
Gulliver's Business Entry into Russian Market

September 05, 2008

Gulliver International Co., Ltd.

1. Gulliver's Business Overview



1. Gulliver was one of the fastest companies to be listed on the 1st section of the Tokyo Stock Exchange



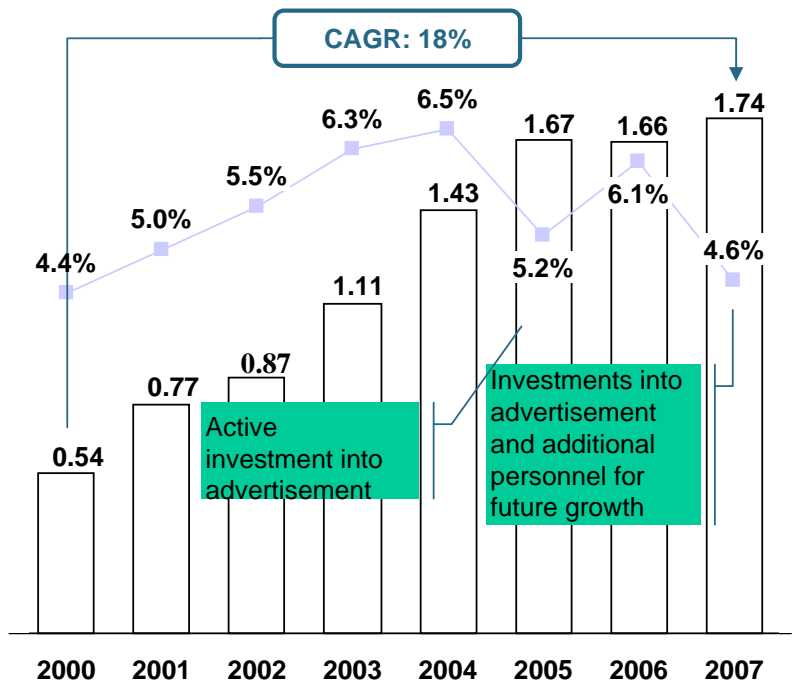
Corporate Profile: Gulliver International Co. Ltd

Basic information

Name	• Gulliver International Co. Ltd
History	• Oct. 1994: Established
Sales	• 1.74 bln. USD (2007)
Op.Profit	• 106.1 mln. USD (2007)
ROE	• 37.6% (2007)
ROA	• 26.2% (2007)
Awards	<ul style="list-style-type: none"> • Member of Community of Global Growth Companies (200 companies) • 2006 Porter Prize
Business Domains	<ul style="list-style-type: none"> • Buy-in and sales of used cars • Operation of auto auctions • Operation of used car information portals
Employees	• 2,468 ¹⁾
Registered Capital	• 37.9 million USD ¹⁾

1) As of February 2008
Source: Gulliver International

Sales and Op. Profit Margin [consolidated, bln. USD]



Note: Exchange rate of JPY/USD is 109.71 (22 Aug 2008)

2. Gulliver has created a unique business model into Japanese used car industry



Innovative business model elements by Gulliver

Issues the industry had been facing

Distrust against the evaluation & pricing process

- Uncertainty of "true" pricing as new car dealers use trade-ins as a form of rebate for new car sales
- High variability of offering prices even between neighboring used car stores
- Unavailability of market pricing information

Dissatisfaction with price

- Only low price offered to consumers due to high-risk nature of used car business in Japan
 - Rapid loss of value of used car stock
 - High cost of exhibition and maintenance
- Large difference between buy-in and resale prices

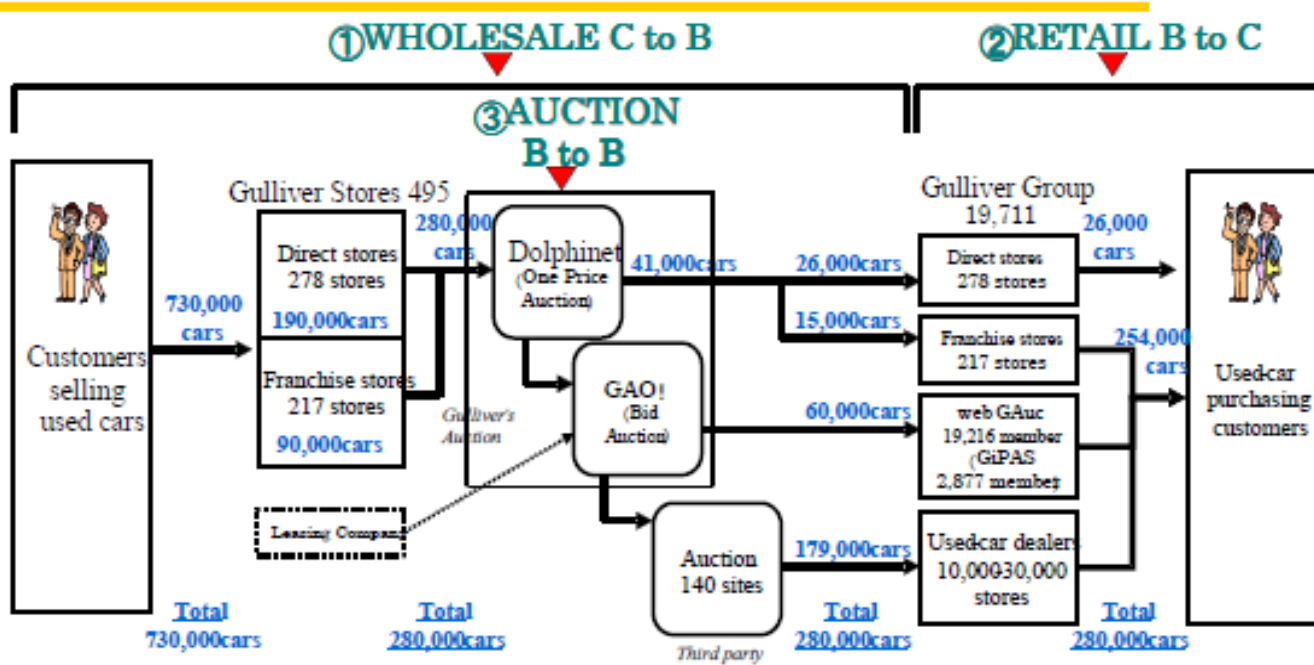
Shady image towards used cars and the entire industry

- Lack of credibility of the entire industry due to large number of small players
- Uneasiness of consumers for judging quality of used cars by only looking at exhibited cars without the ability to trust the seller nor the know-how to properly examine the merchandise

Propositions by Gulliver

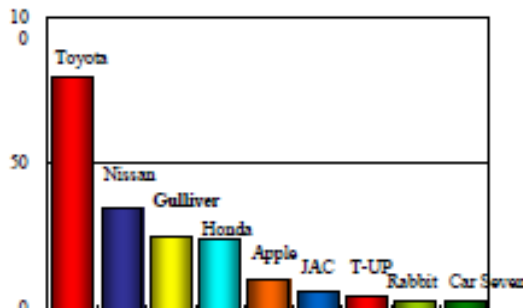
- 1 **Innovative business model enabling Gulliver to offer high buy-in price**
- 2 **Evolution of business model changing distribution structure of used cars**
- 3 **Active development of surrounding businesses fields**
- 4 **Operational excellence by centralizing core operations**
- 5 **Sophisticated CRM through best-practice customer contact points**
- 6 **Differentiation through strong brand-building**

3. Gulliver's Business Model Overview



*Number of stores and members: As of February 28, 2006

*Number of cars: March 2005-February 2006



Steps below is the flow of processes required before selling purchased cars:



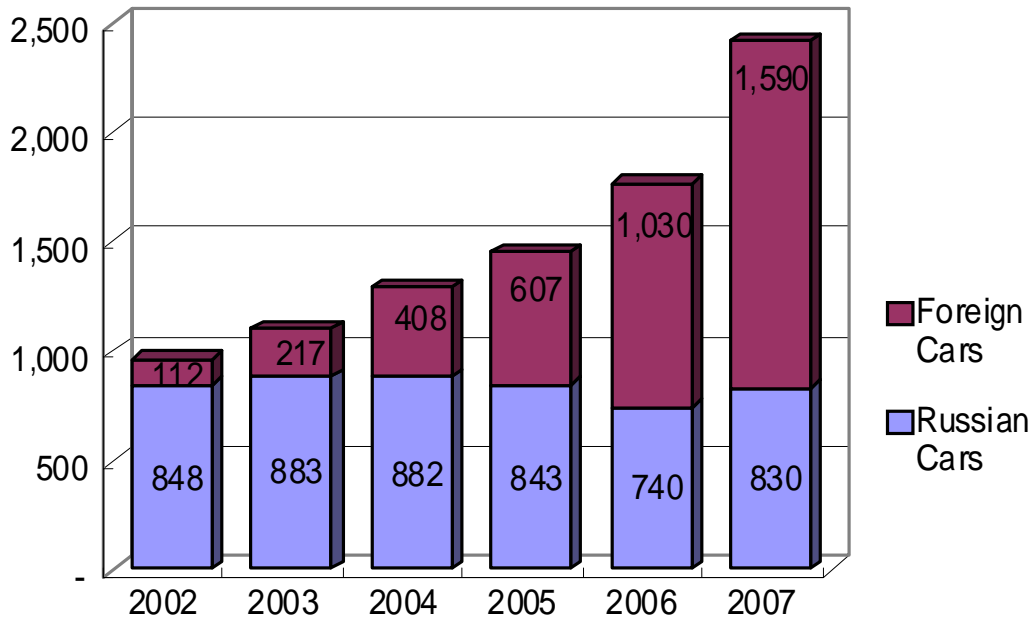
2. Current situation and challenges of Russian automobile market

4. Sales of new foreign cars in Russia are growing extremely fast



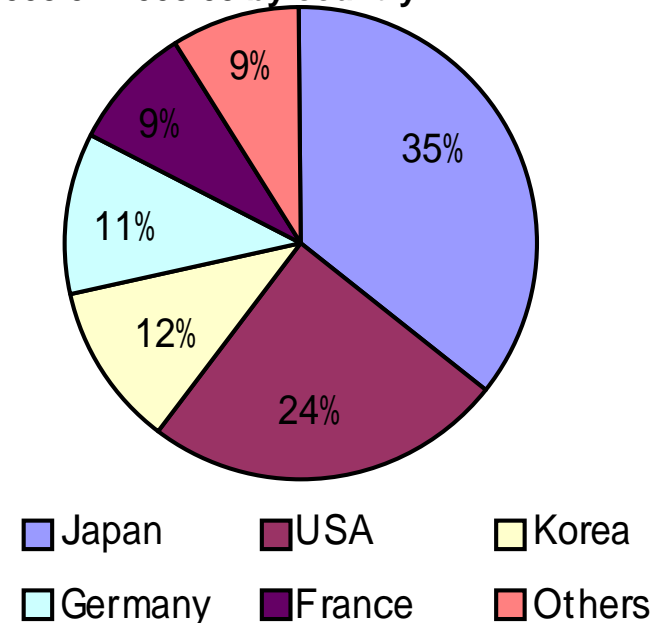
- In 5 years the sales of foreign cars increased more than 10 times and topped the sales of domestic cars
- The sales of domestic cars is stagnating
- Japanese cars have become very popular. 35% of all cars sold in 2008.01-2008.05 are Japanese.

Sales of new foreign cars in Russia in 2002-2008.05 (thousand)



Sources: ASM Holdings, Autostat, NRI estimation

Structure of new foreign cars sold in Russia in 2008.01-2008.05 by country



Source: Autostat

Note: Data for USA include Niva Chevrolet

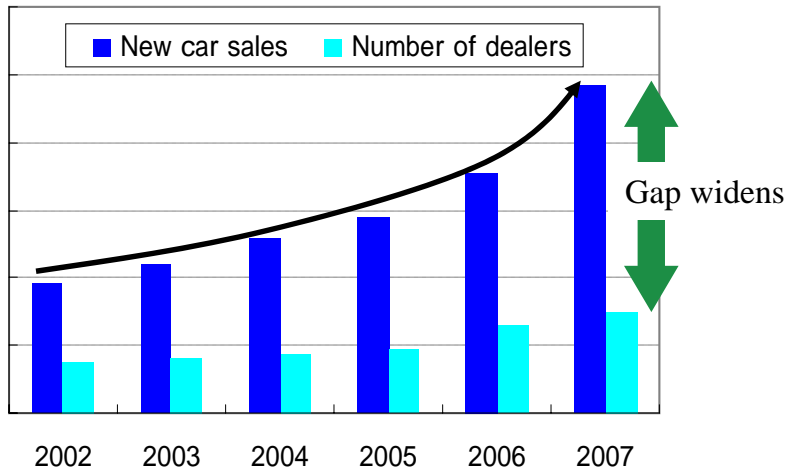
5. Overcoming the difficulties to expand the dealer capacity is the biggest challenge for new car sales



<Challenges for new car sales in Russia>

- Comparing to the drastic increase in the new car sales, the capacity of dealers doesn't grow at the same speed, which leads to the severe shortage of dealers.
- In background, infrastructure (e.g. utility) is poor and land price soared in the large cities so that it is quite difficult to open new salons or expand existing facilities.
- Additionally Russian banks don't seem to play an enough role to satisfy fund demand from dealers, hence, dealers have to heavily rely on capital issue.

Gap between new car sales and number of dealers has widened



Note: The number of dealers doesn't reflect real number

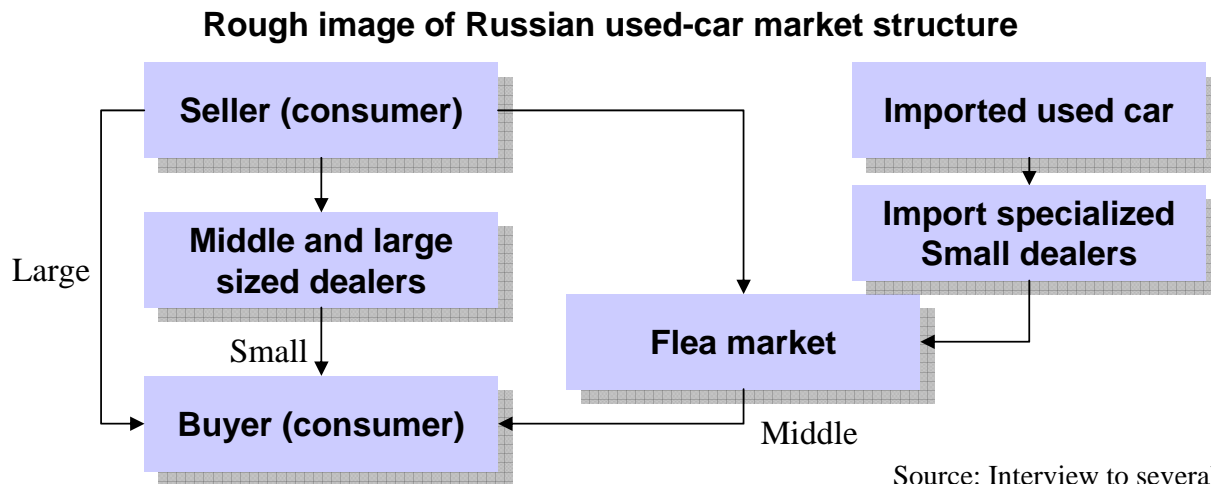
- The number of car sales per dealer is extraordinary large (e.g. 4,000 per year)
- This doesn't show the efficiency of each dealer, but the severe bottlenecks of opening new salons or expanding existing facility
- Fund raising by bank loan is still limited so that capital participation is welcome for dealers

6. Shady and unorganized transactions still dominate the majority of used car deals in Russia



<Challenges for used car sales in Russia>

- Car evaluation standards are still unclear and it should be developed to make the market more fair.
- Majority of used car transactions are done by C to C or through brokers (flea market), which often leads to shady and unorganized transactions.
- Dealer-unfriendly tax systems lead to grey transactions and less availability of relatively new used-cars.
 - Used-car dealer is burdened to pay VAT twice both when dealer buys a car and when dealer sells the car.
 - Levy on imported less-than-3-year-old-cars is higher than older ones so that used car market doesn't have many young age cars.



Source: Interview to several dealers in Russia

7. Quantitative deficiency of the autoservice industry (maintenance and repair) is very serious



- The number of cars per 1 repair and maintenance provider is 2-3 times greater in Russia than in Japan
- The quantitative deficiency is causing troubles for consumers receiving service in time
- Given the strong growth in car sales the situation can worsen if not addressed properly

Comparison of automobile repair and maintenance service provision in Japan and Russia

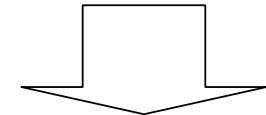
	Japan	Russia
Passenger cars	57,097,670	25,177,449
Repair and maintenance service providers (total)	90,669	17,000
Repair and maintenance service providers (without individuals)	87,013	11,900 *
Vehicles per service provider (total)	630	1,481 *
Vehicles per service provider (without individuals)	656	2,116 *

Sources: Ministry of Land, Infrastructure, Transport and Tourism of Japan, Marketing Agency "Step by Step", NRI estimation

* - estimation

Some reports of repair and maintenance deficiencies in press

- Sankt-Peterburg (Kommersant Sankt Peterburg, 2007.05)
- Moscow (5 Koleso, 2008.05)
- Ural (Expert Ural 2008.05)
- Other reports



To receive proper technical services consumers have to wait from a couple of weeks to a couple of months

8. Solving repair and maintenance problems is crucial for future automobile market in Russia



- As previous pages have shown, there is a big supply-demand gap in repair and maintenance industry
- Demand is exceeding supply and will likely grow even faster and further
- The only possible solution is to increase supply of repair and maintenance services

By some estimates there is a 10,000 repair and maintenance shops supply gap

OLD SALES DEMAND	
Factors	Consequences
Aging of cars sold in 2000-2005	Demand for services is likely to grown even further as recently bought cars become older and as harsh conditions cause more breakups
High accidents rate	
Harsh usage conditions	

THE GAP IS MOST LIKELY TO GROW FURTHER!

NEW SALES DEMAND	
Factors	Consequences
2002-2007 total car sales CAGR is over 20%	Demand for service is growing fast and demand for complex service is growing much faster
2002-2007 foreign car sales CAGR is about 70%	

REPAIR AND MAINTENANCE IS BECOMING A VERY SERIOUS CONSTRAINT TO THE DEVELOPMENT OF THE RUSSIAN AUTOMOBILE MARKET

ON THE OTHER HAND IT IS A HUGE BUSINESS OPPORTUNITY FOR THOSE WHO CAN CONTRIBUTE TO THE NECESSARY SUPPLY INCREASE!

9. Gulliver envisions to become one of the largest complex automobile players in Russia



(1) World-class megadealer (2) Number-one used car company (3) Automobile service and maintenance

National megadealer

Expansion by networking

Expansion into surrounding businesses

Evolution into regional megadealers

Build up the Gulliver used car network

M&A of mid-sized dealers

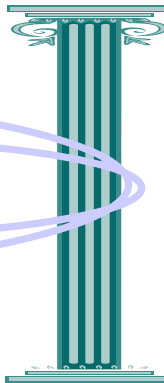
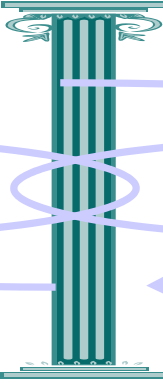
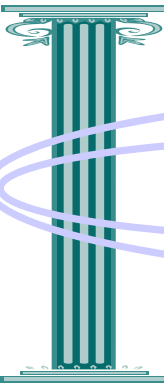
Partnership with existing maintenance providers

Add profitable used-car business to new car dealers

(1) World-class megadealer

(3) Automobile services & maintenance

(2) Number-one used car company



Trade-in

maintenance

maintenance