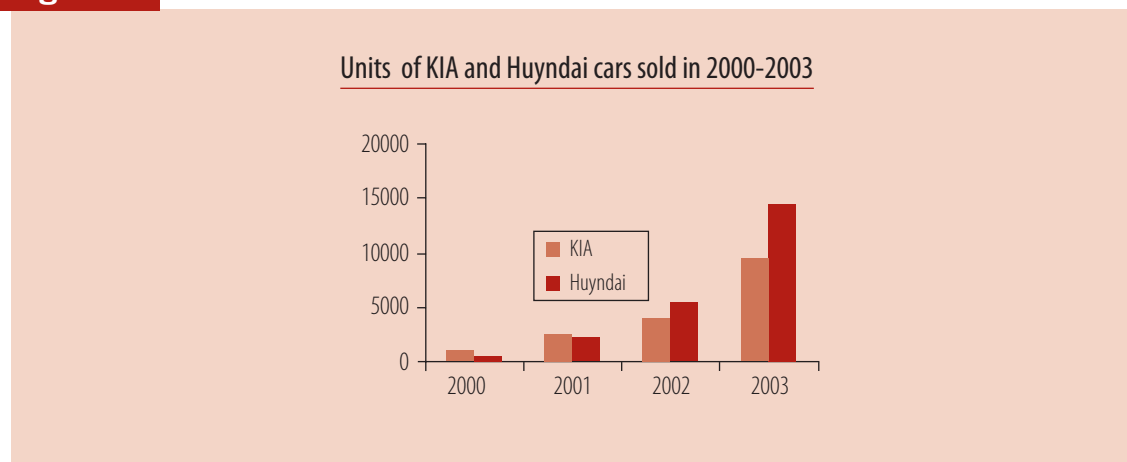
V. Foreign OEM Review

FOREIGN OEMS IN RUSSIA

Foreign OEMs operating in Russia or selling into Russia represent the fastest growing segment of the automotive market and eventually they will likely be the major producers in the Russian market. To assist foreign firms looking at these OEMS as potential customers, brief summaries of their activities are presented below, along with contact information. Pictures of the main models produced in Russia can be found in Annex 13.

Sales of foreign cars continue to grow by 10–15% each year. With the introduction of protective tariffs, sales of locally assembled vehicles are expected to increase most rapidly. Figure 15 shows the yearly increases in production for KIA and Hyundai cars assembled in Russia prior to the impact of the tariff increases.

Figure 15



Source: official data from the companies

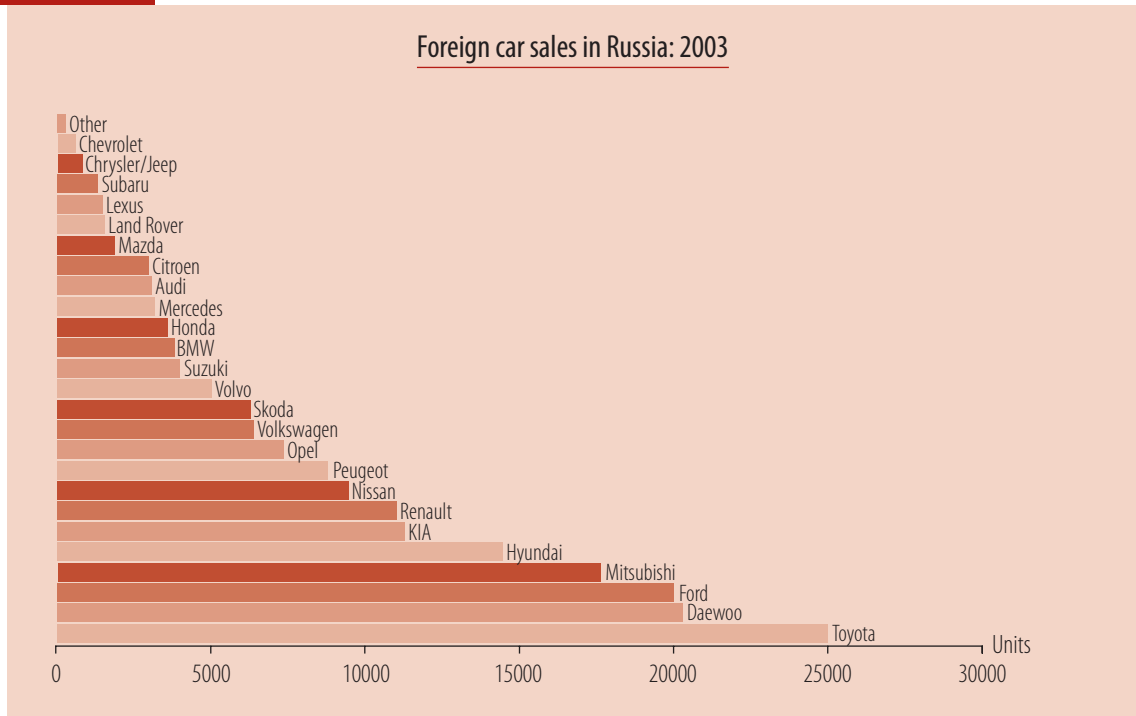
According to United Financial Group analyst, Elena Sakhnova, about 76 thousand foreign cars were assembled in Russia in 2003, and she predicts that production will increase to 115 thousand foreign cars in 2004. At the same time about 190 thousand new foreign cars will be imported to Russia³⁰.

³⁰ Telephone conversation with the analyst.



Figure 16 indicates 2003 sales for all foreign makes sold in Russia. Annexes 14 and 15 provide further details.

Figure 16



Source: ASM-Holding

FORD MOTOR COMPANY ZAO

Ford CIS President: Henric Henzen

General Director, Ford Motor Company, ZAO: Murray Gilbert

Address: P/O Sheglovo, Leningrad Region, Vsevolozhsky Region, 188676, Russia

Tel: +7 (812) 346-71-51; +7 (812) 346-71-31

Fax: +7 (812) 346-71-87

Website: www.ford.ru

Description

The Ford Motor Company factory in Vsevolozhsk opened in June 2002 with an investment of approximately 150 million US dollars. The capacity of the factory is 25,000 cars a year. The Ford site contains space that would allow further increases in volume in the future up to 100,000 units. The factory assembles three versions of the Ford Focus car: sedan, hatchback and universal.

Ford produced 16,000 Ford Focus cars in 2003 and has stated that the plant will increase production to 27,000 in 2004. Company sales in Russia through its network of official dealers increased 250 percent in the first half of 2003, and Russian customers have been willing to put a deposit down and wait several months for the Russia-produced car.

Strategy

Ford is now operating under Presidential Decree no. 135 (see Section 3 above) to import component parts duty free in exchange for meeting local content requirements. Ford has three localization offices in Russia: in Saint-Petersburg, Samara and Nizhny Novgorod. In order to further stimulate sales Ford has aggressively pioneered a car loan program in Russia.



GENERAL MOTORS – JSV “GM-AVTOVAZ”

General Director (President) of GM Russia: Heidi McCormack

GM-AvtoVAZ General Director: John Mylonas

Address: 37, Vokzalnaya Street, Togliatti, 445967, Russia

GM Corporate Representation: 11, Gogolevsky bulvar, Moscow, 119019, Russia

Tel: + 7 (095) 777-68-68; + 7 (095) 777-68-86

Fax: + 7 (095) 777-60-65

Website: www.generalmotors.ru; www.gm-avtovaz.ru

Description

The GM-AvtoVaz joint venture was created in 2001 with an original capitalization of \$238.2 million. Ownership is reported as: AvtoVaz (41.5%), GM (41.5%) and European Bank for Reconstruction and Development (17%). The plant opened officially on September 23, 2002.

Currently, the venture produces the Chevrolet Niva, which is an incrementally improving version of the VAZ-2123 “Niva” small 4x4 originally developed by the Soviet Union in the late 70s. Almost all of the components of this vehicle are made in Russia. Sales of the Chevy Niva began on November 1, 2002 and by the end of 2003 the factory had produced about 30 thousand vehicles. For 2004, production of 60,000 Chevy Nivas is planned, increasing to 75,000 vehicles in 2005 as the plant is upgraded.

Strategy

In November, 2003, GM announced plans to produce a new model at the beginning of 2005 similar to the Opel Astra. The plan is to produce up to 17 thousand cars a year for the Russian market. Like the Niva, the new car will be sold under the Chevrolet badge and reportedly will be called the Chevy Viva.

GM has announced that, like Ford, GM-AvtoVAZ will promise 50% local content in exchange for import tariff relief. This implies plans for more imported components and increased opportunities for foreign suppliers to add content to the GM-AvtoVAZ vehicles. Also planned are exports of the Chevy Niva with Opel 1.8-liter engines (currently the vehicles are equipped with Russian-made 1.7-liter engines) in the first quarter of 2004. Exports are planned to Europe, the Middle East, Asia and Latin America. GM has also announced plans for licensed assembly of GM Hummer II vehicles from kits at the Russian-owned Avtotor factory in Kaliningrad.

RENAULT - JSC "AVTOFRAMOS"

General Director: Jean-Michele Jalinier

Address: 35, Vorontzovskaya Street, Moscow, 109147, Russia

Tel/Fax: +7 (095) 775-40-00; +7 (095) 775-48-48

Website: www.renault.ru

Description

The AvtoFramos joint stock company was formed as a joint venture between Renault and the Moscow City government. The assembly plant is located on part of the territory of the now-closed "Moskvich" AZLK factory in Moscow. The JV started low-rate assembly in August 2002 of the Renault Symbol car, which was Renault's bestseller in Russia in 2003 with sales of about 4,000. About one third these were assembled in Russia.

Strategy

Renault has announced plans to invest 230 million Euros for assembly of the Logan Sedan at Avtoframos, starting in 2005. Renault's announcement that the Logan target price for Russia would be 7,000 Euros caused a sensation in the market since this represents a direct challenge to the low-priced Russian-design vehicles³¹. The Russian plant will open a few months after the new car goes into production at the Renault Dacia plant at Pitesti in Romania. AvtoFramos currently has no announced public plans to source components locally in Russia. Capacity at Avtoframos is planned to be 60,000 cars per year. When the Logan goes into production, output of the Clio in Russia will cease. Renault now has 50 official dealerships in 27 Russian cities.

³¹ "Za Rulem" Magazine of August, 2004, p. 36

**AVTOTOR: KIA, BMW**

General Director: Valery Sokolov

Address: Office in Moscow: Solyanka Street, 3, Building 3, Moscow, 109028, Russia

Tel: + 7 (095) 924-48-91; **Fax:** + 7 (095) 923-14-11

Office in Kaliningrad: 4, Magnitogorskaya Street,
Kaliningrad, 236013, Russia

Tel/Fax: +7 (0112) 44-89-69

Website: www.avtotor.ru

Description

Avtotor is a Kaliningrad-based company fully owned by Russian investors, performing contract vehicle assembly. Avtotor assembles 6 KIA vehicles (from sedans to off road vehicles), and 3 BMW models from kits; C class, D class and E class.

Strategy

Planned annual capacity is 35 thousand cars. GM has announced that Hummer II vehicles will also be assembled by Avtotor starting at the end of 2003.

TAGAZ: HYUNDAI, DAEWOO, CITROEN

General Director: Gennady Vladimirovich Ryadnov

Address: 2, Instrumentalnaya Street, Taganrog,
347923, Russia

Tel: +7 (8634) 32-04-00; **Fax:** +7 (8634) 31-81-57

Website: www.tagaz.ru

Description

The Taganrog Automotive Factory (TagAZ) is based in Taganrog, Russia and assembles the Hyundai Accent for Hyundai and the Orion-M for Daewoo. The factory also assembles the Citroen Berlingo under the Doninvest badge³². In 2002 the plant assembled about 2,500 cars and planned to assemble 11,000 cars in 2003.

Strategy

TagAZ has reported plans to add production of the Hyundai Sonata 5 car in 2004 with production at 5000 per year.

³² The “Don invest” Group. See www.doninvest.ru

VI. Annexes

1. International Automotive Suppliers in Russia

This section provides a list of many of the investments that have already been made in the Russian market by international automotive components suppliers. Many of these firms are willing to offer advice to others looking at locating production in Russia. Their ventures are located all across Russia.

Table 1

International Automotive Suppliers in Russia

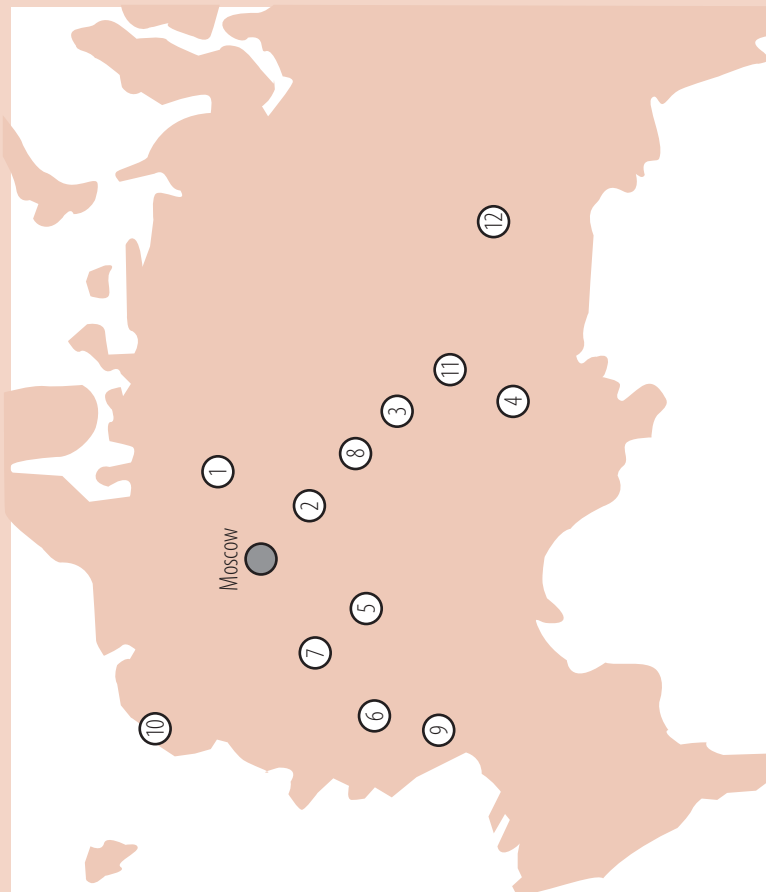
| # | Supplier | Commodity | Location | Partner |
|----|------------------------------|-----------------------------------|---------------------------|-------------------------------|
| 1 | Michelin | Tires | Moscow Region | Greenfield |
| 2 | Continental | Tires | Moscow | Moscow Tire Factory |
| 3 | Nokian | Tires | Kirov | Kirov Tire Factory |
| 4 | Matador, Slovakia | Tires | Omsk | Omsk Tire Factory |
| 5 | Glaverbel/Splintex | Glass | Nizhny Novgorod | Bor Glass Factory |
| 6 | Siemens VDO | Instrument Cluster | Chistopol | Precision Instruments Factory |
| 7 | Bosch | Headlamps | Ryazan | Bosch |
| 8 | Bosch | Fuel Supply/Injection Systems | Saratov | |
| 9 | Bosch | Spark Plugs | Saratov | |
| 10 | Lear | Seats | Nizhny Novgorod | |
| 11 | Johnson Controls | Seat Components | Nizhny Novgorod/ Tver | |
| 12 | Nypro, USA | Injection Molded Plastics (small) | Moscow | |
| 13 | Ingersoll Rand (InstrumRand) | Power Tools | Nizhny Novgorod (Pavlovo) | GAZ factory |
| 14 | Delphi | Wire Harness | Samara | Samara Cable Company |

| | | | | |
|----|-------------------------------------|---|------------------|--|
| 15 | Connecto AB, Sweden | Wire Harness | Vyborg | Finnskor |
| 16 | Bentler | Chassis Structures Engineering (R&D only) | Veliky Novgorod | |
| 17 | TRW | Switches | Pskov | Technical Assistance |
| 18 | TRW | Brake Components | Kineshma | Technical Assistance |
| 19 | Breed Technologies | Airbags/Steering Wheels | Togliatti | Autocomponent Engineering (Italy) Plastic, Syzran (Rus) |
| 20 | Tenneco Automotive | Exhaust Systems | Togliatti | |
| 21 | Engelhand | Catalysts | Urals | |
| 22 | Henkel Teroson | NVH - adhesives | Syzran | Plastic, Syzran |
| 23 | ZF | Power Steering | Togliatti | Technical Assistance |
| 24 | ZF | Automatica Transmissions/Axles | Saint-Petersburg | |
| 25 | BATTRADE, Turkey | Batteries | Moscow Region | |
| 26 | RAC (Russian Automotive Components) | Supplier Park: Seats, Exhaust, Glass | Togliatti | List of global suppliers TBD |
| 27 | VOITH | Bus transmissions | Kazan | KMPO |



Annex 2. Russian Automotive Component Suppliers Locations in Russia

The map (Conic Projection) below shows the relative locations of the 21 Russian suppliers firms profiled in this review.



Keys to the map:

- | | | | |
|---|--|---|----------------------------------|
| 1. Avtoagregat (Kineshma, Ivanovo Region) | 5. Kaluga Plant of Automotive Electrical Equipment (Kaluga). | 8. Avrotechnica, Soteks, ZMZ, (Nizhny Novgorod) | 11. Betar (Chistopol, Tatarstan) |
| 2. AvtoPribor (Vladimir), Osvar (Vyazniki, the Vladimir Region) | 6. Kursk Bearings Company (Kursk) | 9. Soate (Stary Oskol, Belgorodskaya Region). | 12. Trek (Chelyabinsk) |
| 3. Elara, ZEIM-Line (Cheboksary) | 7. Orleks (Oryol) | 10. Avtoarmatura, Intercos-IV, Toplivnye Systemy (Saint-Petersburg) | |
| 4. Energotechmash (Zhigulevsk, the Samara Region), DSK (Togliatti, the Samara Region), Polimerstroymaterialy (Otradnoye, the Samara Region), Samaraavtozhgut, Samara Cable Company (Samara) | | | |

Annex 3. Information Sources On Russia

There are many public and private sources of information on the investment potential of Russia today. Rather than duplicate these studies we have chosen to provide references. Note that the IFC makes no representation of the reliability or accuracy of any information contained in these sources. Sources that are only in Russian language are marked with an asterix*.

1. GENERAL INFORMATION AND MACROECONOMICS

1. **Goskomstat**, the Russia Federation's State Statistics Committee, includes current information on macroeconomic developments in Russian and English.
2. **World Bank** www.worldbank.org and the World Bank Russia <http://www.worldbank.org.ru> (including the latest Russian Economic Reports that are published by the World Bank twice a year).
3. **Foreign Investment Advisory Service** (part of the World Bank Group) — www.fias.net.
4. **International Monetary Fund. Macroeconomic information on Russia.** <http://www.imf.org/external/country/RUS/rr/index.htm>.
5. **Market Access Database of the European Union** including macroeconomic information and information on trade barriers <http://mkacddb.eu.int/>.
6. **US Department of Commerce.**
 - 1) BISNIS — Business Information Service for the Newly Independent States — <http://www.bisnis.doc.gov/bisnis/>;
 - 2) www.buyusa.gov/russia/en;
 - 3) U.S. Commercial Service in Russia:
 - The U.S. Commercial Service in Moscow, Russia. Geoffrey Cleasby, Commercial Attache, 23/38 B. Molchanovka Str., Bldg 2, 121069, Moscow, Russia; Tel.: 7 095 737 50 13; Fax: 7 095 737 50 33; Geoffrey.Cleasby@mail.doc.gov.
 - The U.S. Commercial Service in Saint-Petersburg, Russia: Tel. 7-812-326-25-81; Fax. 7-812-326-25-61, contact person: Alexander Kansky, Commercial Specialist, E-mail: Alexander.Kansky@mail.doc.gov.
7. **Center for Macroeconomic Analysis and Short-Term Forecasting.** <http://www.forecast.ru>.
8. **Institute for the Economy in Transition.** Including information about Russian economy (trends and Perspectives), Industrial survey, analytical information. <http://www.iet.ru/>.
9. **The Central Bank of the Russian Federation.** <http://www.cbr.ru>.
10. **Ministry of Finance of Russian Federation.** <http://www.minfin.ru/>.
11. **Center for Economic and Financial Research/CEFIR.** <http://www.cefir.org/>.
12. **Russian-European Center of Economic Policy (RECEP).** A leading periodical of statistics and analysis on the Russian economy. <http://www.recep.org/>.



13. **VEDI, Econometric Unit.** Includes up-to-date statistical and analytical materials about Russian economy. <http://www.vedi.ru/>.
14. **Ministry of Taxation of the Russian Federation.** <http://www.nalog.ru/eng/>.
15. **American Chamber of Commerce in Russia.** <http://www.amcham.ru/>.
16. **Economic Expert Group.** [http://www.eeg.ru/\(e\)index.html](http://www.eeg.ru/(e)index.html).
17. **Open Budget Regions of Russia.** <http://openbudget.karelia.ru/eng/main.shtml>
18. **SIORA.** Information about Russian economy, industry, companies and Russian regions. <http://www.russianbusinesssite.com/>.
19. **Site of Russian Foreign Trade «Russia-Export-Import»** <http://www.rusimpex.ru/>
20. **ISI Emerging Markets** Company and industry information, financial market data, and macroeconomic analysis. <http://site.securities.com/>.
21. **Russian bond market and business information** www.cbonds.info.
22. **Russia: all 89 Regions Trade and Investment Guide** www.ctecpub.com.
23. **Russian Import-Export site** — a forum for foreigners and Russians to find trade partners. www.users.globalnet.co.uk/.
24. **Import and Export Market reports by country** www.icongroupline.com (paid service).
25. **The Moscow International Business Association** — www.miba.ru.
26. **The Russian National Chamber of Commerce & Industry** — www.tpprf.ru.
27. **The European Business Club of Moscow** — www.ebc.ru.

2. FINANCIAL MARKETS

1. **Russian Trading System (RTS).** <http://www.rts.ru/engl/>.
2. **Moscow Interbank Currency Exchange (MICEX).** <http://www.micex.com/>.
3. **Russian Financial Market.** [Red-stars.com/financials](http://www.red-stars.com/financials). <http://www.rsf.ru/>.
4. **United Financial Group.** <http://www.ufg.ru/>.
5. **ATON investment company** <http://www.aton.ru/en/>.
6. **Nikoil investment company** <http://www.nikoil.ru>.
7. **Troika Dialog investment company** <http://www.trodial.ru/>.
8. **Renaissance Capital** <http://www.rencap.com/eng/>.
9. **Rustocks.com.** <http://www.rustocks.com>.

3. AUTOMOTIVE SECTOR

1. **Ernst and Young in Russia** http://www.ey.com/global/content.nsf/Russia_E/Home
 —International Automotive Supplier Industry in Russia, Survey Report, March 2003. Available at: http://www.ey.com/global/content.nsf/Russia_E/International_Automotive_Supplier_Industry_in_Russia_-_Executive_Summary. For further information contact: Jean-Francois Tremblay, Tel. 7 (095) 705 9292, E-mail: Jean-Francois.Tremblay@ru.ey.com.

—For automotive and Industrial Production see http://www.ey.com/global/content.nsf/Russia_E/Automotive_and_Industrial_Production.

2. **KPMG** www.kpmg.ru.
3. **PriceWaterhouseCoopers**. www.pwcglobal.ru; <http://www.pwcglobal.com/Extweb/industry.nsf/docid>— Global Automotive Publications.
4. ***Russian National Association of Automotive Component Producers**. www.napak.ru
5. ***Russian National Automotive Research Institute**. www.nami.ru.
6. ***Russian automotive news**. www.autonews.ru.
7. **AutoBusiness** — Automotive Manufacturing Magazine. <http://www.abiz.ru/eng/>.
8. **Za rulem** — Automotive Magazine. <http://www.zr.ru>
9. **Automotive News Europe**. <http://www.autonews.com>
10. **Agency of Innovation Marketing (“AIM”)**. http://www.aimpress.ru/2003-9/index_eng.xml. Monitoring and marketing studies in the Russian market.

4. ANALYST REPORTS

1. **Renaissance Capital**: The Russian Automotive Sector: Live And Let Die, May 2003. Contact: Natasha Zagvozdina, Tel. 7 (501) 258 7753, E-mail Nzagvozdina@rencap.com.
2. **MarketOption, Inc.** a Boston-based marketing and research company directed exclusively toward the Russian market. www.marketoption.com.
3. **International Business Strategies**, research company providing international market research reports on more than 130 topics from more than 75 countries. www.internationalbusinessstrategies.com .
4. **Datamonitor.com**, online service providing sector, company and news reports. www.datamonitor.com (paid service).
5. **The Emerging Markets Companion, Inc.** Sector and company information for different countries. www.emgmkts.com.
6. **IDC**. Country sector research reports. www.idc.com (paid service).
7. **ASM-Holding**. www.asm-holding.ru. Paid reports with data on the automotive market, including component sales, are available.
8. **Ladaonline**. Automotive information analytical center. www.ladaonline.ru

5. ANALYSIS and INFORMATION WEBSITES

1. ***Russian RBC Business News Service** www.rbc.ru.
2. **AK&M /Analytical Information Agency/** <http://www.akm.ru>.
3. **Interfax News Agency**. Provider of political, business and financial information from Europe and Asia with special emphasis on emerging markets. <http://www.interfax-news.com/>.



4. **Finam.ru**/Russian Full Service Investment Holding. Latest financial news, analytical information. <http://www.fin-rus.com>.
5. **Russian Information Agency Novosti**. <http://www.rian.ru/rian/intro.cfm>.
6. **Prime-Tass**. Business news agency. <http://prime-tass.com/>.
7. **The Information Telegraph Agency of Russia (ITAR-TASS)** <http://corp.itar-tass.com/english/about/>.
8. **Integrum World Wide**. Provides access to over 1300 full-text databases of central and regional newspapers, magazines, bulletins and other sources of information. http://www.integrumworld.com/eng_test/.
9. **Library of Publications of the Carnegie Moscow Center**. <http://pubs.carnegie.ru/english/>.
10. **Information Agency Reuters**. www.reuters.ru.
11. **Columbia University**. <http://www.columbia.edu/cu/sipa/REGIONAL/HI/russia.html>.
12. **U.S. Department of Energy. Office of Fossil Energy**. <http://www.fe.doe.gov/international/russia.html>.
13. **Russia on the Net**. Government Legislation, Legislation of Uzbekistan, Database on Russian Laws, links to Garant Legal Databases, Garant Saint-Petersburg, Russian Constitution. <http://www.ru/eng/index.html>.
14. **Russia at your fingertips — information for investors and businessmen**. www.publications-etc.com/russia/.
15. **Consultant Plus**. Legal information systems. www.consultantplus.ru
16. **Garant**. Russian legislation with commentary. www.garant.ru

6. NEWSPAPERS, MAGAZINES

1. ***Vedomosti newspaper**. www.vedomosti.ru.
2. ***Expert magazine**. www.expert.ru.
3. ***Financial Director magazine**. www.fd.ru.
4. **Internet Gazeta newspaper** <http://www.gazeta.ru/english/index.shtml>.
5. ***Lenta Internet newspaper** www.lenta.ru.
6. **The Moscow Times newspaper**. <http://www.themoscowtimes.com/>.
7. **The St. Petersburg Times newspaper**. <http://www.sptimes.ru/>.
8. **Russia today. Business information and online news service** <http://www.rus-siatoday.com>.
9. **The Russia Journal (daily)**. News source from Russia. <http://www.russiajournal.com/>.
10. **The Russia Journal (monthly magazine)**. <http://www.therussiajournal.com/>.
11. *** Kommersant Publishing Group** – daily paper “Kommersant”, weekly magazines “Dengi” and “Vlast”, monthly car-magazine Avtopilot. <http://www.kommersant.ru/>.
12. *** Rossiyskaya Gazeta** – Russian state newspaper. <http://www.rg.ru/>.

7. QUALITY CONSULTANTS AND CERTIFICATION ORGANIZATIONS

1. **Prioritet.** Quality management system improvement consulting. General Director: Vadim Lapidus. Address: 22, Nizhegorodskaya Str., Nizhny Novgorod, 603109, Russia; Tel. 7-8312-34-27-77; Fax. 7-8312-30-06-77; <http://www.centerprioritet.ru/>; mail@centerprioritet.ru.
2. **Synchron-Q.** Quality management system improvement consulting. General Director: Scott Bennett. Moscow Office: 8-102, Ostashkovsky Proezd, Moscow, 129345, Russia; Tel. 7-095-258-02-81; Fax. 7-095-185-44-64; Office in Saint-Petersburg: 63, Zhukovskogo Street, Saint-Petersburg, 193036, Russia; Tel. 7-812-346-73-27; Fax. 7-812-346-73-29; sbennett@online.ru, synchrus@online.ru.
3. **Conflux.** Quality management system improvement consulting. General Director: Vladimir Matsuta. Address: Office 410, 7, Vvedensky kanal, Saint-Petersburg, 192212, Russia. Tel. 7-812-326-45-71; Fax. 7-812-105-30-03; www.conflux.spb.ru; conflux@lek.ru.
4. **Russian Engineering Academy, Volga Department. Quality management system improvement consulting.** General Director: Yuri Mikheev. 3A, Studenchesky per., Samara, 443001, Russia. Tel. 7-8462-42-04-39; Fax. 7-8462-32-22-17; <http://www.poria.ru>; mikheev@poria.ru.
5. **Intersertifika.** Quality management system improvement consulting and ISO Certifications. Executive Director: Sergey Andreev. 55, Architekora Vlasova Street, Moscow, 117393, Russia. Tel. 7-095-128-78-80; Fax. 7-095- 784-64-50; <http://www.icgrp.ru>; rmoskwa@aha.ru.
6. **Certification Association “Russian Register”.** Assessment and certification of quality management systems. General Director: Arkadiy Vladimirtsev; 28, lit. A, Moiseenko str., 193124, Saint-Petersburg, Russia. Tel. 7-812-380-19-89, 7-812-380-19-90. Fax: (812) 380-19-91; <http://www.rusregister.ru/>; 026@rs-head.spb.ru.
7. **TEST-St. Petersburg Co. Ltd.** Center for testing and certification. 1, Kurlyandskaya Street, St.-Petersburg, 190103, Russia. Tel. 7-812-251-39-50; Fax. 7-812-251-41-08; <http://www.rustest.spb.ru>; ossktsp@rustest.spb.ru.
8. **BIG-SPb.** Quality consulting and its practical implementation. 2, 9-ya Sovetskaya Street, Saint-Petersburg, 191014, Russia. Tel. 7-812-278-98-55; Fax. 7-812-274-90-53; <http://big.spb.ru/>; big@set.spb.su.
9. **Proxy. IT Outsourcing and Consulting.** Quality management system improvement consulting. Managing partner: Christoph Richter; 160 Schwanthaler Strasse, Munich, 80339, Germany. Tel. 49 (0) 89/50-09-43-26; Fax. 49 (0) 89/50-09-43-27; www.proxyitc.com; richter@proxyitc.com



8. RUSSIAN INTERNET SEARCH ENGINES

1. www.rambler.ru
2. www.aport.ru
3. www.yandex.ru
4. www.google.ru
5. www.aport.ru
6. www.metabot.ru

9. GENERAL

1. **US Library of Congress Russia Country Study.** lcweb2.loc.gov/frd/cs/rutoc.html.
2. **Internet source of data on over 260 countries.** www.countryreports.org/russia.htm.
3. **A clickable map of Russia.** atlasgeo.span.ch/fotw/flags/geo-ru.html.
4. **Russian regional database.** www.cspp.strath.ac.uk/catalog11_0.html.
5. **Links to Russian newspapers.** <http://www.onlinenewspapers.com/russia.htm>.

Annex 4. Sources for the Primary List of Companies

- List of participants of the exhibition of the 1st International Specialized Exhibition “AutoComponents. New technologies” that took place in the Moscow “Manezh Exhibition Center”, in April, 2003 (<http://global-expo.ru>; Tel: +7 095 107 31 90, +7 095 107 39 37).
- Electronic database – business directory of companies in the automotive industry (<http://www.asuimp.ru>; asuimp@dol.ru; Tel: +7 095 562 40 13; Mihail Birulin, sales manager).
- List of members of the Russian National Association of Automotive Component Producers – NAPAK (www.napak.ru; Tel: +7 095 974 87 72).
- Database of clients of quality management consultant “Prioritet”(<http://www.centerprioritet.ru>; Tel: +7 8312 31 31 35).
- List of clients of the “Intercertifika”, a Russian quality management consulting firm (<http://www.icgrp.ru>; Tel: +7 095 784 64 54).

Annex 5. Questionnaire 1

CREATION OF A DATABASE OF RUSSIAN AUTOMOTIVE SUPPLIERS — POTENTIAL PARTNERS FOR FOREIGN INVESTORS. QUESTIONNAIRE FOR POTENTIAL PARTNERS

Name of the company _____

Contact information _____
(address, telephone, fax, e-mail)

1. Is the company currently investing in quality management improvement? Yes No
2. Does the company hold any certificates on international quality standards ISO-9000, QS-9000, ISO/TQ 16949, other? Yes No

If yes, please specify which _____

Date and place of issuance and expiration date; _____

If no, is the company planning to get certified

Please specify the certificate and planned date of certification _____

3. Please name quality management improvement methods, used at the factory
- | | | | | | |
|--|--------------------------|--|--------------------------|------------------------|--------------------------|
| Internal education programs, training and seminars (please specify the person responsible for this Activity: Quality Director, Human Resource Director, other) | <input type="checkbox"/> | External consultants (Please specify the name) | <input type="checkbox"/> | Other (please specify) | <input type="checkbox"/> |
|--|--------------------------|--|--------------------------|------------------------|--------------------------|
4. Is the company interested in foreign partners to develop joint production? Yes No
5. How long has the company existed on the market?
- | | | | |
|-------------------|--------------------------|--------------|--------------------------|
| Less than 3 years | <input type="checkbox"/> | Over 3 years | <input type="checkbox"/> |
|-------------------|--------------------------|--------------|--------------------------|
6. What is the company's specialization on the market: type of the automotive component

7. Number of the working staff at the company is equivalent to:
- | | | | | | |
|-------|--------------------------|---------|--------------------------|-------|--------------------------|
| < 100 | <input type="checkbox"/> | 100-500 | <input type="checkbox"/> | > 500 | <input type="checkbox"/> |
|-------|--------------------------|---------|--------------------------|-------|--------------------------|



Annex 6. Questionnaire 2

QUESTIONNAIRE FOR THE POTENTIAL PARTNER SECOND ROUND FOR 50 COMPANIES SELECTED AFTER THE FIRST QUESTIONNAIRE

Name of the company _____

Contact information _____
(address, telephone, fax, e-mail)

1. Has the company been showing stable growth in production and sales volume for the last 3 years. Yes No
If yes, the growth rate (% per annum) is: _____ Absolute Change (in USD)
2. Has the company been profitable for the last 3 years Yes No
If yes, the growth rate (% per annum) is: _____
3. Is the company currently supplying to leading automakers in Russia. Yes No
If yes, please name which:

| | |
|-------------------|--------------------------|
| AvtoVAZ | <input type="checkbox"/> |
| IzhMash-Avto | <input type="checkbox"/> |
| GAZ | <input type="checkbox"/> |
| UAZ | <input type="checkbox"/> |
| GM-AvtoVAZ | <input type="checkbox"/> |
| Other auto makers | <input type="checkbox"/> |
5. Is the company currently working with any foreign partner? Yes No
If yes, please specify its name _____
6. Is the company a start-up or a new privatized (when if so please underline a matching answer).

Annex 7. Prioritizing the Companies

1. The IFC team began with a combined list of over 300 companies in the automotive industry. It was assembled from various sources listed in annex 4.
2. The team then narrowed the initial list by removing companies:
 - in the tractor, bus and truck segments;
 - located outside Russia;
 - which are already JVs with international companies;➤ This resulted in a “long list” with total of 236 companies;
3. The team then defined criteria to choose companies for a short list and distributed a questionnaire to all 236 companies. (See annex 3 for a copy of the questionnaire);

In general the team decided that whereas financial, technology and equipment improvements can be made relatively quickly, quality management system improvements take the most time. Therefore the questionnaire addressed the following factors considered significant in potential partners:

- Quality Management System Certificates;
- Plans to improve the quality management system;
- Investments made in quality management system improvement;
- Companies more than 3 years old;
- Companies with more than 100 employees;
- Companies interested in working with international partners;

4. Based on the responses to the questionnaire the team found 54 companies matching the criteria. Then IFC team sent out another questionnaire to these 54 companies in order to determine a shorter list, final of companies for more detailed study and visits. (see annex 4 for the second questionnaire and the weights assigned to all the factors.)
5. Having ranked all companies by each factor and calculated their weighted average³³ 21 companies were selected for a ‘final list’.



Annex 8. Selecion Criteria: Ranking Scores.

| Filtering factor | Points | Description |
|-----------------------------------|--------|---|
| Quality Certificates | 5 | ISO 9001 from well-known certification firm |
| | 4 | ISO 9001 from little known firm |
| | 3 | ISO 9001 expired/old version |
| Quality Consulting | 5 | Both internal training and external consulting used |
| | 4 | External consultants invited only |
| | 3 | Internal training only |
| Production Growth | 5 | Production growth |
| | 4 | Stable |
| | 3 | Decrease |
| | 0 | Information refused |
| Financial Stability | 5 | Growth in sales/profits |
| | 4 | Stable sales/profits |
| | 3 | Decrease in sales/profits |
| | 0 | Information refused |
| Supplies to Russian OEMs | 5 | Yes |
| | 1 | No |
| | 0 | No response |
| Former Soviet or Start up | 5 | Start up, new company |
| | 3 | Former Soviet, privatized |
| | 0 | No response |
| Work with foreign partners | 5 | Current work (including imports) |
| | 1 | No current connections |
| | 0 | No response |
| Export Experience | 5 | Current exporter |
| | 1 | No export experience |
| | 0 | No response |

Annex 9. Selection Criteria: Weights.

| Filtering Factor | Responses | Rank (0-5) | Weight (0-100%) | Explanation |
|----------------------|----------------------------------|------------|-----------------|--|
| Quality Certificates | ISO 9001 from well known firm | 5 | 30% | Quality is the number one factor for selection |
| | ISO 9001 from little known firm | 4 | | |
| | ISO 9001 expired/old version | 3 | | |
| Quality Consulting | External and internal consulting | 5 | 40% | It is harder and takes more time to improve the quality management system of the company than to buy new machines or learn new technology. |
| | External only | 4 | | |
| | Internal consulting | 3 | | |
| Production growth | Production growth | 5 | 5% | |
| | Stable | 4 | | |
| | Decrease | 3 | | |
| | Information refused | 0 | | |
| Financial growth | Growth in sales/profits | 5 | 5% | Financial information collected by telephone survey may be unreliable. Companies are less open about this information. |
| | Stable sales/profits | 4 | | |
| | Decrease in sales/profits | 3 | | |
| | Information refused | 0 | | |



| | | | | | |
|--|----------------------------------|--|---|----|--|
| Supplying to Russian OEMs } | Yes | | 5 | 5% | Important factors, but not as critical as the Quality issue. |
| | No | | 1 | | |
| | No response | | 0 | | |
| | | | | | |
| Former Soviet or Start up } | Start up, new company | | 5 | 5% | |
| | Former Soviet, privatized | | 3 | | |
| | No response | | 0 | | |
| | | | | | |
| Work with foreign partners } | Current work (including imports) | | 5 | 5% | |
| | No current connections | | 1 | | |
| | No response | | 0 | | |
| | | | | | |
| Export experience } | Current exporter | | 5 | 5% | |
| | No export experience | | 1 | | |
| | No response | | 0 | | |
| | | | | | |

Sum=100%

Annex 10. List of 54 Companies (Alphabetical Order)

| # | Company | Component | Location | Contact information |
|---|-------------------------------------|--|--|--|
| 1 | Arzamass factory of radioparts, OAO | Resistors, resistor based sensors, switches, Parts for engines (engine belt tension mechanism) | 9 "a", Victory str., Arzamas, Nizhegorodskaya region, 607220; Tel.: (83147) 4-1885; Fax: (83147) 4-1842 | General director — Valentin Victorovich Kostin; Finance & economy director — Ivan Ivanovich Spirin; Marketing & sales director — Andrey Vasilyevich Shperling |
| 2 | Avtoelektronika, OAO | Microprocessor transmission management systems, pressure regulators, engine management units | 18, Azharovskaya str., Kaluga, 248631; Tel.: +7 (0842) 55-00-24; e-mail: ae@ae.ru; http://www.ae.ru | General director — Andrey Vilenovich Perchyan; Finance and economy director — Nickolay Vladimirovich Turrov; Quality director — Veniamin Vasilyevich Irinarckov |
| 3 | Avtoagregat, OAO | clutch system, suspension system, wheels and hubs, braking system, door locks and ignition system. | 2 Shuiskaya st., 1, Kineshma, Ivanovo region, Russia, 155800; Tel.: +7 (09331) 5-76-07; 5-74-57; Fax: +7 (09331) 2-07-65; E-Mail: root@kineshma.ru; http://www.kineshma.ru | General Director — Valeri Ardalyonovitch Smyshlyayev; Quality Director — Vyacheslav Anatolyevitch Smirnov; First Deputy General Director, Marketing Director -Victor Alexandrovitch Dogadkin |
| 4 | Avtoarmatura, OAO | Car antennas switches, ignition locks and other electrical and plastic components | 21, Salova str., 192102, Saint-Petersburg, Russia; Tel.: +7 (812) 112-88-73; aaplant@rol.ru | General director- Alexander Mihailovich Tkachenko; Deputy general director — Alexander Evgenevich; Dudarev |
| 5 | Avtocentr, OOO | Accumulators | 9, Sarmengovay str., Ivanovo, 153005; Tel.: +7 (0932) 37-12-42; Fax: (0932) 37-16-07 | General director — Anatoly Leonidovich Saratov |
| 6 | Avtoelektroarmatura (Avar), OAO | Oil pressure sensors, fuel level sensors | 108, Sovetskaya str., Pskov; Tel./Fax: +7 (8112) 16-07-97, 16-16-20 | General Director – Pavel Pavlovich Melnikov; Chief of marketing department — Andrey Sokolov |
| 7 | Avtokoplekt, OAO | Automotive electronics | 1 "a", Sirtlanovoy str., Belebey, Bashkortostan Republic; Tel: +7 (34716) 44640 | General director — Alexander Alexeevich Sorokin; Technical Controller — Olga Alekseevna Ryakina |



| | | | | |
|----|-------------------------------------|---|---|--|
| 8 | AvtoPribor Factory, OAO | Instrument clusters, thermostats, speedometers, tachometers, windshield wipers, sensors, relays, other electrical | 79, Bolshaya Nizhegorodskaya str., Vladimir 600016; Tel.: +7 (0922) 21-05-82, Fax: +7 (0922) 29-71-16 | General director — Aleksey Aleksandrovich Melnikov; Quality director — Edward Georgievich Raiter |
| 9 | Avtotechinca, OOO | Floors, ceilings, trunk coverings and sound insulation panels | 6 Travyanaya St., Nizhny Novgorod, 603037, Russia; Tel.: +7 (812) 23-12-43, Fax: +7 (8312) 23-12-98 | General director — Sergey Mihailovich Konovalov |
| 10 | Avtozhgut, ZAO | Brushes for electric devices and wires for ignition systems | 9 b, Lomonosova str., Nizhniy Novgorod, 603105; Tel./Fax: +7 (8312) 78-45-96; zavod@avtozgot.ru; avtozgot@sinn.ru | General director — Andrey Aleksandrovich Garatin. |
| 11 | Balockovorezintekhnika OAO | Rubber parts, sleeves, sound isolating parts | Industrial zone, Balakovo-16, Saratovskaya region; Tel.: +7 (8453) 9-68-69; Fax: 2-20-20 | General director — Evgeny Semenovich Efremov; Production and marketing director — Alexander Dmitrievich Antoshin |
| 12 | Batmaster-diesel, OOO | Internal-combustion engines, pistons for Internal-combustion engines | 39-22, Pochtovaya str., Solnechnogorsk, Moscow Region; Tel.: (095) 109-00-28 | General director — Alexandra Vasilevna Krivchuk |
| 13 | Bearing Factory №10, OAO | Bearings, piston rings | 1, Peskova str., Rostov on don; Tel.: +7 (8632) 22-56-72 | General director — Georgiy Alexandrovich Melnik; Quality director — Anatoliy Yakovlevich Ignatov |
| 14 | Betar, OOO | Water and gas meters | 127 Engels Street, Chistopol, Tatarstan, 42298, Russia; Tel.: 7 (84342) 94-6-73. | General director — Rinat Fardeev |
| 15 | Citron, Autocomponents factory, OAO | Suspensions | 234, Oktybrskaya Str., Stavropolsky Region; Shpakovskoe village; Tel.: +7 (86553) 5-21-53 | General director — Alexey Vasilevich Polickarpov; Quality director — Uriy Petrovich Kirichek |

| | | | | |
|----|--|---|---|---|
| 16 | Detalstroykonstruktsiya (DSK), OOO | Fuel tanks, carpeting, window raisers, miscellaneous components | Industrial Park on AvtoVAZ territory, Togliatti, Samara region, 445026, Russia | General Director: Aleksey Ivanovich Zverev; Technical Director: Vladimir Petrovich Maslennikov |
| 17 | Dimitrovograd Automotive Equipment factory, OAO | Car body fittings; electrical equipment; | 78, Avtostrouteley str., Ulyanovskaya region, Dimitrovgrad; Tel.: +7 (84235) 5-25-62, 5-21-71; www.daaz.ru | General director — Victor Pavlovich Potemkin; Deputy general director of quality — Boris Yakovlevich Surilov; Deputy director of commerce — Dmitry Vladimirovich Panchenkov |
| 18 | Egorievsky Factory for Asbestos technical parts, OAO | Brake linings, compressors | Industrial zone, Egaorevsk, Moscow region; Tel.: +7 (09640) 5-08-71 | General Director –Igor Mihailovich Aksenov; Deputy Quality Director on — Alexander Dmitriyevich Okulov; Marketing Director — Valery Victorovich Glebov |
| 19 | Elabuga Car Factory, PO, GUP* | Motors for air-conditioning, windshield wipers, switches | 2, Tanaevskoe highway, Elabuga, Tatarstan Republic; Tel.: +7 (85557) 5-10-03, Fax.: +7 (85557) 5-10-90; www.elaz.ru | General director — Ravil Hamatovich Zariyov; Quality director — Gakil Maulemberdievich Nurmuhametov |
| 20 | Elara, OAO | Ignition systems; climate control systems; signal and control systems | 40, Moskovskiy avenue, Cheboksary Chuvashia; Tel.: +7 (8352) 49-10-63 www.elara.ru | General director — Gleb Andreevich Ilenko; Deputy director of quality — Alla Alexeevna; Rackova; Director of Automotive Business: Anatoly Nikolaevich Danilov |
| 21 | Elektrosvet, PO OOO | Wiring | 126, Ordzhenikigze str., Rostovska; tel.: +7 (86354) 3-21-80 | General director — Yuri Alexandrovich Pachomov; Deputy director on quality — Igor Vladimirovich Efimenko |
| 22 | Eltra, OAO | Starters, heaters | 42, Zubcovskoe highway, Rzhev, Tverskaya region; Tel.: +7 (08232) 2-10-35; 2 05 85 | General Director-Vladimir Valerievich Lensky; Marketing director — Olga Anatolyevna Ribkina |

* PO – Production Union; GUP – State Owned Enterprise;



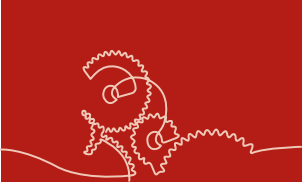
| | | | | |
|----|---|---|---|--|
| 23 | Energotechmash, OAO | Automated instruments and devices for temperature pressure control | 40, Morkvashinskaya str., Zhigulevsk, Samarskaya region; Tel.: +7 (84862) 6-15-84; http://etm.volga.ru | General Director — Sergey Nickolaevich Ogrin; Marketing & development director — Yuri Vasilyevich Chovrin; Director on finance — Oleg Anatolyevich Pavlov |
| 24 | Intercos-IV, ZAO | Automotive body panel dies, other tooling for large-sized stamping, Stampings for automotive and other industries | 25 A Bolshoy Pr. P.S, Saint-Petersburg, 197198; Tel: +7 (812) 232-14-76; Fax: +7 (812) 232-46-79; www.intercos-iv.ru | Managing Director — Timur Borisovich Shoshtaev — tshoshtaev@intercos-iv.ru |
| 25 | Avisma Titanium-Magnesium Works, ZAO | Magnesium-based parts for the automotive industry | Berezniki, Perm region, 618421 Russia Tel: +7 (34242) 93666, 93550; Fax: +7 (34242) 93999, 41111; E-mail: avisma@avisma.ru | General director — Vyacheslav Tetyukhin; Quality & Certification Director — Sergei Ovchinnikov; Director on Technology, Science & Development — Viktor Kurnosenko |
| 26 | Kaluga Plant of Automotive Electrical Equipment (KPAE), OAO | Electrical equipment | 18, Azarovskaya str., Kaluga; Tel./ Fax: +7 (0842) 53-10-44, 55-05-75 | General director — Anatoli Naumovich Faerovich; First deputy general director — Sergey Vasilyevich Yashenko; Chief engineer — Nickolay Vasilyevich Kolesnikov |
| 27 | Kursk bearing company, ZAO | Engine Bearings | 23A, Agregatnaya Str., Kursk, Tel.: +7 (07122) 60-0-40; office@kpk.kursk.ru | General Director — Leonid Eduardovich Rogalevich; Commercial manager — Vasili Valentinovich Kvasnickov; Quality director — Ivan Pavlovich Sumakov |
| 28 | Lepse, OAO | Switches, sensors, contactors, automation systems | 24, Oktybrsky avenue, Kirov; Tel.: +7 (8332) 23-23-10 | General Director — Gennady Alexandrovich Mamaev; Production director — Victor Vasilevich Bratukin; Technical director — Vyacheslav Genadyevich Kosolapov |



| | | | | |
|----|----------------------------|---|---|---|
| 29 | Motordetal, OAO | Gasoline engines, engine bearings | 105, Moskovskaya str., Kostroma, 156604; Tel.: +7 (0942) 53-27-41, 53-22-11; Fax: +7 (0942) 53-09-62; E-mail: motorcpgg@kosnet.ru; http://www.motordetal.ru | General director — Uriy Engelsonovich Eliseev; Director on marketing — Michail Mickailovich Mihalev; Sales director — Sergey Viktorovich Kalashnik |
| 30 | Orleks, ZAO | Thermostats | 6, Lomonosova str., Orel 410037; Tel/ Fax +7 (0862) 41-62-36 | General Director — Nikolay Nickolaevich Kostin; First deputy general director, finance director — Andrey Nickolaevich Kostin; Director of development and technology — chief engineer — Alexander Evgenyevich Zaichev |
| 31 | Osvar, OAO | Automotive lighting; internal headlights, braking lights | 13 Zhelezodorozhnaya St., Vyazniki, 601446, Vladimir Region; Tel: +7 (09233) 23-1-95; www.sok.ru | General director — Vladimir Elpidiforovich Sazhin; Quality Director — Vladimir Semyonov |
| 32 | Plastic, ZAO | Clutch, suspension, steering linkages, steering control elements, braking systems | 11, Radonezhskaya str., Chelyabinsk; Tel.: +7 (3512) 98-97-31; Fax: +7 (3512) 93-17-28; techdir@ap-plastic.ru; market@ap-plastic.ru; www.ap-plastic.ru | General Director – Vyacheslav Danievich Gershman; Technical Managers — Tel.:(3512) 98-33-48; Marketing department — Tel.:(3512) 93-35-94 |
| 33 | Polimerstroimaterialy, OAO | Trunk rugs, floor mats | Promzona, Otradny; Samara Region, 446300, Russia; Tel: +7 (84661) 23-0-15 | General director — Vladimir Ivanovich Kisilenko |
| 34 | Pramo, OOO | Starters, generators, radiators, heaters | 21, Electrozavodskaya str., Moscow; Tel.: +7 (095) 995-25-10; www.pramo.ru | General Director – Sergey Nikolaevich Smirnov |
| 35 | Samara Cable Company, ZAO | Cables, car wiring | 9, Kabelnaya St., Samara, 443022, Russia; Tel: +7 (8462) 28-22-40 | General Director: Valery Fedorovich Kluchnikov; Director for Development: Vyacheslav Rodionov |
| 36 | Samaraavtozhgut, OOO | Auto wiring assemblies, windshield washer systems, door lock wiring | 11 Dzerzhinskogo St., Samara, 443093, Russia; Tel: +7 (8462) 66-90-07 | General Director — Alexander Konstantinovich Dorofeev; Technical Director — Vladimir Kireev |



| | | | | |
|----|---|--|--|---|
| 37 | Saratov bearing factory, OAO | Bearings, balls and rollers for bearings | 64 a, Entuziastov avenue, Saratov; Tel.: +7 (8452) 99-29-62, 99-29-55;; Fax: (8452) 92-08-44; http://www.spz.ru ; info@spz.ru | General director — Anatoly Mickailovich Steckov; Head of information & analytical department — Dmitry Alexeevich Sityagin |
| 38 | Soate, ZAO | Autoelectronics; injection systems, ignition systems | 54, Vatutina str., Stary Oskol, Belgorodskay region; Tel.: +7 (0725) 22-46-67 | General Director — Anatoly Michailovich Mamonov; Deputy general director — Andrey Ivanovich Bolkovoy; Deputy director on quality — Elena Ivanovna Lagunova |
| 39 | Soteks, ZAO, NP | Polyurethane foam and plastic parts | 5 Shuvalovsky Proezd, Nizhny Novgorod, 603095, Russia; Tel: +7 (8312) 98-04-08; Fax: +7 (8312) 98-04-37; www.soteks.nnov.ru | General Director: Valery Adolfovich Batmanov, Head of the Automotive Division: Lev Gennadievich Alekseev |
| 40 | Start, PO | Automotive wiring | 11, Dzherginskogo str., Samara; Tel.: +7 (8462) 66-44-77 | General Director — Alexander Konstantinovich Dorofeev; Director of finance — Ilya Evgenevich Milehin |
| 41 | Teploobmennik, production-design union, OAO | Radiators, refrigerants (cooling systems), heaters | 93, Lenina avenue, Nizhniy Novgorod; Tel.: +7 (8312) 58-27-90; Fax.: (8312) 53-17-76; (8312) 53-09-96; http://www.teploobmennik.ru | General director — Victor Victorovich Tyatinkin; Deputy director on quality — Boris Michailovich Kuzmin |
| 42 | Toplivnye Sistemy, OOO | Fuel injection system elements, cooling systems pumps, electromagnetic valves, gasoline pumps, carburetors | 5, Samoylovoy Str., Sain-Petersburg; Tel: +7 (812) 166-72-37; market@topsys.spb.ru | General director — Michail Igorevich Mazurov; Commercial manager — Mickail Timurovich Klimenko; Quality director — Nikolay Alexandrovich Sugrey |
| 43 | Trek, ZAO | Constant velocity Joints (CV Joints), tie rods, springs, and shock absorbers | 31 Gotvald str, Miass, 456306 Cheliabinsk region, Russia; Tel: +7 (35135) 760-75-31 | General Director — Andrey Nikolaevich Paduchin; Deputy Director for Human Resources -Vladimir Semenov; Deputy Director for Quality — Evgeny Valentinovich Kogan |



| | | | | |
|----|--|---|--|--|
| 44 | Tubotechnika, НПО | Turbocompressors for diesel engines | 4, Zavodskoy passage, Moscow region Protvino; Tel.: +7 (0967) 74-49-03; Fax: 71-71-80 | General director — Valery Naumovich Kaminsky; Quality director — Valery Dmitrievich Egaorov |
| 45 | Ufimsky factory for automobile engine, OAO | Internal-combustion engines | 2, Ferina str., Ufa, Bashkortostan republic; Tel.: +7 (3472) 38-58-66; Fax: (3472); 38-37-44. | General director — Valery Pavlovich Lisunov; Controller — Alexander Nikolaevich Kristininov |
| 46 | Uralelastotekhnika, ZAO | Compressors, rubber parts | 7, Monterskaya str., Ekaterinburg, 620085; Tel.: +7 (3432) 25-02-82; Fax: (3432) 25-12-11, 25-62-03; http://www.elastika.ru | General director — Yuri Alexandrovich Gritsay; Chief engineer — Stanislav Leonidovich Krasavin; Production & technology director — Valentina Ivanovna Kemeneva |
| 47 | Velkont, OAO | Rubber technical parts, switchers | 16, Lenina str., Kirovo — Chepeck Kirovskaya region; Tel.: +7 (83361) 36-3-15 | General director — Vladimir Sergeevich Shestakov; Controller — Vladimir Ilyich Spirin |
| 48 | Vologodsky Bearing Factory, ZAO | Bearings | 13, Okruzhnoe highway, Vologda, Fax: +7 (8172) 21-07-79, 21-07-66; okid@vbf.ru | General Director – Alexander Ivanovich Melnikov; Deputy director on marketing — Alexey Alexandrovich Melnikov; Director on finance — Svetlana Ruslanovna Skvortsova |
| 49 | Voltyre, OAO | Tires | 3, Pervomayskaya str., Volzhskiy, Volgogradskaya region; Tel.: +7 (8443) 22-70-73; Tel.: (8443) 22-74-43 | General director — Nickolay Vasilyevich Kulin; Deputy director on finance — Nadezda Semenovna Bogdanova |
| 50 | Volzhskrezinotekhnika, ZAO | Compressors, shock-absorbers, rubber components | Chemical center, Volzhskiy, Volgogradskay region; Tel.: +7 (8443) 22-35-02; Fax: 22-30-61; www.vlz.ru | General director — Sergey Borisovich Vicolov; Director of economics — Vladimir Pavlovich Nuzhdin; Production and commerce manager — Liliya Anatolyevna Mokeeva |



| | | | | |
|----|-------------------------------------|--|--|---|
| 51 | Volzhsy bearing factory № 15, OAO | Roller and bevel bearings | Volzhsy, Volgogradskaya region; Tel.: +7 (8443) 25-30-04; vpz15@sprint-v.com.ru | General Director — Vladimir Vasilevich Litov; Development director — Alexander Anatolyevich Yuchnov; Deputy director on finance — Vasily Petrovich Paravaev |
| 52 | Zavolzhsy Engine Factory (ZMZ), OAO | Diesel engines, engine main bearings | 1, Sovetskay str., Zavozhlie city, Nizgorodskay region, Tel.: +7 (83169) 6-72-57 | General Director — Victor Vladimirovich Kluchai; Director of economy and finance — Alexander Vladimirovich Konuckov; Quality director — Oleg Viktorovich Vlasov |
| 53 | ZEIM-Line, OAO | Controllers for fuel injected engines, vehicle antitheft systems and diagnostic equipment for electronic systems | 1, Yakovlev prospekt, Cheboksary, 428020, Chuvashia, Russia; Tel: +7 (8352) 62-8-70; www.zeim.ru | General director — Georgy Solovyev |
| 54 | Arzamass device factory, OAO | Microprocessor-controlled Management Systems | 8, 50 let VLKSM Str., Arzamas city, Tel (83147) 9-94-65, Fax: 4-19-226; gazapz@nts.nnov.ru | General director — Yuri Pavlovich Starcev; Technical director — Anatoly Petrovich Chervyakov; Production director — Lev Nickolaevich Muchin |

Annex 11. Protective Tariffs

A new Russian customs law came into effect at the end of 2003, called “Government Decree of 11.11.2003 #681 “On entering amendments to the customs tariff of the Russian Federation on light vehicles”. Table 1 provides the most recent information about these import tariffs on automobiles as of the end of 2003.

In addition to the customs duties on cars imported into Russia, there are other Federal taxes. The main taxes are the Excise Duty and Value Added Tax (VAT) Table 2 represents excise duties on imported cars.

Federal Law of 07.07.2003 #117-FZ “On entering changes to the Second Part of Tax Code of the Russian Federation and some other legislative acts of the Russian Federation” cancelled the sales tax and lowered the VAT by 2% to 18%. The excise-tax for automobiles with engine horsepower between 90 and 150, was increased from 13 to 14 rubles per horsepower. For cars with more than 150 hp. the rate increased from 129 to 142 rubles.

Table 1

Custom Duties on Used Imported Cars

| Age of the car | Engine capacity (cc) | Custom Duty |
|----------------|----------------------|--------------------------------------|
| Under 3 years | 1800-2300 | 25 %, but not less than 1.8 Euros/cc |
| | 2300-3000 | |
| 3-7 years | 1800-2300 | 25 %, but not less 0.55 Euros/cc |
| | 2300-3000 | |
| Over 7 years | 1800-2300 | 2.2 Euros/cc |
| | 2300-3000 | |

Table 2

Excise Duties on Imported Cars

| Engine type | Excise Duty |
|--|---------------------|
| Automobiles with engine power less than or equal to 90 hp | 0 Rubles per 1 hp |
| Automobiles with engine power above 90 hp but not exceeding 150 hp | 14 Rubles per 1 hp |
| Automobiles with engine power exceeding 150 hp | 142 Rubles per 1 hp |



The examples presented below show the impact of the tariffs and taxes on the imported cost of a foreign car in Russia. Note that the tax system in Russia is subject to changes and the following was applicable at the end of 2003.

Example 1: Importation of a New Car

Importation of a hypothetical new car with a sales price (CIF price) of \$16,000. Vehicle engine size of 120 cubic inches (1,875 cc), with 120 horsepower.

1. Custom Duty.
 - a. $0.15\%^{33}$ of \$16,000 = \$24
 - b. 25% of \$16,000 = \$4,000. For a new car, under 3 years, with engine capacity 1 875 cc custom tariff = $1,875 * 1.46^{34} = \$2,738$. As long as \$2,738 is less than 25% of the original price, customs tariff would total \$4,000.
 - c. Subtotal: $\$16,000 + \$4,000 + \$24 = \$20,024$
2. The excise tax is $120 * 14 = 1,681$ Rubles or \$60³⁵.
3. Next step is to calculate VAT for the new price \$20,084 at the rate of 18%, starting January 1, 2004. This amount is \$3,615 for total of \$23,700.
4. Assuming a 5% dealer mark up the car will be priced in Russia at \$24,885.

Example 2: Importation of a Used Car

This example shows the cost impact for a hypothetical used car, 8 years old, engine capacity 160 cubic inches (2,500 cc), equivalent to 160 hp and purchased for \$3,000 for export to Russia.

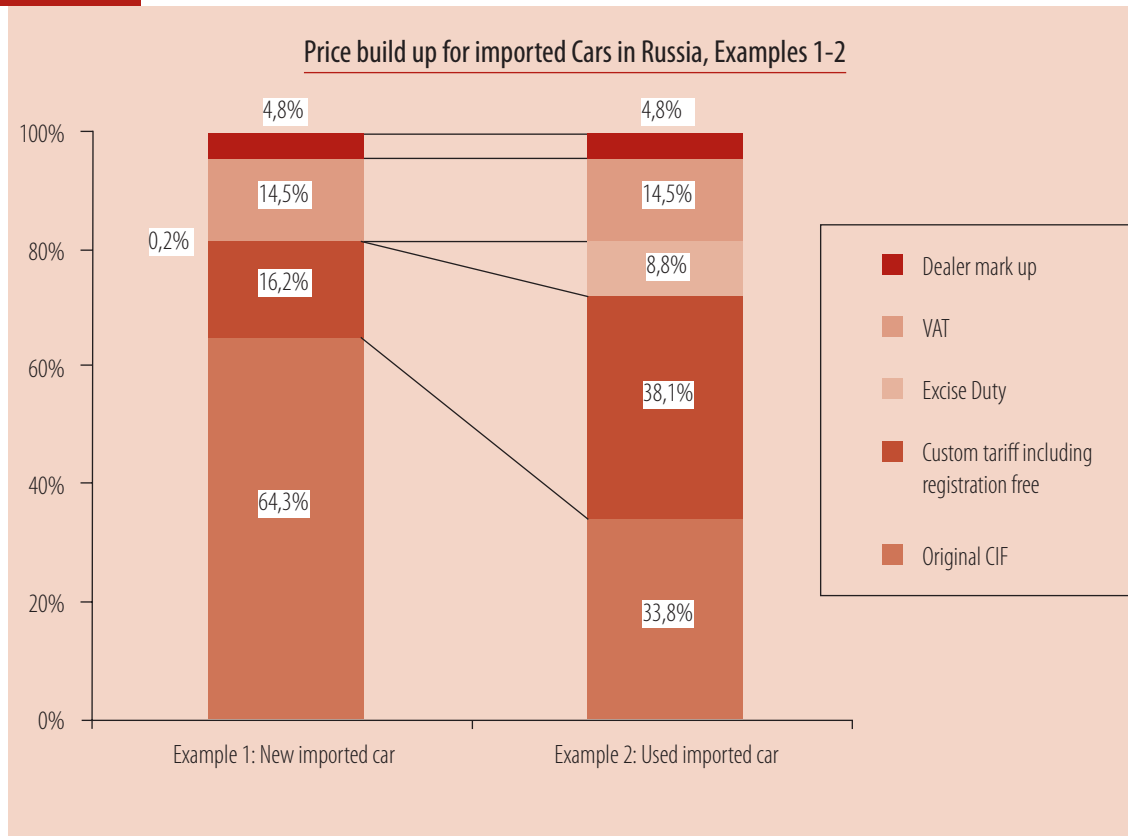
1. Custom Duty.
 - a. 0.15% of \$3,000 = \$4.50
 - b. For a used car, over 7 years, according to table 2 the customs duty is fixed at 2.2 Euro/cc. For this example the customs tariff for engine capacity 1,875 cc will be = $1,875 * 1.78 = \$3,375$.
 - c. Subtotal: $\$3,000 + \$4.50 + \$3,375 = \$6,380$
2. The excise tax is $160 * 142 = 22,720$ Rubles or \$781³⁶, which is a 26% increase in the vehicle's price.
3. The new price of \$7,161 is then accessed VAT; this adds 18% to the price for a new total of \$8,450.
4. Finally, the Russian dealer's 5% mark up brings the price to \$8,872 which is almost triple the original purchase price.

³³ Fixed charge for customs registration.

³⁴ Exchange rate for Euro set up by the Central Bank at 35.763 on 18/01/04, cross exchange-rate totals 1.23.

³⁵ Article 193, point 1 of the Tax Code of the Russian Federation.

³⁶ Exchange rate 18/01/04 for 1 USD is equal to 29.075 Rubles.

Figure 1**Annex 12.****Customs Duties on selected automotive parts as of January 28, 2004**

| Part Description | Custom Duty |
|---------------------------------|--|
| Tires, new pneumatic, of rubber | 20% per piece but not less than 6.2 euro |
| Bodies for motor vehicles | 15% per piece |
| Gear boxes | 5% per piece |
| Suspension shock-absorbers: | |
| Steering wheels, columns, boxes | |
| Air-bags | |



Annex 13. Russian OEM Vehicles

AVTOVAZ MODELS

Klassica (VAZ 21043, VAZ 21053, VAZ 21070)

The “Klassica” is a slightly updated version of the Fiat car that AvtoVAZ was originally set up to produce in 1970. This car is also known as the “Zhiguli” or “Semerka” (Number 7). At the end of 2003, dealer prices for the Klassica were in the range of four to seven thousand US dollars.



VAZ-21043 (Klassica)

Samara (VAZ 21083, VAZ 21093, VAZ 21099, VAZ 2115)

The Samara model started production in 1984 and has passed through many modifications since. At the end of 2003 dealer prices for Samara were in the range of five to seven thousand US Dollars. VAZ 21083 is also referred to as the “Vosmyerka” (Number 8) and models VAZ 21093, VAZ 21099 as the “Devyatka” (Number 9).



VAZ 2115 (Samara)

Niva (VAZ 2120, VAZ 2121, VAZ 2131)

The Niva is a small, four-wheel drive vehicle, produced since 1977 and modernized in 1993. The Niva is scheduled to be phased out in favor of the upgraded “Chevy Niva” version, produced at VAZ’s joint venture with General Motors. At the end of 2003, dealer prices for the Niva were in the range of nine to ten thousand US dollars, while at the end of 2003 Chevy Nivas were generally dealer priced at approximately twelve thousand US dollars. In 2003 GM-AvtoVAZ increased the real price of the Chevy Niva by converting dollar prices to the same number of euros.



Niva-2121



Niva-2131

Lada (VAZ 2110, VAZ 2111, VAZ 2112)

Produced since 1996, the Lada is a C class car. It is also referred to as “Desyatka” (Number 10). Dealer prices for Ladas were in the range of \$6,800 to \$7,000 at the end of 2003.



VAZ 2111(Lada)



VAZ 2112 (Lada)

Oka

Produced since 1979, the OKA car was originally designed to provide short distance transportation to the disabled. The car is produced at the AvtoVAZ “SeAZ” factory near Moscow as well as at KAMAZ (see below).



OKA



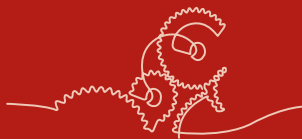
Kalina 1117

Today only about 50% of Oka sales are to the disabled with the rest going to customers looking for very-low-priced transportation. Dealer prices for the OKA by the end of 2003 were approximately \$2,500.

RUSPROMAVTO (GAZ) MODELS



2004 Volga model



SOK GROUP (IZH-AVTO) MODELS



Izh 21171



Izh 2127



Fabula 4X4



Izh 2126

SEVERSTALAVTO (UAZ) MODELS

The UAZ “Hunter” is improved version of its existing 4x4 vehicle, which was the Soviet army small 4x4. The Hunter will have more engine options and has a slightly different grill than the earlier model. In late 2003, dealer pricing for the Hunter was approximately 6,000 US dollars. In 2002 UAZ introduced the Simbir SUV. In late 2003 dealer pricing for the Simbir was approximately 10,000 US dollars.



UAZ 3909



UAZ 3303



UAZ -Hunter



UAZ-Simbir

Annex 14. Most Popular foreign Brands in Russia

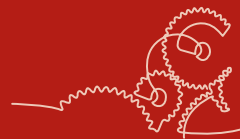
| Model | Sales in 2003, units | Change vs 2002, % |
|----------------|----------------------|-------------------|
| Toyota (4)* | 25,075 | +300 |
| Ford (9) | 20,712 | +300 |
| Daewoo (1) | 20,255 | +30 |
| Mitsubishi (5) | 17,663 | +16 |
| Hyundai (10) | 14,561 | +260 |
| Kia (11) | 12,420 | +230 |
| Renault (3) | 11,237 | +37,5 |
| Nissan (6) | 9,470 | +18 |
| Peugeot (7) | 8,850 | +23 |
| Opel (2) | 7,318 | +255 |
| Volkswagen (8) | 6,335 | - 7,1 |
| Skoda (2) | 6,291 | - 33,3 |
| Volvo | 5,027 | +72 |
| Suzuki | 4,044 | +200 |
| BMW | 3,774 | - 0,4 |
| Honda | 3,575 | +270 |
| Mercedes-Benz | 3,205 | +50 |
| Citroen | 3,160 | +39 |
| Audi | 3,111 | +15 |
| Mazda | 1,862 | +300 |

(*) Rank of the company in 2002.

Source: Izvestia

Annex 15. Top Selling Models of Foreign Cars Sold in Russia

| Company | Sold in 2003, units |
|------------------------|---------------------|
| Ford Focus (5) | 15,876 |
| Daewoo Nexia (1) | 14,722 |
| Toyota Corolla (11) | 8,772 |
| Mitsubishi Carisma (2) | 7,867 |
| Toyota Camry (14) | 6,404 |
| Hyundai Accent (7) | 6,198 |
| Daewoo Matiz (4) | 5,533 |
| Kia Rio | 5,479 |
| Hyundai Getz | 4,132 |
| Skoda Octavia (10) | 3,611 |



Annex 16. Foreign OEM Vehicles

Ford



Ford Focus

GM-AvtoVAZ



The Chevy Niva

Renault — JSC “AVTOFRAMOS”



Renault Clio

Avtotor: KIA, BMW



KIA RIO



The GM Hummer H2



BMW 3 series



BMW 5 series

TagAZ: Hyundai, Daewoo, Citroen



The Hyundai Accent



The Citroen Berlingo VP

Annex 17. Decree Of The President Of The Russian Federation No. 135 Of February 5, 1998 On Additional Measures For Increasing Investments For The Development Of The Domestic Automobile Industry

(Translation provided by the Ernst and Young Company)

For the purpose of creating conditions for the development of the domestic automobile industry as one of the key sectors actively influencing the process of economic and social development of the country, I resolve:

1. To adopt the proposal of the Government of the Russian Federation on state support of large-scale projects for the creation and development of production capacity for the manufacturing of contemporary types of automobile transportation and automobile components (hereinafter called projects) including marketable components with the participation of foreign investors, which meet the following criteria:

the total amount of investment necessary for the realization of the project shall be composed of not less than 1500 million roubles in the course of five years, that is fixed in an investment agreement concluded between the investor and the federal organ of the executive power authorized by the Government of the Russian Federation. In the case of the participation of foreign investors in the authorized (constituent) capital of a Russian commercial organization carrying out the realization of the project, its share must consist of no less than 150 million roubles;

the share of the expenditures made on the territory of the Russian Federation after the lapse of five years from the beginning of the realization of the project attributed to the prime cost shall compose not less than 50 per cent of the prime cost of the final product.

2. The Government of the Russian Federation shall determine the peculiarities of the legal regulation of the customs regime of a fee warehouse in regards to motor vehicles and automobile components made within the bounds of the realization of the project, having in mind in this case that:

the said motor vehicles and automobile components within the quotas, which have been established by the Government of the Russian Federation for each project, at the time of their export from the territory of free storage and import to the rest of the territory of the Russian Federation shall be considered originating from the Russian Federation:

when determining the said quotas it is necessary to proceed from the amount of actual annual investments in the realization of these projects, the



amount of the manufacturing of means motor vehicles and components and share of the expenditures made on the territory of the Russian Federation, and attributed to the prime cost of the final product;

in the case of the violations of the terms of this Decree and investment agreements mentioned in Item 1 of this Decree, the peculiarities of the customs regime of a free warehouse are not subject to application from the day of discovery of the said violations;

the time of application of the peculiarities of the customs of the customs regime of a free warehouse to the motor vehicles and automobile components made within the scope of a Project must not exceed the time of realization of this project, but cannot be more than seven years.

The State Customs Committee of the Russian Federation shall issue to Russian commercial organizations (including with foreign investments), which are implementing the realization of projects, licenses for the establishment of free warehouses on the basis of decisions of the Government of the Russian Federation.

3. The Government of the Russian Federation shall develop within two months a procedure for the determination of:
 - origin of the motor vehicles and components stipulated by this Decree;
 - share of the expenditures made on the territory of the Russian Federation in the prime cost of the final product;
 - quantitative limitations for the application of the peculiarities of the customs regime of a free warehouse stipulated by this Decree.
4. To recommend to the organs of the executive power of entities of the Russian Federation on the territory of which are located the Russian commercial organizations implementing the realization of these projects to grant to these organizations within the limits of their authority additional privileges and guarantees.

President
of the Russian Federation
Moscow, the Kremlin

B. Yeltsin

IFC Project Summary

This review was produced by the staff of the International Finance Corporation (IFC), Automotive Component Supplier Development Project, an IFC technical assistance project. Funding for the Project was provided by the United States Trade and Development Agency (USTDA) and partly by the IFC itself.



Ford Focus

The goal of the Project is to demonstrate how companies working in the large Russian automotive components sector can improve enough to produce to international standards. Investment into this important sector, employing tens of thousands, will support the production of higher quality automobiles in Russia, and create demand for new equipment and services as the sector modernizes.

The Project leverages the \$150 Million investment of Ford Motor Company in its Vsevolozhsk car assembly plant, where Ford “Focus” automobiles are assembled. The Russian government has strongly motivated Ford to ‘localize’ components for the Focus through import tariff relief. The Project therefore leverages large Ford investments in regional localization offices and Ford’s planned purchases from Russian firms.

Project Client Firms

The project has three main objectives:

1. Improvement of the capabilities of Russian component suppliers to produce to international standards;
2. Improvement of the attractiveness of Russian component suppliers as investment and partnering targets for foreign investors;
3. Development of local consulting capability for sustainable, long-term impact.

The Project has been working with four Russian automotive component producers, each of which is working with Ford in the Advanced Product Quality Process (APQP) to qualify as a supplier. They are: AvtoPribor factory, in Vladimir, AvtoTechnica in Nizhny Novgorod, Intercos-IV in Saint-Petersburg, and Continental Plast, also in Saint Petersburg.

With IFC assistance, Project client AvtoPribor of Vladimir, Russia, has created a modern production cell to handle its Ford production and signed a production order with Ford in early 2003. AvtoPribor expects to certify its entire 8000-person factory to the international automotive quality standard, ISO/TS 16949, in 2004, having made sig-



nificant progress as a result of the project. In addition to quality management system standards implementation, the Project has been also working on implementation of Toyota Production System, or Lean Production concepts, for more efficient and high quality production. Much of this work was done at AvtoPribor.

Project client Intercos-IV, of St. Petersburg, Russia, has developed an ISO-9001:2000 — compliant quality system and production area working together with project consultants. Intercos signed its production agreement with Ford in late 2003.

Project client AvtoTechnica, of Nizhny Novgorod has developed an ISO-9001:2000-compliant production area and factory procedures. A production contract with Ford is expected for AvtoTechnica in 2004. Work at Project client Continental Plast was just beginning as this document went to print.

1. OAO "AvtoPribor" Factory

Vladimir City, 600016, 79 Nizhegorodskaya St.

Product line: Windshield wipers,
Speedometers; other instrument clusters.

General Director: Alexey Melnikov

Tel: 7 0922 32 45 12

Quality Director: Edward Raiter

Tel: + 7 (0922) 21-63-64

Fax: +7 (0922) 21-52-37

www.avtopribor.ru

avtopribor@avtopribor.ru

2. ZAO "Intercos-IV"

Saint-Petersburg, 197198, 25 A Bolshoy Pr. PS.

Product line: large dies and molds;
other large- sized tooling, metal body stampings.

General Director: Timur Shoshtaev

tshoshtaev@intercos-iv.ru

Quality Manager: Alexey Ivanov

aivanov@intercos-iv.ru

Tel: +7 (812) 232-14-76

Fax: +7 (812) 232-46-79

www.intercos-iv.ru

3. OOO "AvtoTechnica"

Nizhny Novgorod, 603037, 6 Travyanaya St.

Product line: Floor, ceiling and trunk coverings;
sound insulation panels.

General Director: Sergey Konovalov

Tel: +7 (8312) 23-12-43

Fax: +7 (8312) 232-46-79

Project Activities

Development of local technical assistance capacity is a key Project strategy to enable sustainable change in the automotive sector. Local consultants can provide assistance at a small fraction of the cost of foreign specialists and without delays and misunderstandings caused by translation and interpretation.

The project has been working to develop the knowledge and skills of two small business in Russia which will be able to provide similar technical assistance throughout Russia after the end of the project. These are:

1. Synchron-Q, an American firm with offices in St. Petersburg
2. Prioritet, a Russian firm in Nizhny Novgorod (<http://www.centerprioritet.ru>)

Both firms have demonstrated how highly competent Russian national consultants can provide excellent quality systems consulting for foreign projects. Both firms have enhanced their capabilities in the course of the project work:

- The project facilitated experience in intensive, day to day consulting on-site, as opposed to infrequent training visits;
- Ford Motor Company staff provided detailed information on how to satisfy general and specific customer quality system requirements;
- IFC staff provided the consultants with their first detailed exposure to Toyota Production System concepts and, in addition to concrete examples at the factories, provided books and other training materials that were not previously available to the firms.

Project Achievements and Results

After one year the main results for each of the initial Project companies were:

| | |
|---------------------|--|
| Avtopribor | <ul style="list-style-type: none"> ➤ Significant progress in ISO/TS 16949 implementation; ➤ Training and accomplishment of world-class Design Failure Mode Effects Analysis (DFMEA); ➤ Training and accomplishment of world-class Process Failure Mode Effects Analysis (PFMEA); ➤ Training and accomplishment of Measurement Systems Analysis and Statistical Process Control; ➤ Training in and use of Toyota Production System Concepts; |
| Intercos-IV | <ul style="list-style-type: none"> ➤ Creation of an ISO-9001: 2000-compliant factory Quality Management System; ➤ Training and accomplishment of world-class Process Failure Mode Effects Analysis (PFMEA); ➤ Training and accomplishment of Measurement Systems Analysis and Statistical Process Control; |
| AvtoTechnica | <ul style="list-style-type: none"> ➤ Creation of an ISO-9001: 2000-compliant factory Quality Management System; ➤ Training and accomplishment of world-class Design Failure Mode Effects Analysis (DFMEA); ➤ Training and accomplishment of world-class Process Failure Mode Effects Analysis (PFMEA); ➤ Training and accomplishment of Measurement Systems Analysis and Statistical Process Control; |



Sponsoring Organizations

International Financial Corporation



IFC (www.ifc.org), is the largest multilateral source of loan and equity financing for private sector projects in the developing world. It promotes sustainable private sector development primarily by:

- Financing private sector projects located in the developing world.
- Helping private companies in the developing world mobilize financing in international financial markets.
- Providing advice and technical assistance to businesses and governments.

The IFC Private Enterprise Partnership is IFC's technical assistance program in Eastern Europe and Central Asia. Together with IFC's donor partners the technical assistance program assists private companies and governments to:

- Attract private direct investment to all areas of the economies,
- Stimulate the growth of small and medium-sized enterprises,
- Improve the business enabling environment.

US Trade and Development Agency



The U.S. Trade and Development Agency (<http://www.tda.gov>) advances economic development and U.S. commercial interests in developing and middle income countries. The agency funds various forms of technical assistance, feasibility studies, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment.

Further copies may be obtained through:

International Finance Corporation,
36 Bld. 1, Bolshaya Molchanovka Str.
Moscow, 121069, Russia
Tel: + 7 (095) 411 75 55