

Russia's automotive market: 1H 2014 results and outlook

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Auto manufacturing and sales in Russia

1

New cars sales in Russia in 1H 2014*

- In the first half of 2014, the Russian automotive market demonstrated mixed performance: the moderate decline in sales seen in 1Q (with a slowdown in month-on-month sales) accelerated significantly in 2Q (with monthly sales figures declining at a faster pace).
- In 1H 2014, passenger car sales in Russia declined by 7% in unit terms and 3% in monetary terms.
- Geopolitical uncertainty, the weakening rouble and rising prices all had a significant impact on the automotive market.

Car categories	Sales, thousand units			Sales, USD billion		
	January- June 2014	January- June 2013	Change	January- June 2014	January- June 2013	Change
Domestic brands	204	240	-15%	2.5	2.9	-14%
Locally assembled foreign cars	616	610	1%	16.5	15.7	5%
Imported new cars	340	400	-15%	12.5	14	-11%
Total	1,160	1,250	-7%	31.5	32.6	-3%

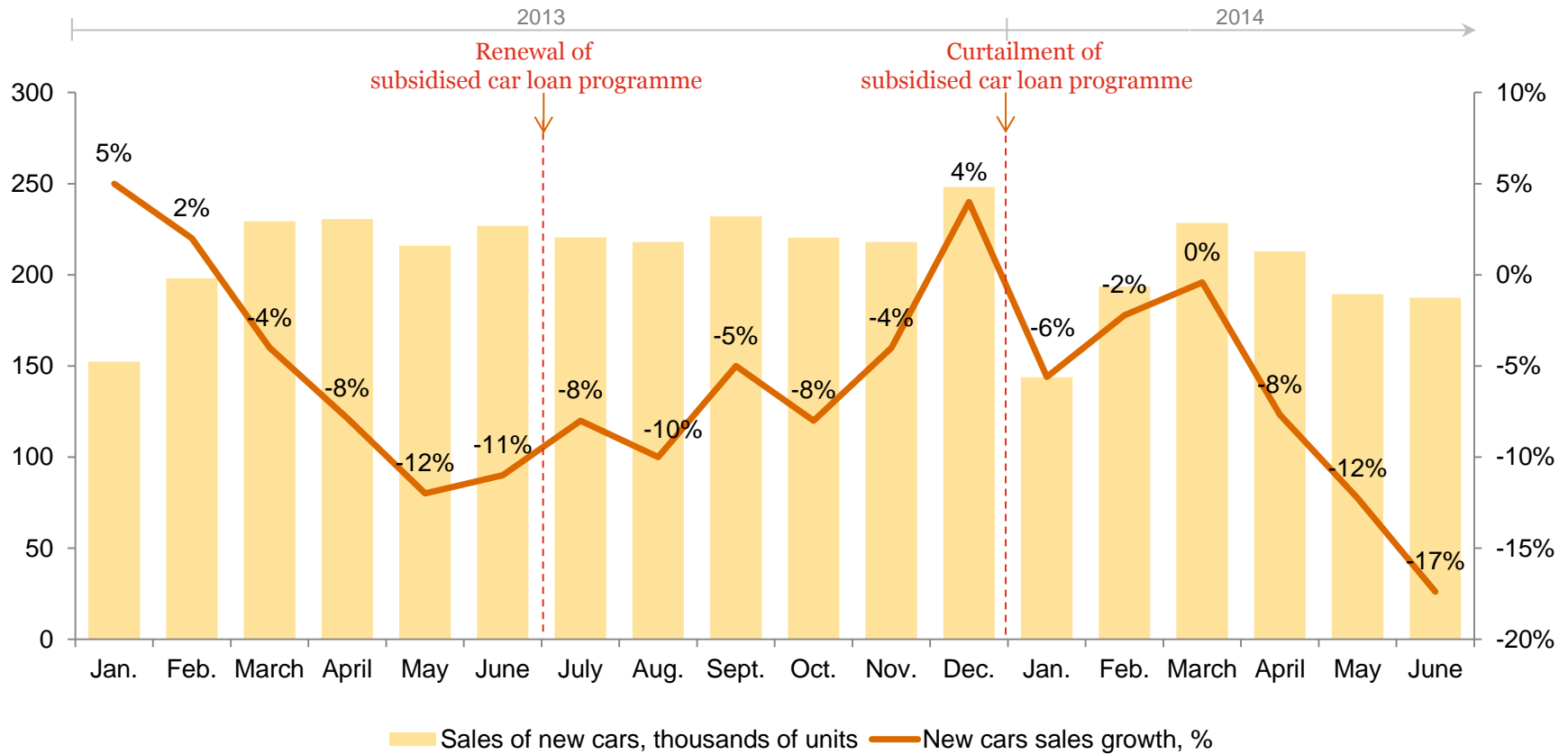
Note: * Excluding light commercial vehicles (LCV)

Source: AEB, Avtostat, ASM-Holding, PwC

In 2Q 2014, car sales declined at a significantly faster pace

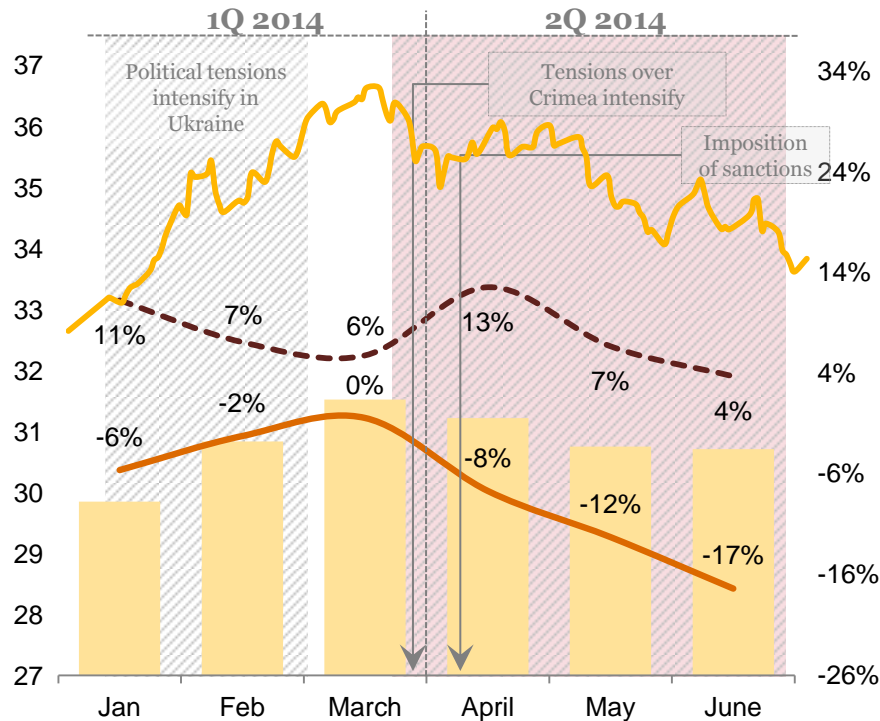
New cars sales and respective growth rates in Russia

in January 2013 - June 2014



Source: AEB, PwC estimates

Sales trends are significantly affected by macroeconomic factors



The anticipated increase in the RUB/USD exchange rate helped support sales in 1Q 2014 (especially of premium models), as some consumers opted to purchase new cars in 1Q before price increase, which adversely affected sales in 2Q 2014.

- Sales of new passenger cars, ths units
- New passenger car sales growth rate, % (right axis)
- - - New premium model car sales growth rate, % (right axis)
- RUB/USD exchange rate (left axis)

Models demonstrating the highest sales growth rate in 1H 2014*	1H 2014 increase (vs 1H 2013)
Mercedes S Class	389%
Jeep Grand Cherokee	120%
Range Rover Sport	108%
Chevrolet Cobalt	97%
KIA Soul	71%
Chevrolet Spark	47%
Mercedes A Class	45%
CX-5	40%
Mercedes E Class	38%
Ford Kuga	37%

Models experiencing the greatest decline in sales in 1H 2014*	1H 2014 increase (vs 1H 2013)
Citroen C4	-85%
Suzuki SX4	-65%
Ford Focus	-56%
Honda Civic	-51%
Peugeot 408	-49%
VW Passat CC	-48%
Daewoo Matiz	-48%
Mercedes B Class	-46%
Hyundai i30	-44%
Peugeot 3008	-44%

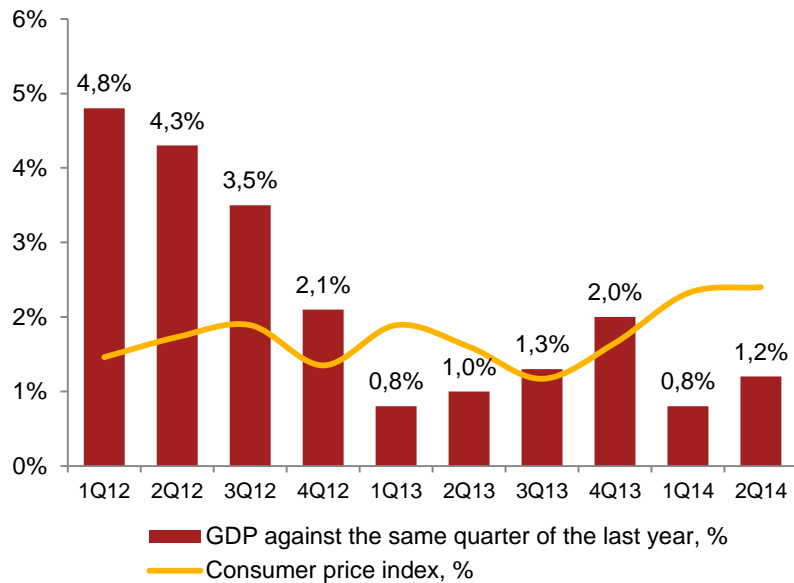
Source: AEB, PwC estimates

* The rating was based on those car models with sales above 400 units in 1H 2013

Economic slowdown

- The economic slowdown that Russia has seen in recent years started to accelerate in early 2014.
- These trends had a strong impact on Russia's automotive market in 1H 2014: declining consumer confidence, slowing GDP growth, looming economic stagnation, and the weakening rouble.

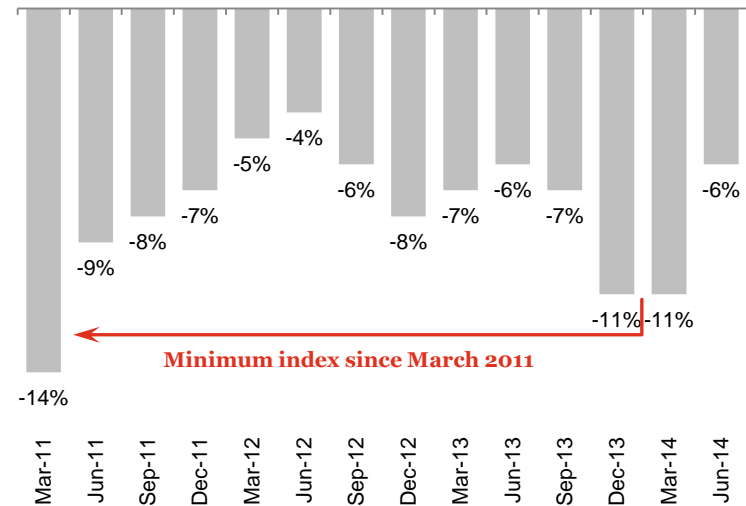
GDP growth rate (quarter-on-quarter)



Source: Russian Ministry of Economic Development, Rosstat

Consumer Confidence Index

January 2011 - June 2014



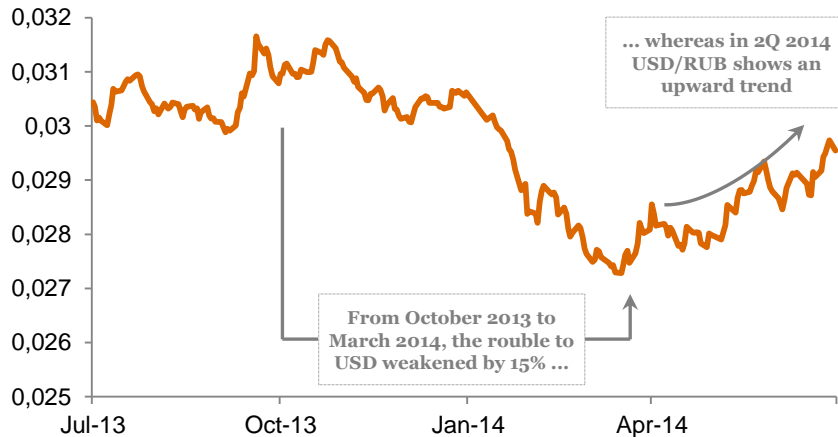
Source: Rosstat

Impact of geopolitical instability

- External political factors are adversely affecting car price movements and interest rates on car loans. As well, the expected decrease in foreign direct investment (FDI) is also having an adverse impact on the development of auto manufacturing in Russia.
- Since October 2013, the rouble has devalued against the US dollar by about 15%, affecting consumer sentiment and triggering a rise in new car sticker prices and higher interest rates on car loans. However, 2Q 2014 saw a positive trend in the USD/RUB exchange rate, as well as a return of the Consumer Confidence Index back to the level of June 2013.

USD/RUB exchange rate

July 2013 - June 2014



Source: Central Bank of Russia (CBR), PwC analysis

Key economic development indicators

(year-on-year change unless otherwise stated)

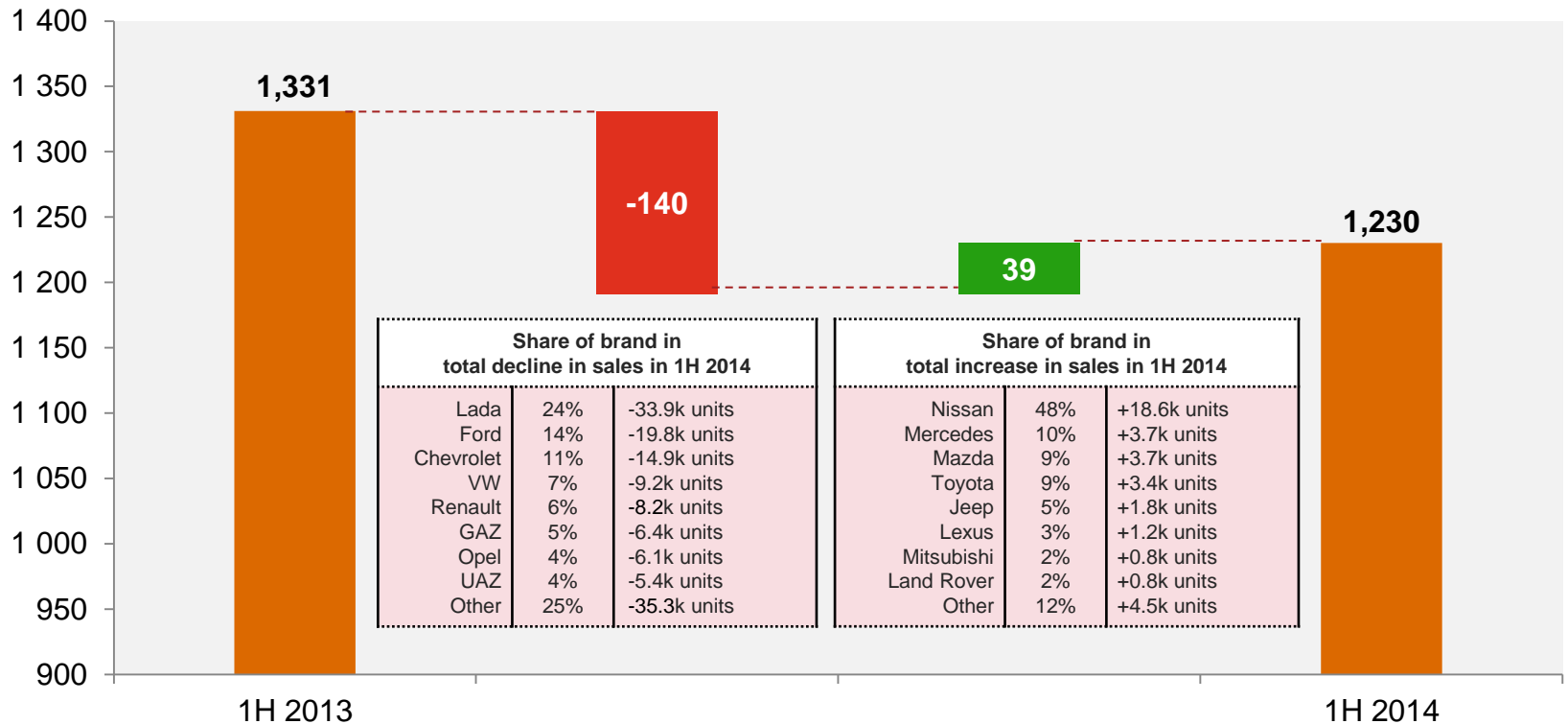
Indicator	2012	2013	1H 2014	2014F
GDP	3.4%	1.3%	1%	0.5%
Inflation	6.6%	6.2%	4.8%	6.7%
USD/RUB exchange rate (average annual rate)	31.1	31.8	35.0	35.5
Real disposable income	4.6%	3.3%	-0.2%	0.5%
Consumer Confidence Index	-6%	-7%	-6%	n/a
Capital inflow/outflow (USD billion)	-55	-63	-74.6*	-90

Source: Central Bank of Russia (CBR), Russian Ministry of Economic Development, Rosstat

Note: (*) according to CBR estimates

Growing sales of SUVs and premium models are supporting the market, while sales of inexpensive, lower-end cars, including AutoVAZ models, are falling

Sales of new cars and LCV* in 1H 2013 and 1H 2014, thousand units



Source: AEB, PwC analysis
 Note: * LCV = light commercial vehicles

Outlook for Russia's car market in 2014

Sales of new cars, thousand units

Passenger cars (excluding LCV*)	2013 (actual)	2014F (optimistic forecast)	2014F (baseline forecast)
Domestic brands	487	430 (-12%)	410 (-16%)
Locally assembled foreign cars	1,310	1,270 (-3%)	1,240 (-5%)
Imported new cars	813	690 (-15%)	650 (-20%)
Total market	2,610	2,390 (-8%)	2,300 (-12%)

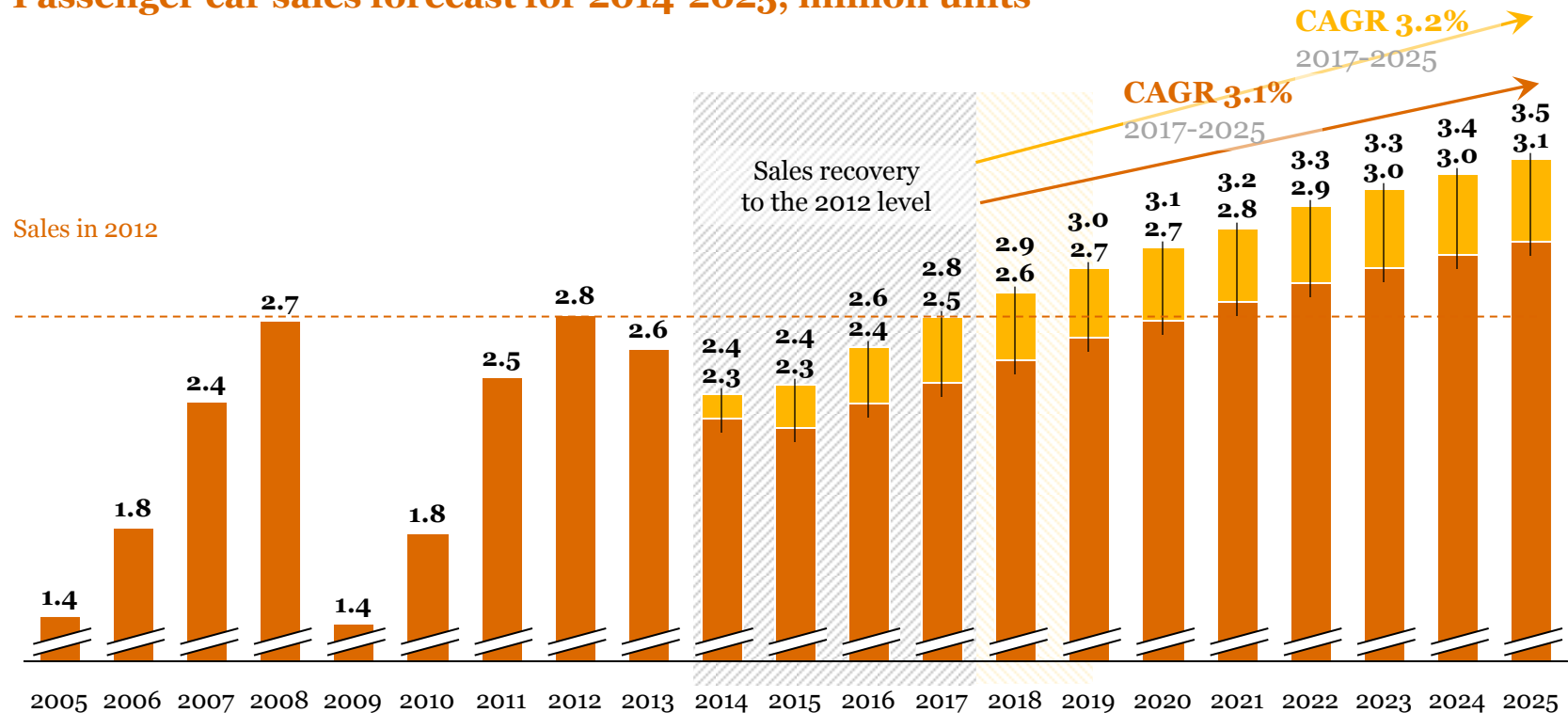
Source: PwC analysis

Given the slowdown in the Russian economy and the weakening rouble, and the resultant rising car prices and higher cost of car loans in 2014, new car sales are expected to decline by 8% to 12%.

In the longer term, the Russian auto market is expected to grow at a moderate pace

We have considered two market development scenarios: 1) an optimistic scenario and 2) a baseline scenario. The level of motorisation (i.e. the number of cars per 1,000 people) is forecast to increase up to 350-400 cars by 2025.

Passenger car sales forecast for 2014-2025, million units



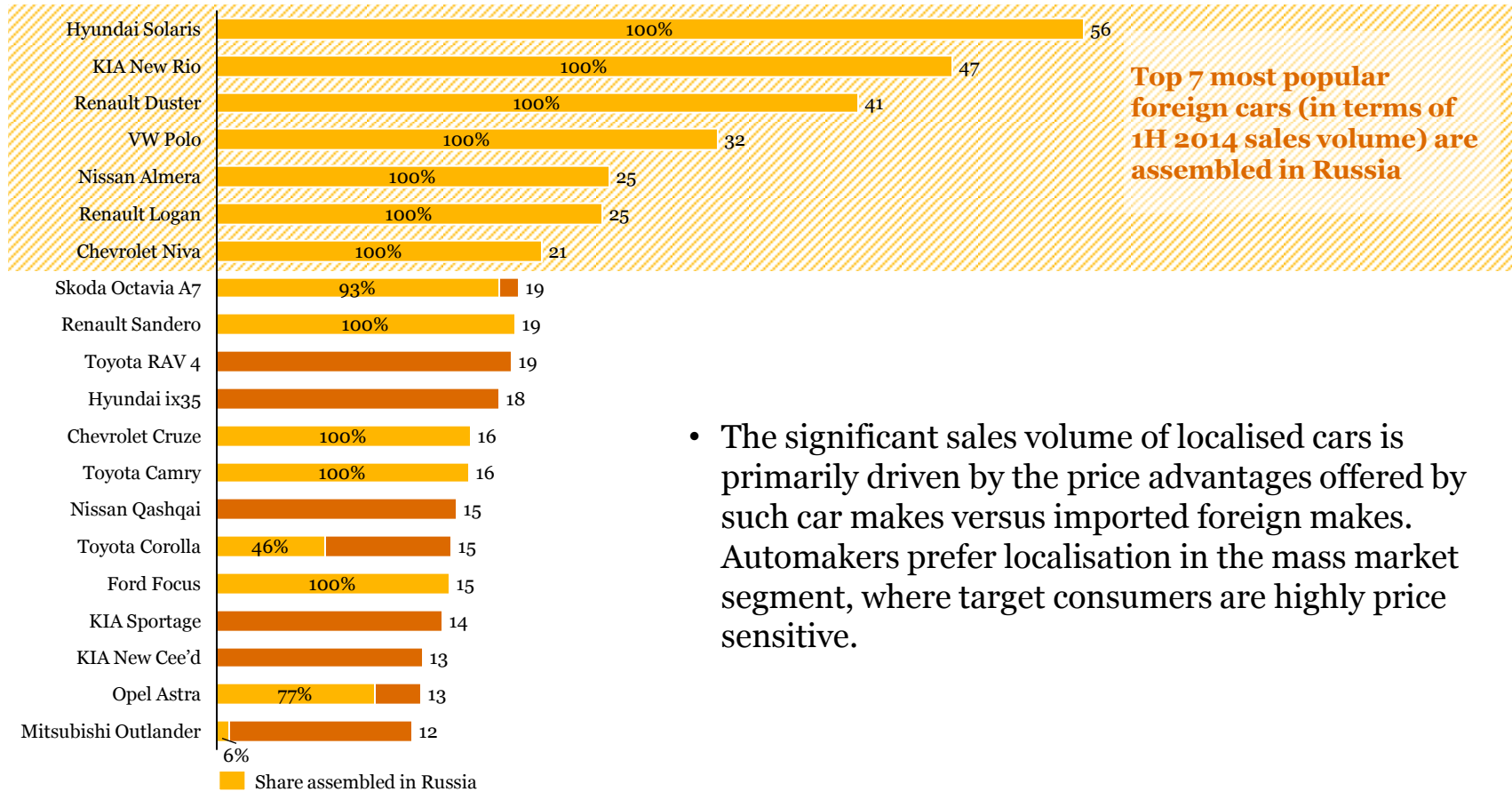
Source: PwC analysis

Localisation: challenges and prospects

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Localisation is a key success factor in the Russian auto market: the most popular foreign models are assembled in Russia

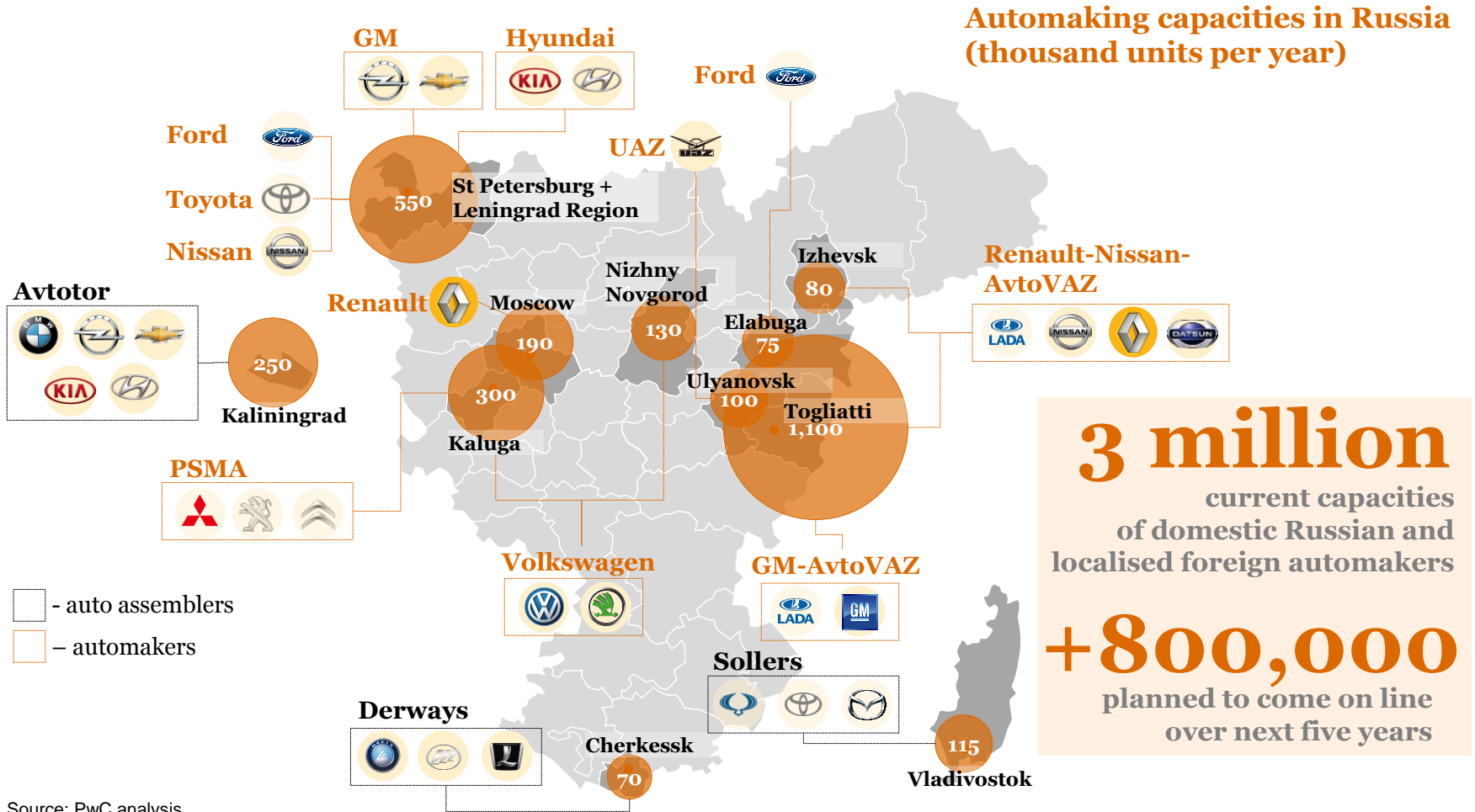
Foreign car sales and share of domestically manufactured cars in the total sales volume



Source: AEB, PwC analysis

- The significant sales volume of localised cars is primarily driven by the price advantages offered by such car makes versus imported foreign makes. Automakers prefer localisation in the mass market segment, where target consumers are highly price sensitive.



Russia's current auto manufacturing capacity is 3 million units per year. Under current OEM investment plans, total capacity could exceed 3.8 million vehicles in the next five years



Source: PwC analysis

Leading automakers' industrial assembly agreements have established a clear-cut localisation schedule and required production output

Most automakers have signed industrial assembly agreements with the Russian government. While some are still operating under the original terms, most major players have negotiated new agreements that stipulate greater output volumes and a higher localisation rate.

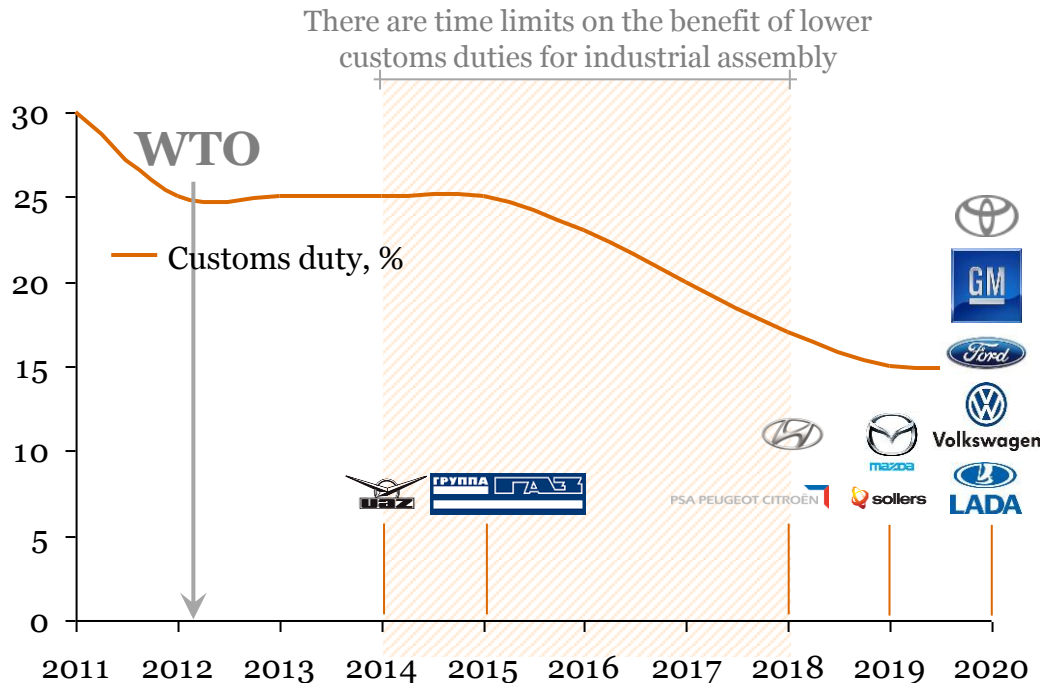
	2005 version	2011 version																					
Automakers (example)	 PSA PEUGEOT CITROËN	 GM LADA RENAULT NISSAN VW Ford																					
Capacity	25,000 units	300-350,000 units																					
Agreement period	7-8 years	8 years, but no later than 31.12.2020																					
Localisation rate	<table border="0"> <tr><td>1 year</td><td>▪ SKD assembly</td></tr> <tr><td>2 year</td><td>▪ SKD assembly</td></tr> <tr><td>3 year</td><td>▪ CKD launch</td></tr> <tr><td>4 year</td><td>▪ 10%</td></tr> <tr><td>5 year</td><td>▪ 10%</td></tr> <tr><td>6 year</td><td>▪ 20%</td></tr> <tr><td>7 year</td><td>▪ 30%</td></tr> </table>	1 year	▪ SKD assembly	2 year	▪ SKD assembly	3 year	▪ CKD launch	4 year	▪ 10%	5 year	▪ 10%	6 year	▪ 20%	7 year	▪ 30%	<table border="0"> <tr><td>35%</td></tr> <tr><td>40%</td></tr> <tr><td>45%</td></tr> <tr><td>50%</td></tr> <tr><td>55%</td></tr> <tr><td>60%</td></tr> <tr><td>60%</td></tr> </table>	35%	40%	45%	50%	55%	60%	60%
1 year	▪ SKD assembly																						
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Special terms		<ul style="list-style-type: none"> ▪ Engine / gearbox localisation ▪ Setting up R&D centres ▪ Localising die forging (car body) 																					

Source: NAMI, Russian Government Resolutions No. 166 and No. 566, Russian Ministry of Industry and Trade

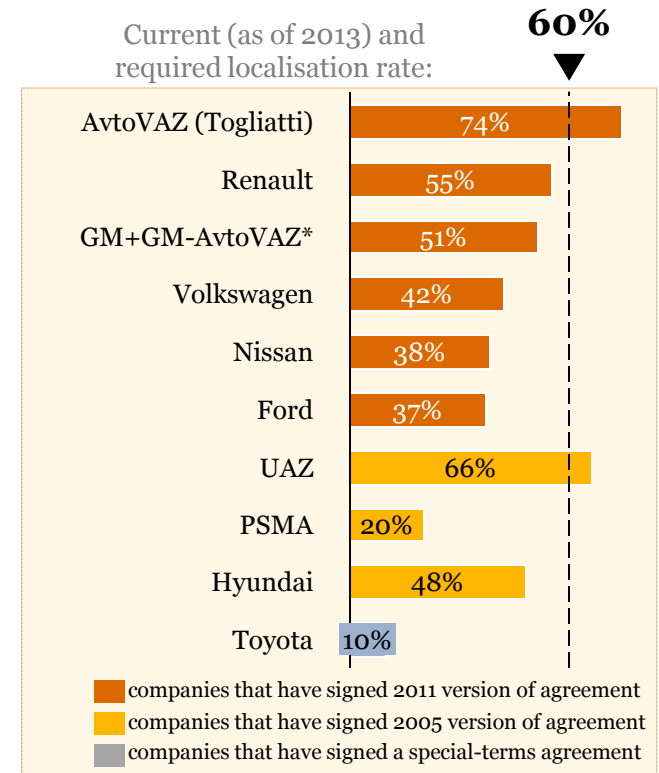
Note: (*) Toyota signed a special-terms agreement in 2009 (including a capacity of 150,000 units, setting up production of body parts, etc.)

The recent market slowdown and uncertain development prospects for the Russian economy have hinder achievement of the required localisation rate

Most of the industrial assembly agreements are set to expire in 2018-2020, after which local automakers will no longer enjoy the additional competitive advantage of lower customs duties. Locally produced cars will then be more profitable than imports in case of rather large production volumes, extensive localisation and governmental support.























Source: NAMI, Russian Ministry of Industry and Trade, PwC analysis



Source: Russian Ministry of Industry and Trade, Avtotor, PwC analysis





















Note: (*) In 2012 GM had a 20% localisation rate in the Leningrad Region.

Global top 20 automotive component manufacturers (1 of 2)

No.	Company	Country	2013 revenue* (USD billion)	Production capacities in Russia	Location of localisation operations
1.	 Continental		44.3	<input checked="" type="checkbox"/>	Kaluga Region, Tatarstan
2.	 Bosch		40.6	<input checked="" type="checkbox"/>	Ryazan and Saratov regions
3.	 Denso		38.1	<input checked="" type="checkbox"/>	–
4.	 Magna		34.8	<input checked="" type="checkbox"/>	St Petersburg/ Leningrad Region; Kaluga, Moscow and Nizhny Novgorod regions
5.	 Bridgestone		31.1	<input checked="" type="checkbox"/>	Ulyanovsk Region
6.	 Hyundai Mobis		30.4	<input checked="" type="checkbox"/>	St Petersburg/ Leningrad Region
7.	 Johnson Controls		28.1	<input checked="" type="checkbox"/>	St Petersburg/ Leningrad Region; Samara Region
8.	 Aisin		27.8	<input checked="" type="checkbox"/>	–
9.	 Faurecia		24.5	<input checked="" type="checkbox"/>	St Petersburg/ Leningrad Region; Kaluga, Moscow and Samara regions
10.	 Michelin		23.2	<input checked="" type="checkbox"/>	Moscow Region

Note: * For analytical purposes, only the revenue of automotive divisions was factored in
Source: Company data, PwC analysis

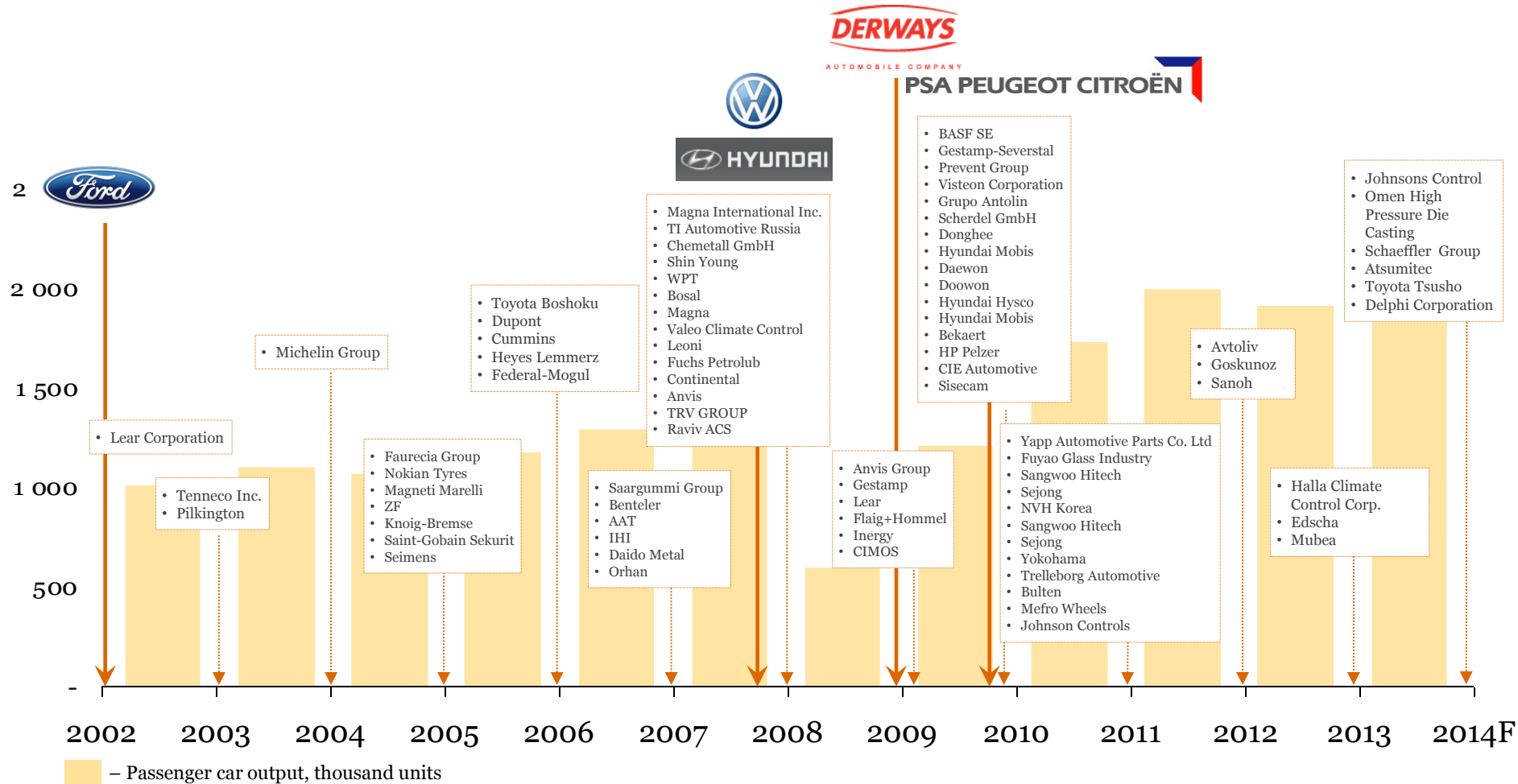
Global top 20 automotive component manufacturers (2 of 2)

No.	Company	Country	2013 revenue* (USD billion)	Production capacities in Russia	Location of localisation operations
11.	 ZF		22.9	<input checked="" type="checkbox"/>	Moscow Region, Tatarstan
12.	 Goodyear		19.5	<input type="checkbox"/>	–
13.	 TRW Automotive		17.4	<input type="checkbox"/>	–
14.	 Cummins		17.3	<input checked="" type="checkbox"/>	Tatarstan
15.	 Delphi		16.5	<input checked="" type="checkbox"/>	Samara Region
16.	 Valeo SA		16.4	<input checked="" type="checkbox"/>	Moscow, Nizhny Novgorod and Samara regions
17.	 Lear Corp		16.2	<input checked="" type="checkbox"/>	St Petersburg/Leningrad Region; Kaluga, Moscow and Nizhny Novgorod regions
18.	 BASF		12.8	<input checked="" type="checkbox"/>	Moscow Region
19.	 ThyssenKrupp		12.6	<input type="checkbox"/>	–
20.	 Sumitomo		11.0	<input checked="" type="checkbox"/>	Sverdlovsk Region

Source: Company data, PwC analysis

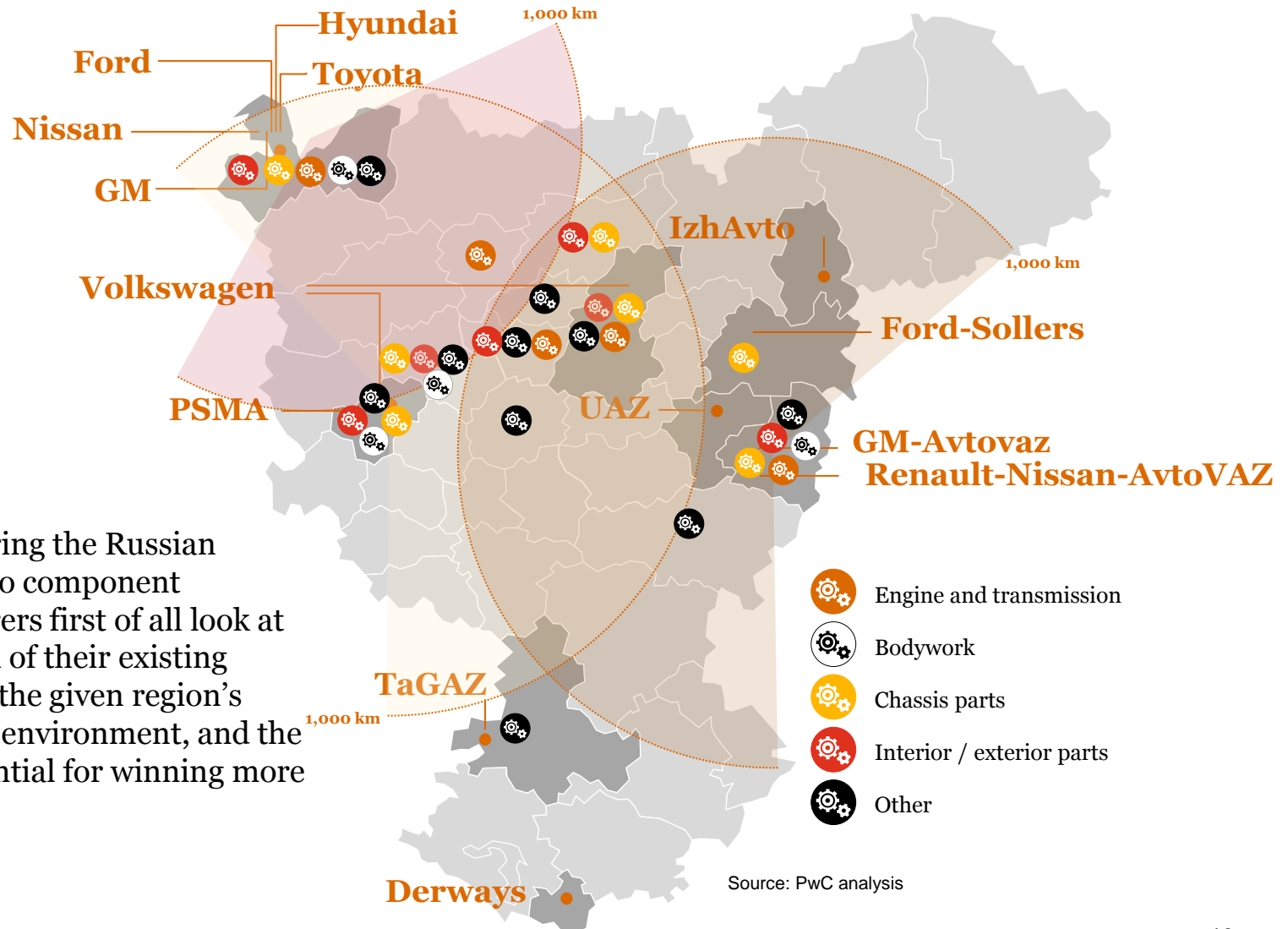
Note: (*) for analytical purposes, only revenue of automotive divisions was factored in

Timeline of Russian market entries by automaker and automotive component manufacturer



Sources: PwC analysis

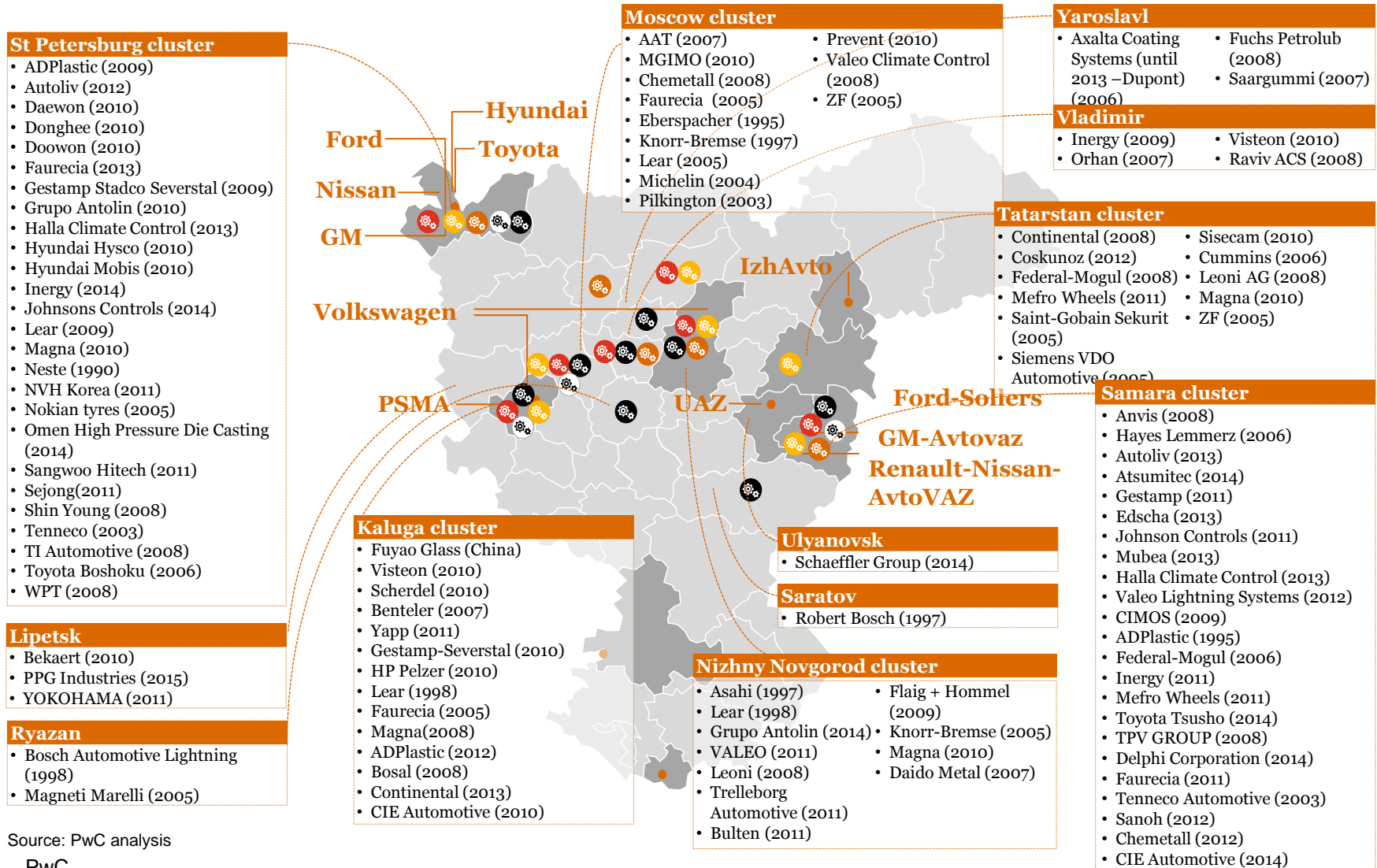
When entering the market, automotive component manufacturers go where their automaker customers have set up



- When entering the Russian market, auto component manufacturers first of all look at the location of their existing customers, the given region's investment environment, and the future potential for winning more customers

Source: PwC analysis

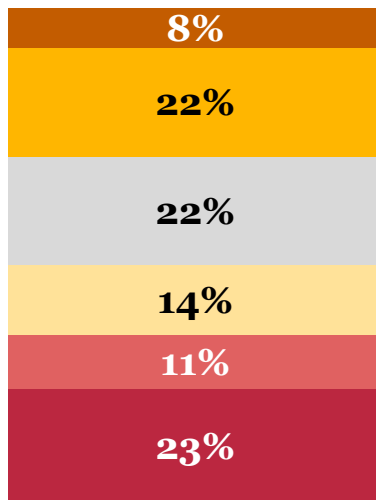
Most auto component manufacturers have located in existing clusters



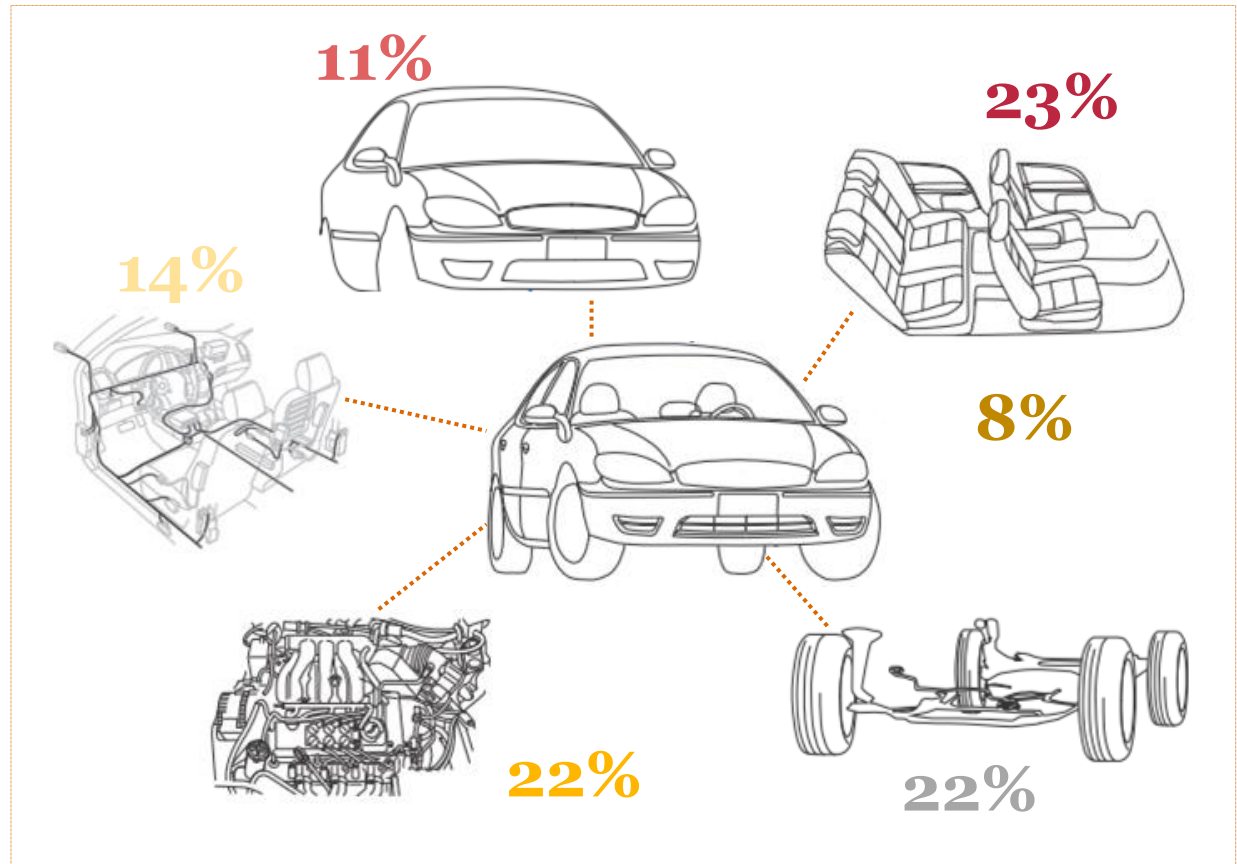
Source: PwC analysis

Localising certain critical automotive components in Russia is extremely problematic in the current environment, which limits the maximum localisation potential

BoM structure*



- Interior details
- Exterior details
- Electronics
- Chassis
- Powertrain
- Body-in-white

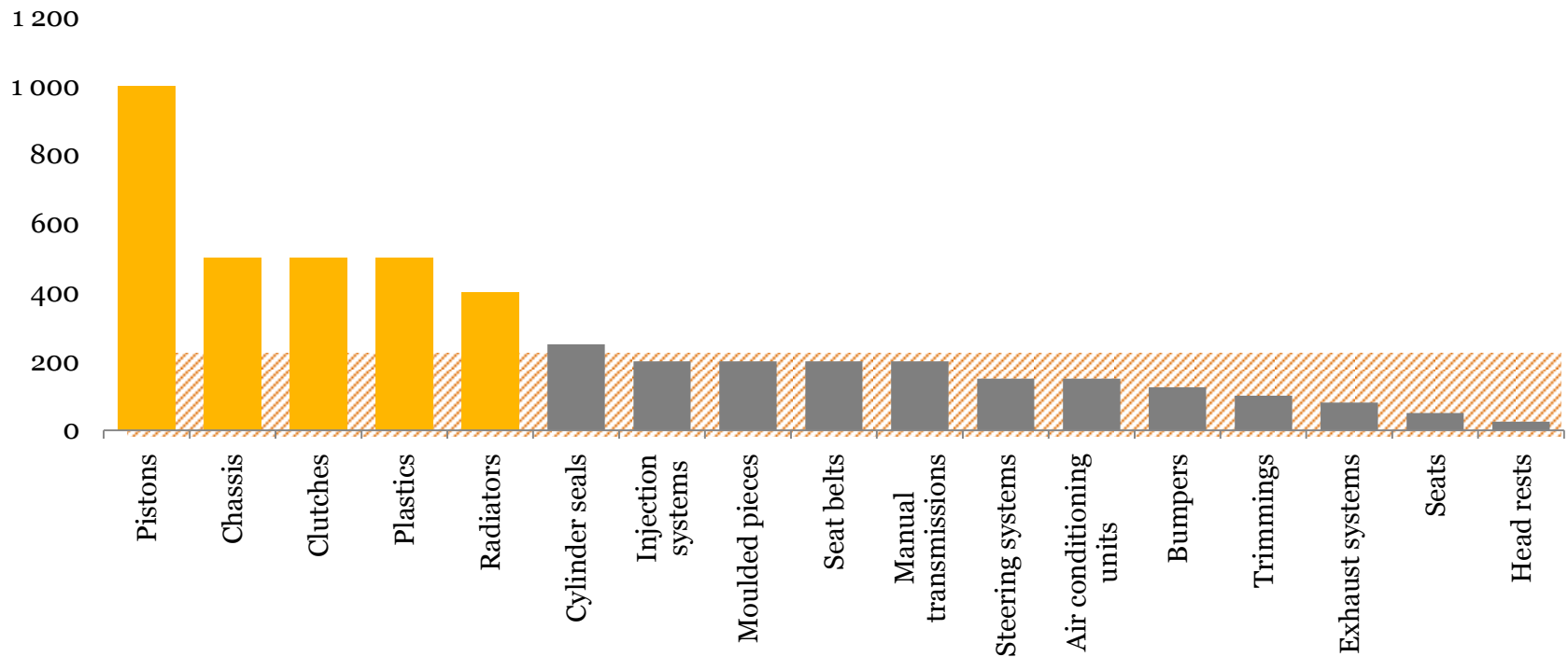


Note: * Bill of Material typical structure

Source: McKinsey

Most Russian automakers could not individually ensure the production volumes needed to localise certain critical components

Volume of component production ensuring project payback in the mid term, thousand units

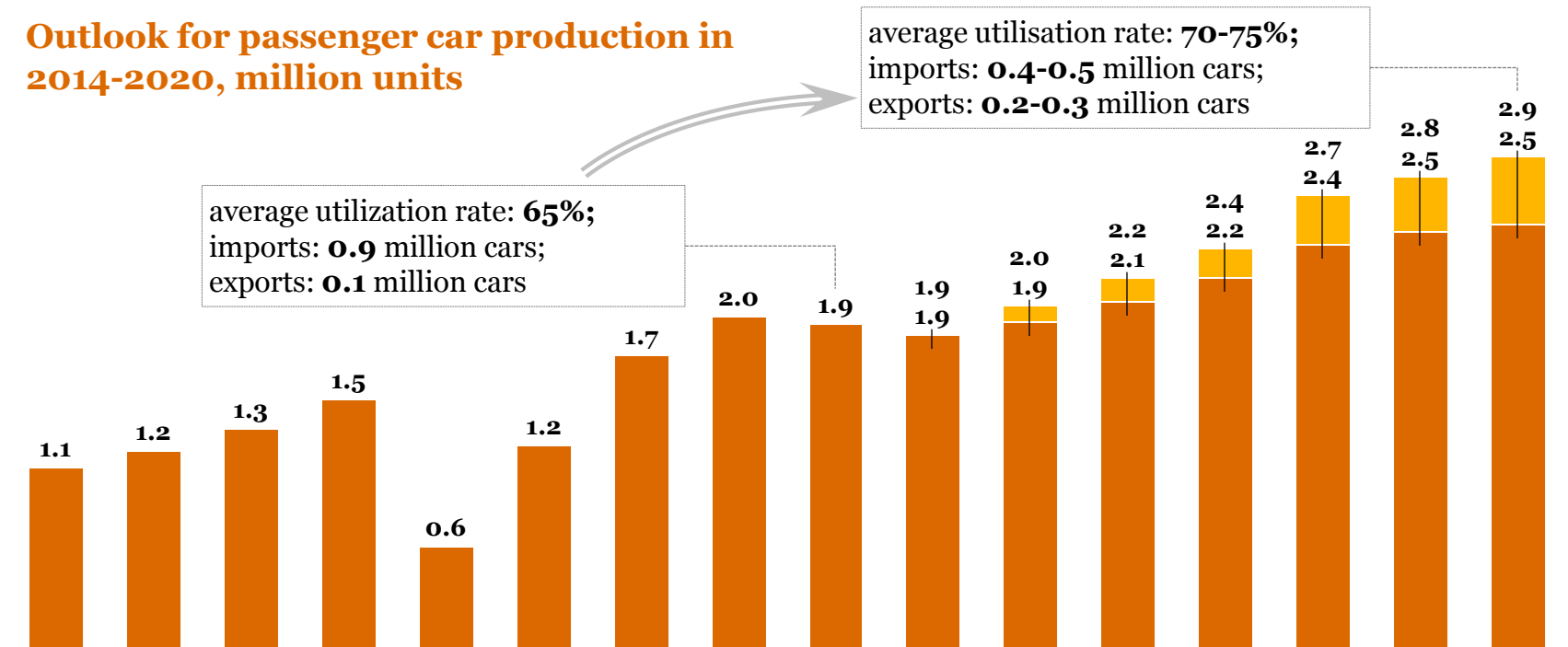


Source: Avtotor, PwC analysis

Outlook for passenger car production in Russia

We are looking at two scenarios for passenger car manufacturing in Russia: a best case and a baseline. Our assumptions include a decrease in passenger car imports at the same time that exports will increase, production volumes will grow and overall capacity will reach 3.8 million units per year in line with automakers' localisation commitments under current industrial assembly agreements and announced investments in new capacities.

Outlook for passenger car production in 2014-2020, million units



Source: PwC analysis

Thank you!



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