

Russia's automotive market: 2014 results and outlook

Sergey Litvinenko
Director
PwC Russia Automotive Practice

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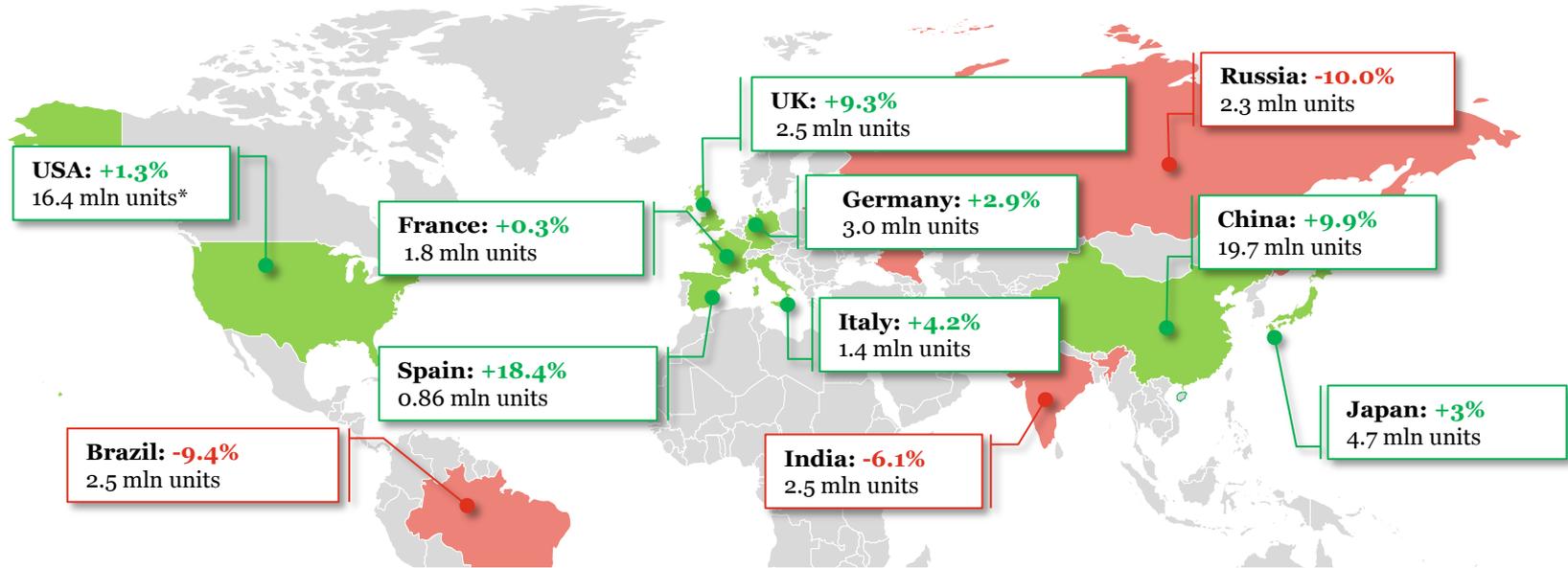
Passenger cars sales in Russia

1

Global sales of new passenger cars

The US and China slow down, while European markets continue to restore

New passenger cars sales in key markets, 2014



- The European market continues to recover. It may take a few years, however, to reach pre-crisis levels. **Spain**, with its high growth rate, is driving the market upward, with growth facilitated by low base level.
- In 2014, **China** continued to improve its position in the race for global car sales leadership, moving still further ahead of the US. However, the growth rate slowed down in the Chinese market. But, China still has growth potential: car producers are bringing new models to the market, which have been customised for the Chinese consumer, and are easing their pricing policies (in part due to pressure from the Chinese government), and the country's economy is demonstrating further growth.
- The other BRIC countries posted declining car sales figures in 2014. **Brazil** and **India**, the decline in sales occurred mostly as a result of the depreciation of local currencies, price increases and high interest rates. Sales in **Russia** slumped further, which is driven by a number of reasons that are discussed below.

(*) including light commercial vehicles

Sources: ACEA, data from national industry associations

What role will the major markets play in future?

What has changed for Russia?

Major passenger car markets in 2014 and their potential to improve their global rankings over the next 10 years

No.	Country	2014 sales, million units	Outlook for moving up in the rating by 2025
1	China	19.7	
2	USA	16.4	
3	Japan	4.7	
4	Germany	3.0	
5	Brazil	2.5	
6	India	2.5	
7	UK	2.5	
8	Russia	2.3	

- The BRIC markets have the greatest potential for unit sales growth in the next 10 years.
- Going forward, the US and EU markets will not be able to demonstrate a similar growth rate as emerging economies; however, they will remain the key markets alongside China.
- China is already the largest automotive market in the world, which will continue to expand (in volume) and will be under focus of the car producers' attention.
- The role of Japan, formerly one of the world's largest markets, will further diminish. Japanese car producers will be increasingly focused on meeting consumer needs in other countries.

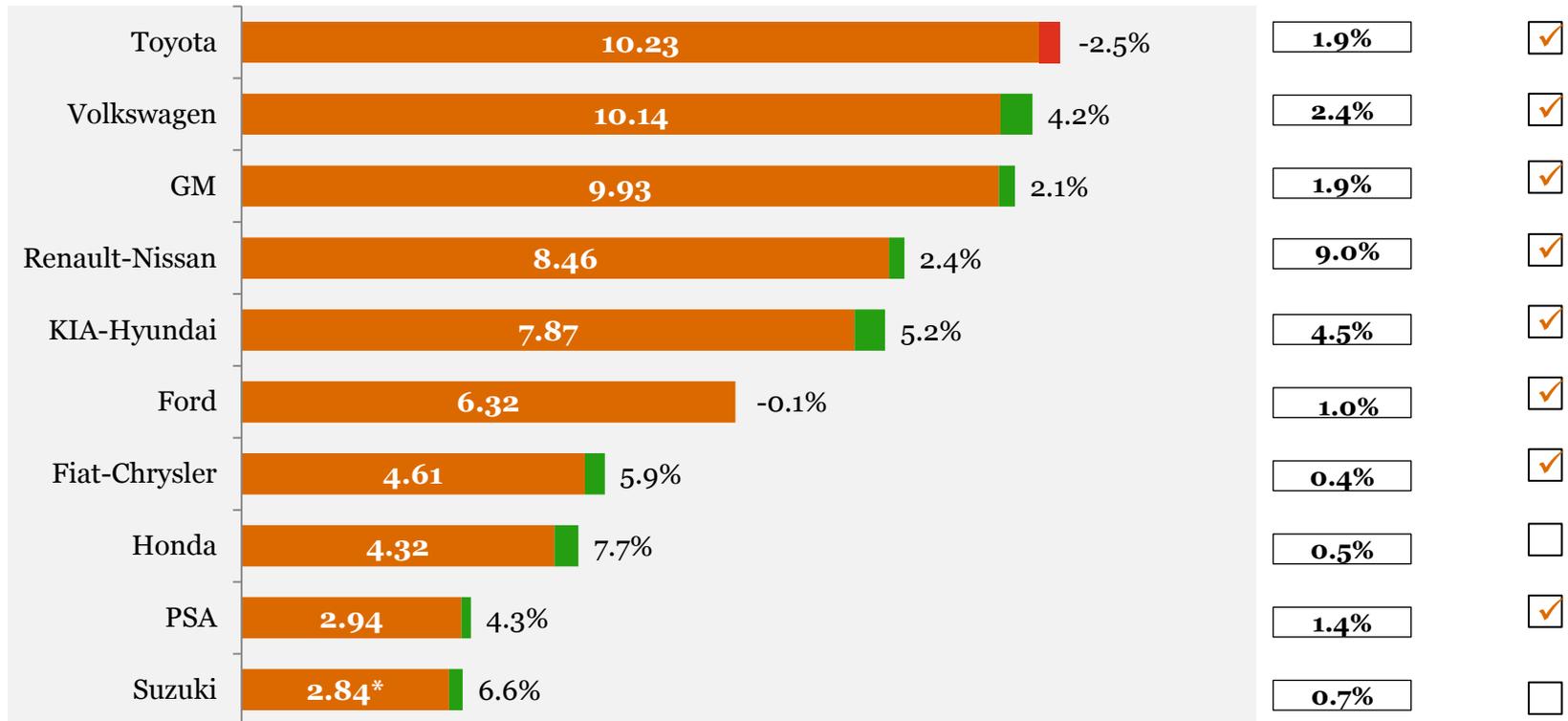
Sources: PwC analysis

Despite slowing growth, Russia is still one of the key markets for strategic alliances of car producers

Top-10 global strategic alliances by sales volume in 2014, million units

Share of Russia in global auto alliance sales

Production sites in Russia



(*) Estimate for 2014 based on actual performance for 8 months of 2014
Source: AEB, companies data, PwC analysis

New passenger car sales in Russia in 2014¹

- The year 2014 was quite challenging and rather uneven for the automotive industry. Russia's car market in 2014 was influenced by a variety of factors, some of which will have a great impact on market growth in future.
- Based on 2014 results, passenger car sales in Russia declined by 10% in unit terms. In US dollar terms, the market shrank by 16%, while demonstrating a 2% increase in rouble terms.
- Geopolitical uncertainty, rouble depreciation, rising car prices and auto loan interest rate increase had a significant impact on the automotive market.

Passenger car categories	Sales, thousand units			Sales, USD billion		
	Jan-Dec 2014	Jan-Dec 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
Local brands	410	480	-15%	4.4	5.9	-25%
Locally assembled foreign car brands	1,280	1,310	-2%	30.6	34.6	-12%
Imported new cars	650 ²	810	-20%	23.2	28.5	-19%
TOTAL	2,340	2,600	-10%	58.2	69.0	-16%

¹Net of light commercial vehicles

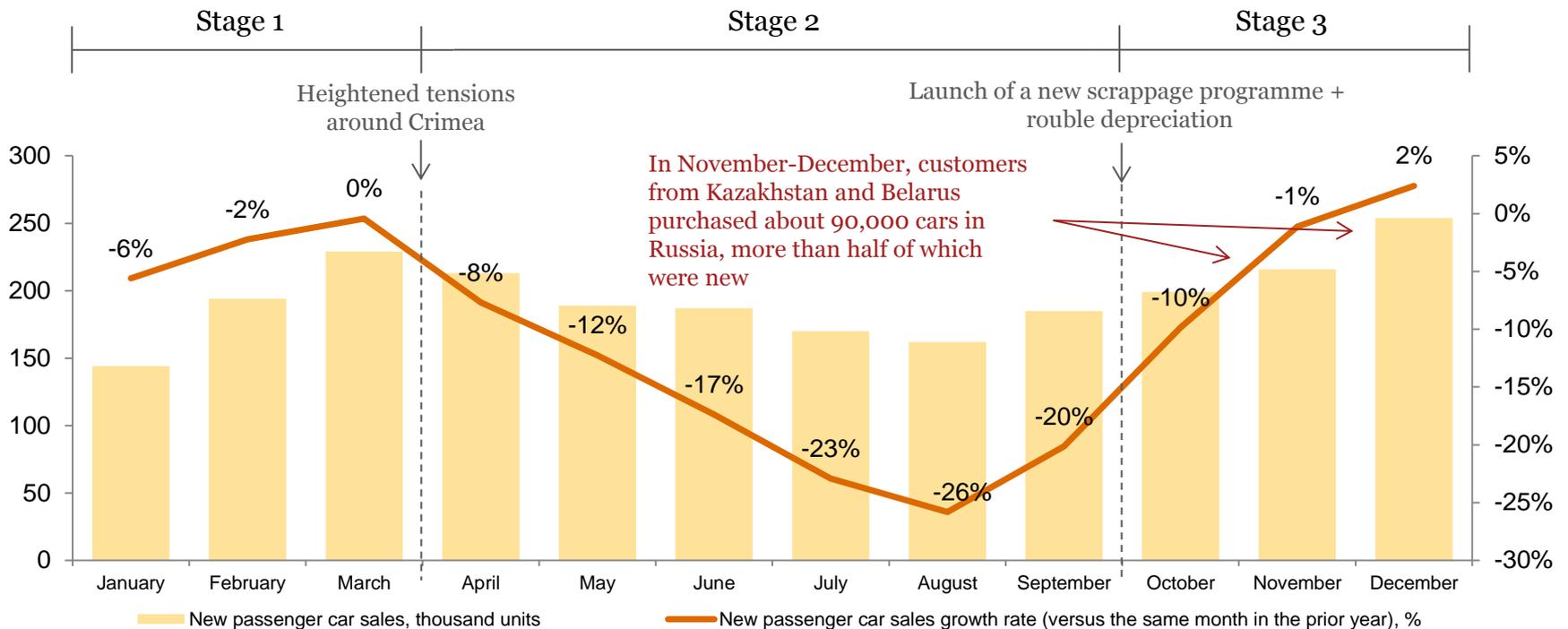
²Preliminary estimate by PwC

Sources: AEB, Avtostat, ASM-Holding, Russian Federal Customs Service, PwC

New passenger car market in Russia in 2014: Conclusions and trends

In 2014, the market progressed through three distinct phases:

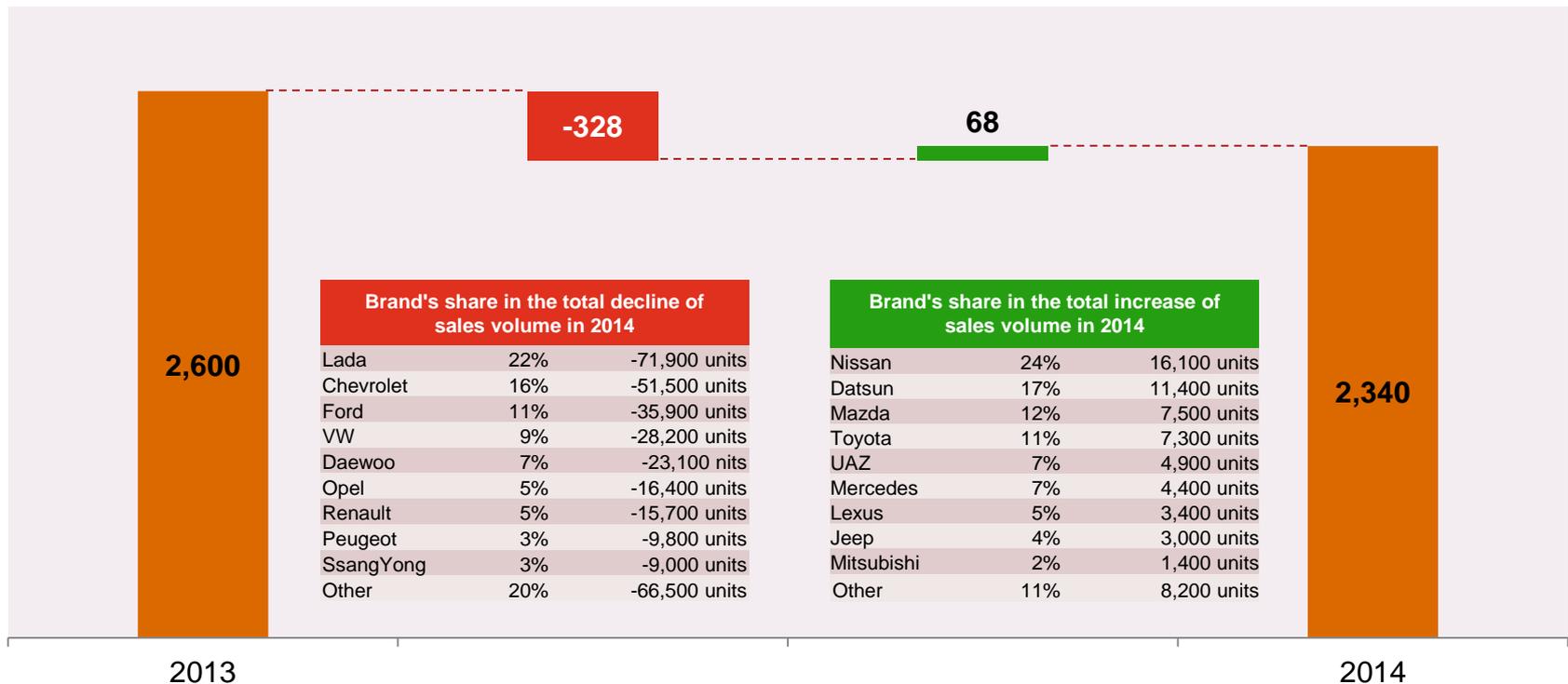
- Market slowdown in 1Q 2014 resulting from the wind-down of preferential car loan programmes;
- A mid-year sales slump driven by market uncertainty due to the imposed sanctions and increasingly strained political relations with a number of countries;
- Excessive demand for new cars in the 4Q 2014 as a result of rouble depreciation and the expected increase in prices.



Source: AEB, PwC estimates

The market was supported by sales of Japanese and premium brands, while sales in the low-end price segment have dropped off

Sales of new passenger cars (excluding LCV)*, in 2013-2014, thousand units

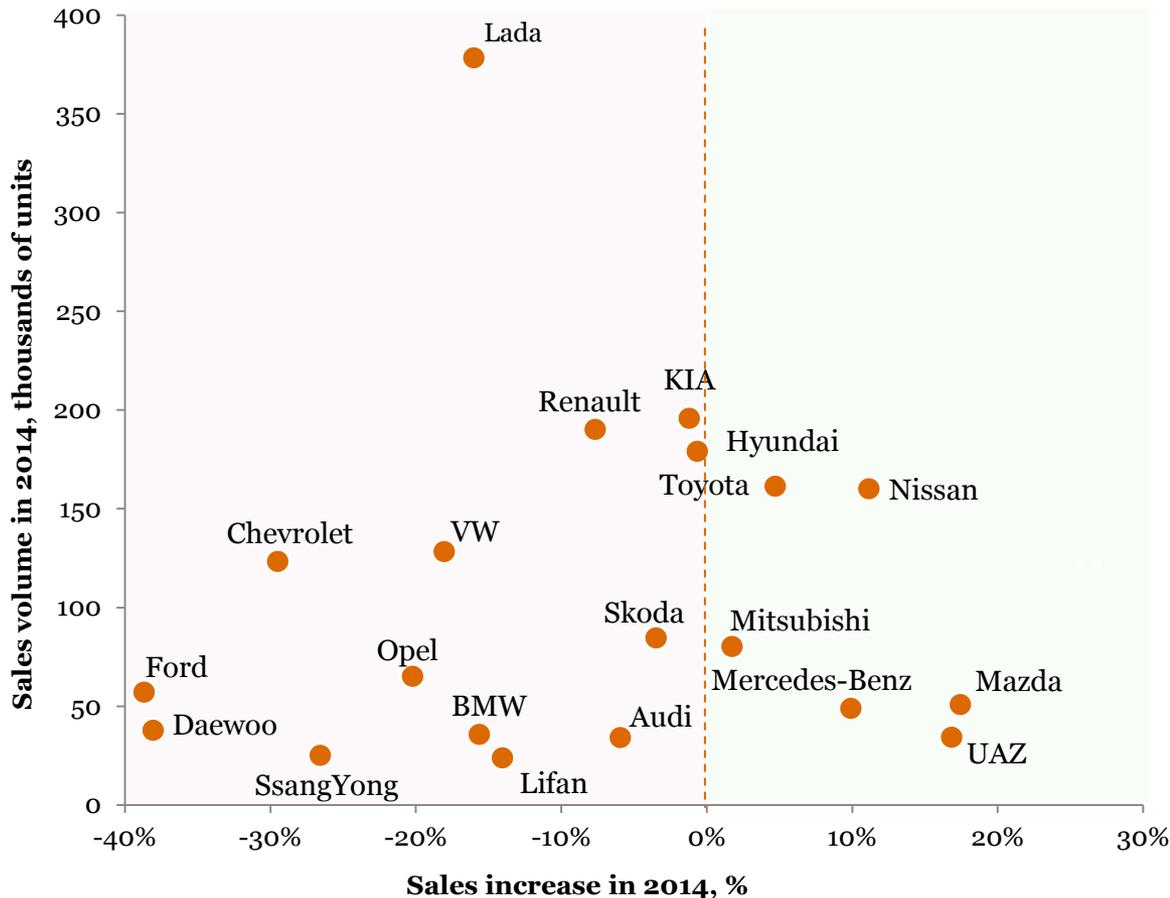


Source: AEB, PwC analysis

*LCV = light commercial vehicles

Volume and share of the passenger car market (excluding LCV) broken down by brands in 2014

Volume, sales increase and share of the passenger car market by brands in 2014



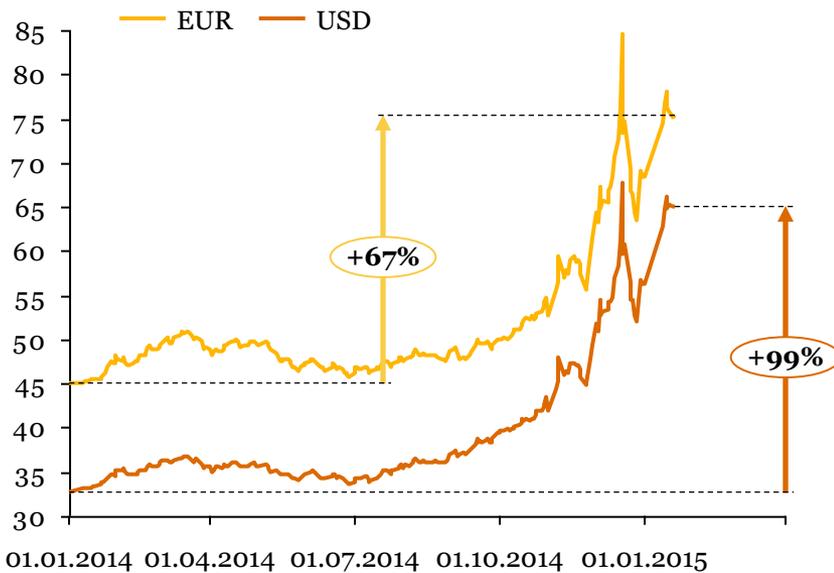
Brand	Market share in 2014, %
Lada	16.2%
KIA	8.4%
Renault	8.1%
Hyundai	7.7%
Toyota	6.9%
Nissan	6.8%
VW	5.5%
Chevrolet	5.3%
Skoda	3.6%
Mitsubishi	3.4%
Opel	2.8%
Ford	2.4%
Mazda	2.2%
Mercedes-Benz	2.1%
Daewoo	1.6%
BMW	1.5%
Audi	1.5%
UAZ	1.5%
SsangYong	1.1%
Lifan	1.0%
Other	10.4%

Source: AEB, PwC analysis

The market is strongly influenced by fluctuations in the Russian rouble exchange rate against other currencies

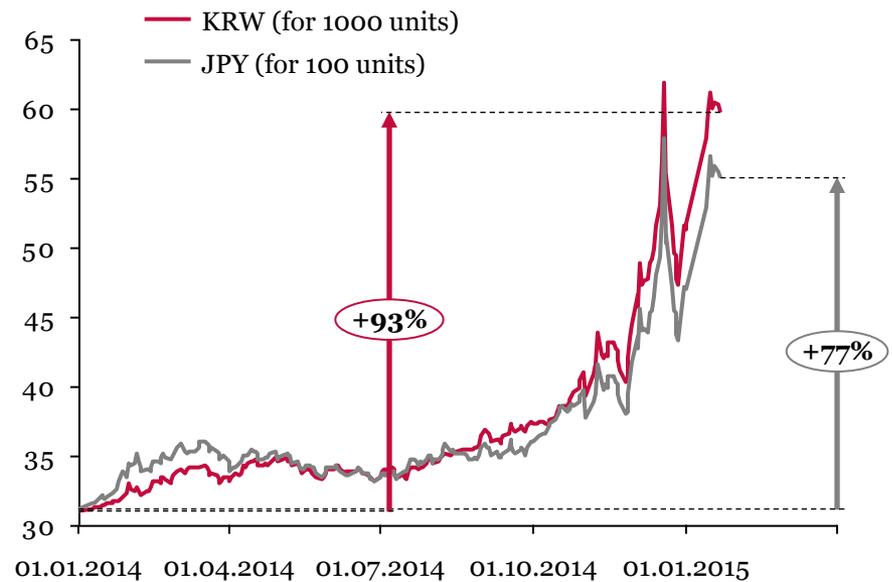
- One of the main drivers influencing the car market in 2014 and shaping the situation in 2015, was the significant weakening of the Russian rouble (RUB). The RUB's depreciation against the US dollar (USD) and the euro (EUR) in 2014 was 99% and 67%, respectively. Meanwhile, the South Korean won (KRW) and Japanese yen (JPY) firmed versus the RUB by 93% and 77%, respectively. As a result, car prices in RUB rocketed for 2-3 months.

RUB/USD and RUB/EUR exchange rate fluctuations in 2014



Source: Central Bank of the Russian Federation

RUB/JPY and RUB/KRW exchange rate fluctuations in 2014



The ongoing macroeconomic uncertainty will continue to determine the difficult situation in the automotive industry in 2015

- In 2014, there was a generally negative macroeconomic background: economic slowdown, rising inflation, a strong rouble depreciation against other currencies, falling oil prices, capital outflows, the decline in real disposable income and consumer confidence.

Key economic indicators (year-on-year change)

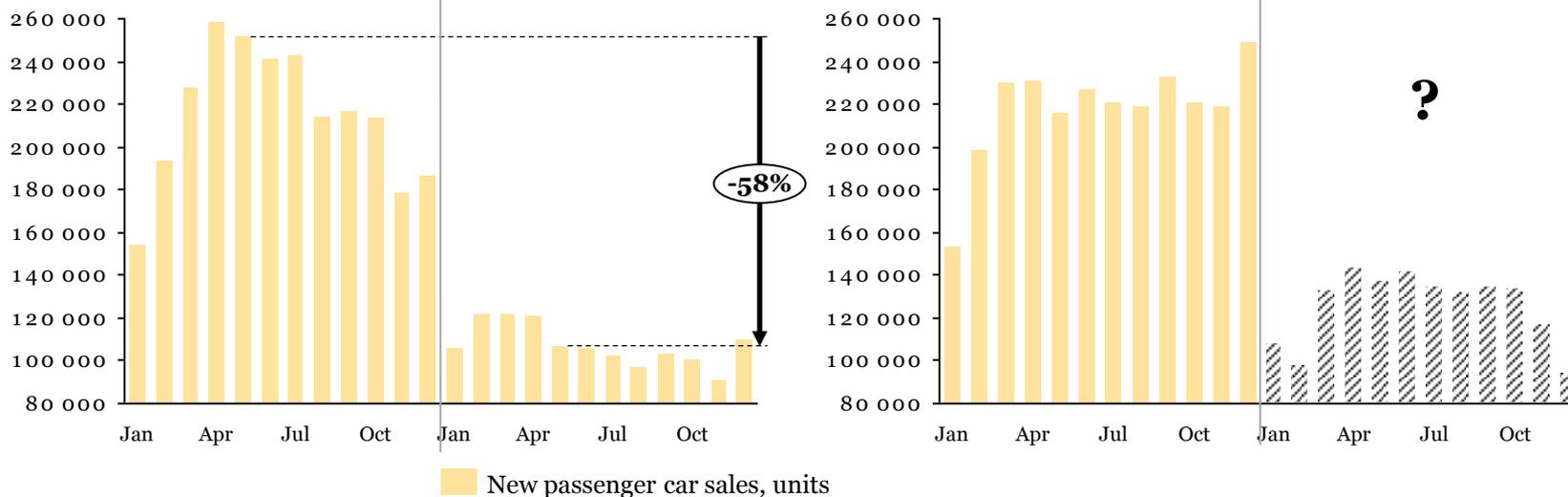
Indicator	2012	2013	2014E	2015F	Forecast source
GDP	3.4%	1.3%	0.6%	 -3.5%	Consensus*
Inflation	6.6%	6.5%	11.4%	 11.6%	Consensus*
USD/RUB exchange rate (average annual rate)	31.1	31.9	38.6	 63.4	Consensus*
EUR/RUB exchange rate (average annual rate)	39.9	42.4	60.0	 72.4	Consensus*
Average Brent oil price (USD per barrel)	98.4	99.7	96.0	 65.0	Consensus*
Real disposable income	4.6%	4.0%	-0.3%	 -2.8%	Ministry of Economic Development of the Russian Federation
Net capital inflow / outflow (USD billion)	-54	-61	-152	 -118	Central Bank of the Russian Federation
Consumer confidence index, Q4	-8%	-11%	-18%	N/A	

(*) Moody's, Fitch Ratings, Morgan Stanley, JP Morgan, IMF, Citibank, EBRD, World Bank, and others

Source: Central Bank of the Russian Federation, Ministry of Economic Development of the Russian Federation, Ministry of Finance of the Russian Federation, Bloomberg, PwC analysis

Comparing the car market: 2009 vs 2015

2008A	2009A		2014A	2015F*
+5.2%	-7.8%	GDP trend, %	+0.6%	-3.5%
29.4	30.2	Year-end RUB/USD exchange rate	56.2	N/A
24.8	31.7	Average RUB/USD exchange rate for the year	38.0	63.4
45.6	75.3	Year-end oil price (USD per barrel)	58.2	N/A
98.4	62.8	Average oil price (USD per barrel) for the year	99.4	65.0



*Consensus forecasts

Source: AEB, Rosstat, Bloomberg, PwC estimates

Outlook and forecasts

2

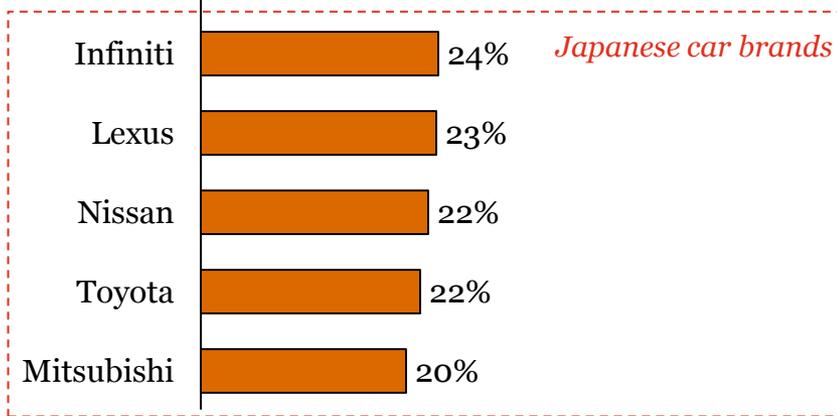
Key factors driving the Russian auto market

Factors		Impact on the market in 2014	Impact on the market in 2015	Long-term impact on the market
	Household income	↓	↓	↑
	Car prices	↑	↓	↑
	Cost of car operating	↓	↓	↓
	Availability of loans	↓	↓	↑
	Consumer sentiment	↓ ↑	↓	=
	Stimulation of demand	↑	↑	↑
	Model line-up and brand strategy	↑	↓ ↑	↑
	Infrastructure development	↓	↓	↑
	Overall economic conditions	↓	↓	↑
	Dealership network penetration	↑	↓	↑
	Used car market development	↓ ↑	↓	↓
	Car fleet upgrade	↓ ↑	↓ ↑	↑
	Demographics	↓	↓	↑

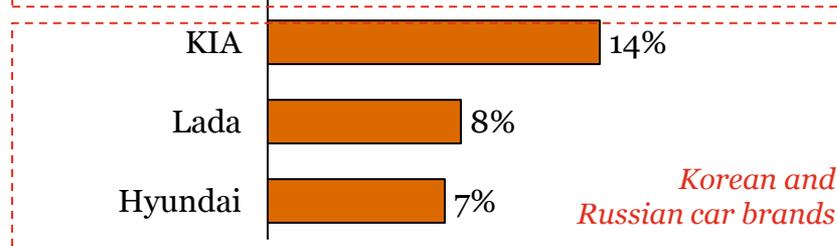
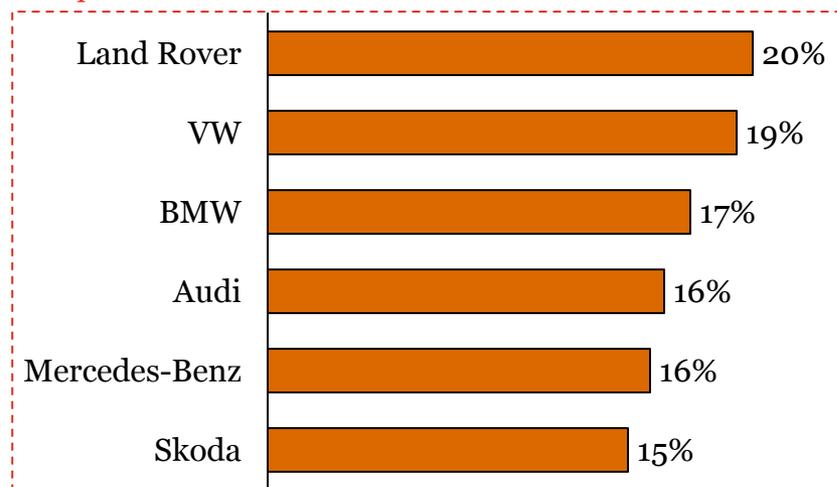
Average car price growth for the selected brands from September 2014 to mid-January 2015

- Given the rouble depreciation, car producers have had to adjust their RUB prices for cars sold in Russia. The majority of car brands have taken a step-by-step approach to price adjustments, trying to find a balance between the need to minimise losses and maintain demand. Key aspects to be considered when establishing a new price are fluctuations in the RUB exchange rate against the manufacturer's base currency, the level of production localisation in Russia and the brand strategy.

US car brands



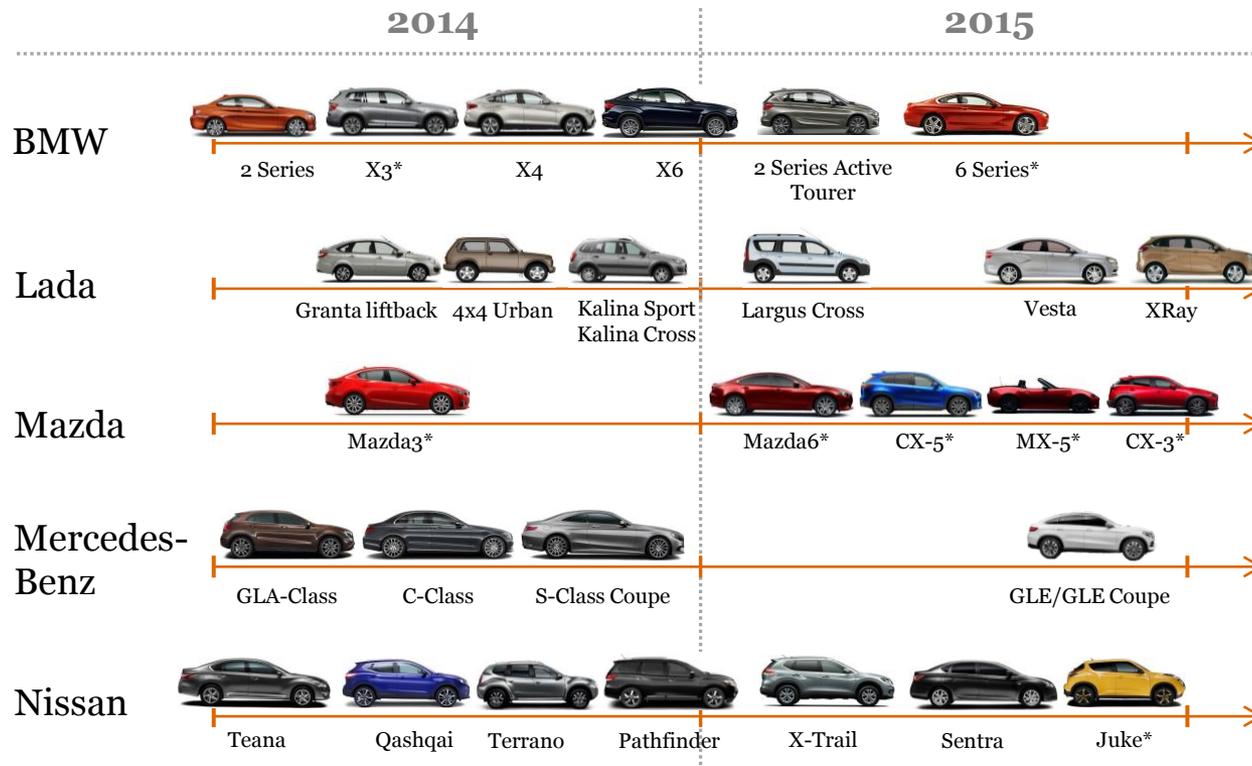
European car brands



For this analysis, we have taken several best-selling car models of each brand and averaged the growth data for each brand. Car prices are based on actual dealer car prices taken into account special offers.

Sales trends will be significantly influenced by new models in the line-ups as well as the level of localisation

Examples of some brands with a relatively new model line-up and/or important new models in 2015



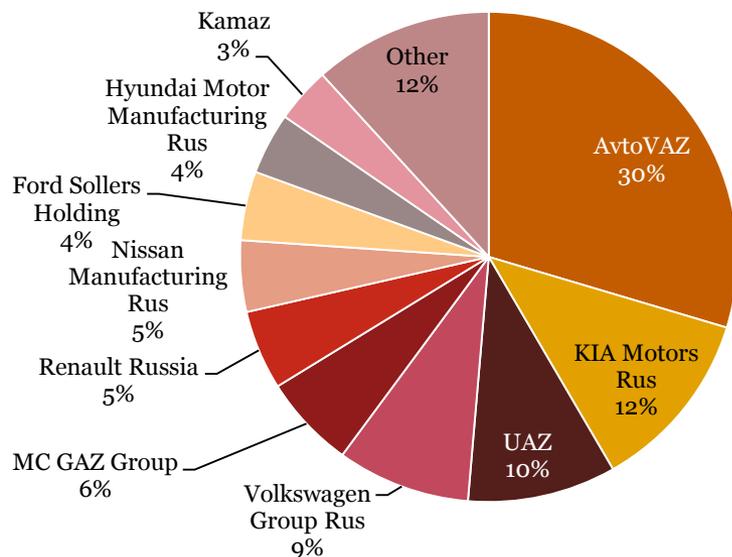
Source: PwC analysis
* current-generation model facelift

- Those brands that can offer the buyer the brand-new models with moderate price increases will be in a better position in 2015.
- At the same time price rises may be curbed due to the high level of manufacturing localisation and/or the brand strategy in the local market.
- Russian car producers have an opportunity in the coming years to improve the situation in the market and increase their market share. On the one hand, the declining demand and sales decrease will have a negative effect as well. But, on the other hand, the rouble depreciation and the government support create opportunities for business development, moreover, through expansion of export.

Overview of government support measures for Russian auto market (1 of 2)

- Under current conditions, government support for the market has become vital. The extension of the government's successful car fleet renewal programme into 2015 will support the market; but the allocated funds will be enough for a few months only.
- Given that the 2015 programme (compared to the 2014 programme) is more focussed on stimulating demand for commercial vehicles, its impact on passenger car sales will be less pronounced. Approximately 130,000 cars could be purchased based on funding of RUB 10 billion. The programme will primarily support the low-end car segment.

Outcome of the government car fleet renewal programme, September–December 2014



Type of vehicle	Number of cars sold, units	Share
Passenger cars	155,002	82.4%
LCV*	22,544	12.0%
Trucks	8,299	4.4%
Buses	2,333	1.2%
Total	188,178	100%

Source: Ministry of Industry and Trade of the Russian Federation

Overview of government support measures for Russian auto market (2 of 2)

- The recent rouble depreciation has paved the way for further localisation of car production in Russia, which is a strategic priority for the development of Russia's auto industry. However, whether investors would opt to put their money into Russia-based production will to a great extent depend on several factors:
 - the domestic market capacity;
 - export capabilities (given Russia's relations with neighbouring countries);
 - understanding among investors and market players of the prospective strategy for the Russian economy and industry development.
- The decline in sales expected in 2015 may prompt some brands to leave the Russian market. At greatest risk are those car producers whose sales in Russia are relatively low compared to their global sales. Moreover, some car dealers are likely to go bankrupt. In order to ease the decline in sales in 2015, it would be advisable to consider some potential options for stimulating demand through extra incentives, such as:
 - increasing funding and extending the car fleet renewal programme;
 - ensuring reduction of effective interest rates on car loans (subsidising car loan interests and/or targeted support for banks to expand auto lending);
 - reducing the cost of car ownership, which includes changing the way the transport tax is calculated to encourage purchases of cars with low emissions (possible only for new cars and for a certain period);
 - government procurement of domestically produced cars;
 - permitting the use of “maternity capital” grants for car purchases;
 - creating favourable conditions for exporting Russian-made cars, etc.

Outlook for Russia's new passenger car market in 2015

Sales of new passenger cars, thousand units (excluding LCV)

Passenger cars (net of LCV)	2014 (actual)	2015 (baseline forecast)	2015 (best case forecast)
Russian cars	410	370 (-10%)	430 (+5%)
Foreign car models assembled in Russia	1,280	860 (-33%)	980 (-23%)
Imported new cars	650	290 (-55%)	340 (-48%)
Total market	2,340	1,520 (-35%)	1,750 (-25%)

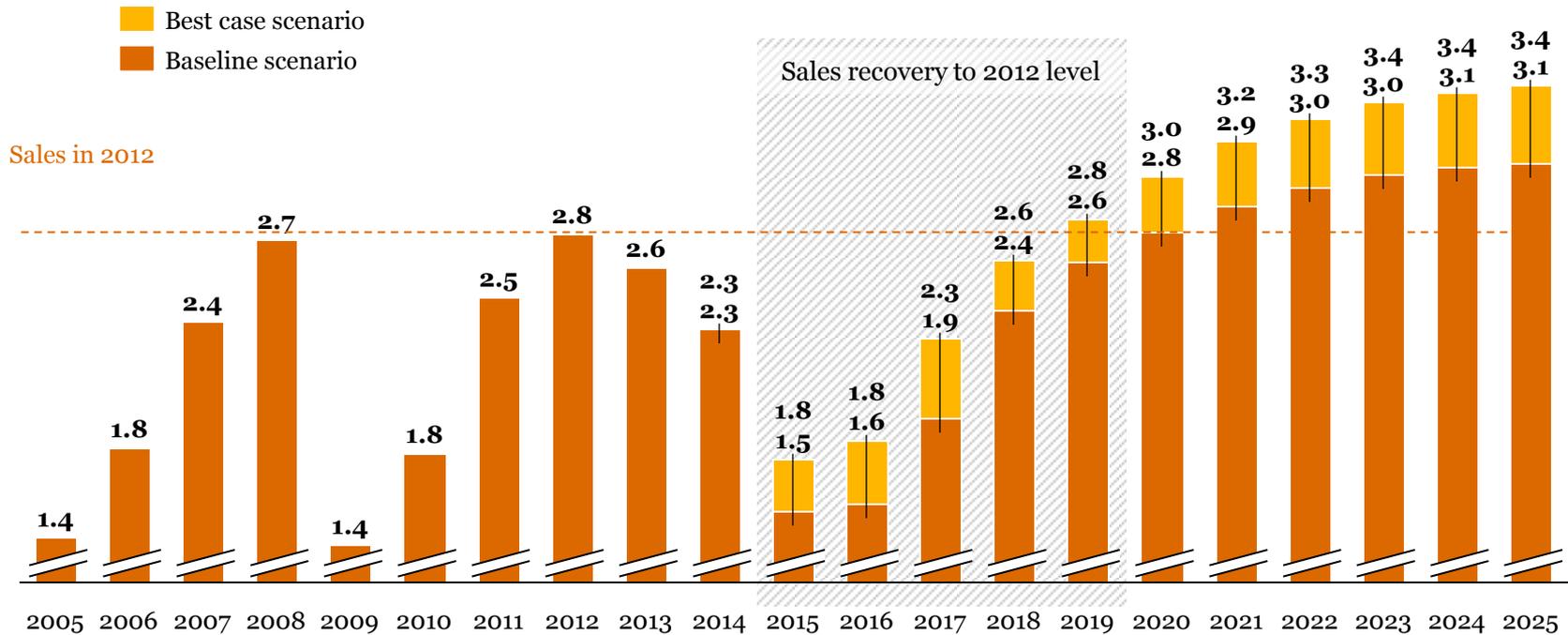
Key factors driving development of Russia's automotive market in 2015:

-  Geopolitical situation
-  Oil price
-  Rouble exchange rate against other currencies
-  Environment for auto lending
-  Government support (market stimulation)

It may take 5 years to rebound to 2012 levels

- We have considered two market development scenarios: 1) best case and 2) baseline case.
- The level of motorisation (number of cars per 1,000 people) is projected to increase up to 350-400 cars by 2025 according to the forecast.

Passenger car sales forecast in 2015-2025, million units



Source: PwC analysis

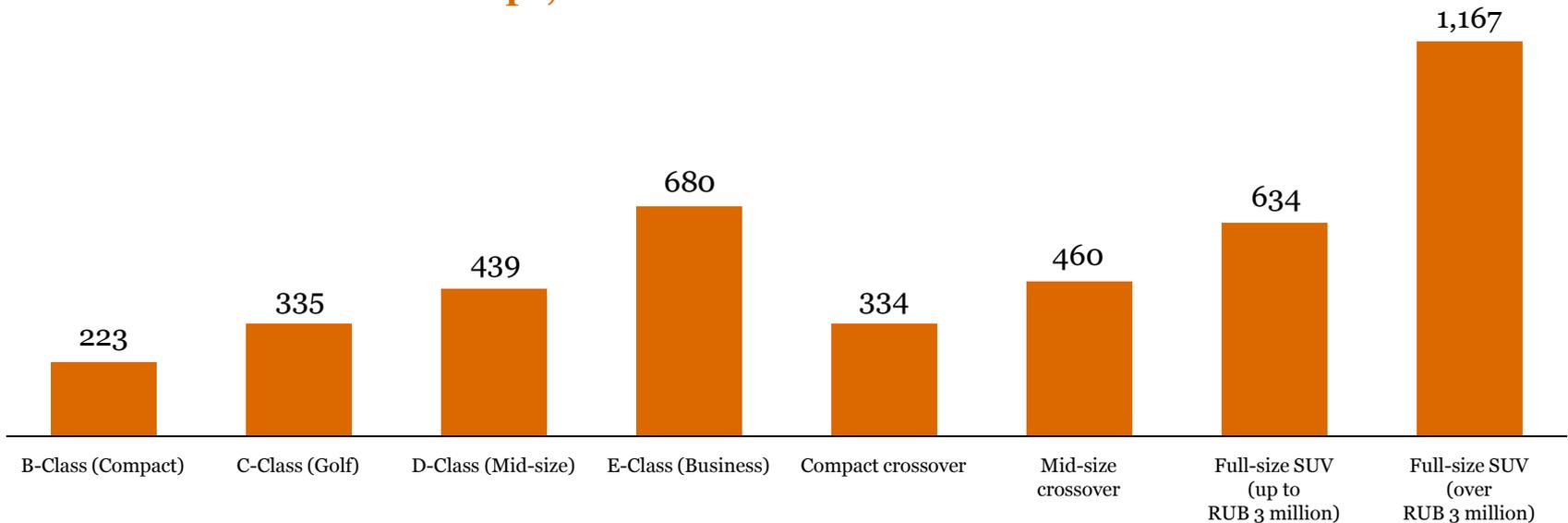
The cost of car ownership in Russia

*To read the full PwC annual survey,
please visit: www.pwc.ru/automotive*

Main conclusions on the cost of ownership as of January 2015 (1 of 2)

- The car prices increase in the end of 2014 will likely continue into 2015. Certain car producers have already raised prices by tens of percent. At the same time, banks have been adopting more strict terms for issuing car loans, while insurance companies have raised OSAGO (compulsory third party car insurance) and KASKO (hull coverage auto insurance) rates. Other car servicing expense items have increased alongside the rouble depreciation. Consequently, car owners and potential buyers have now begun to pay more attention not only to a car's brands, model and features, but also to the cost of owning and maintaining it.
- PwC experts have analysed the cost of ownership in Russia as of January 2015. The cost of ownership means both operating expenses and car's value depreciation (car purchase price less resale revenue).

The annual cost of ownership*, RUB thousand

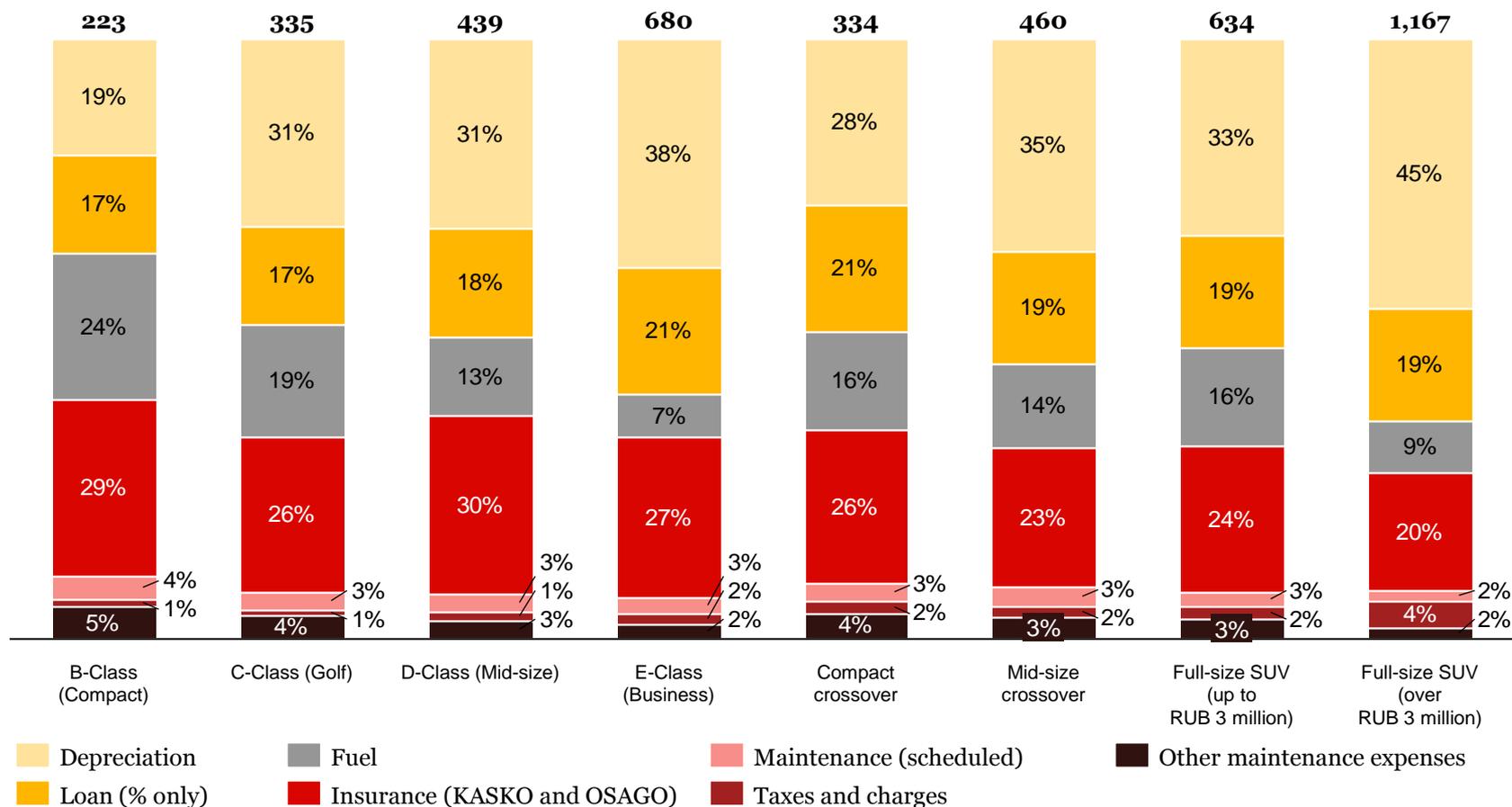


* The cost of ownership of a particular car can vary significantly, depending of the specific conditions for buying and operating the vehicle

Source: PwC analysis

Main conclusions on the cost of ownership as of January 2015 (2 of 2)

Structure of car ownership costs, %

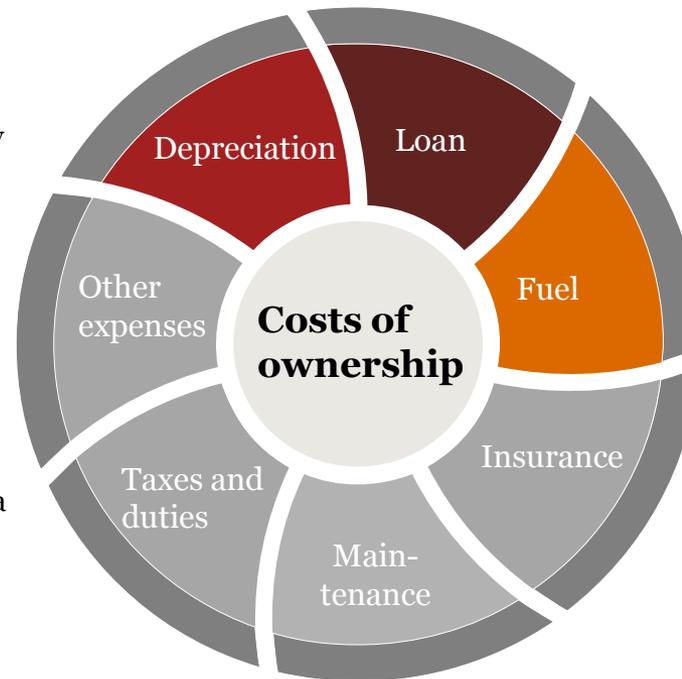


Source: PwC analysis

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Survey findings on the key components in the cost of ownership (1 of 2)

- **19-45%** of the total cost of ownership;
- Loss in value depends primarily on the original cost of a car, as well as on the used car market environment (including the demand for and supply of a particular model);
- Normally, higher-end cars lose value faster than less expensive and prestigious cars;
- Other factors driving loss in value include: the reliability of a model, the availability of new updated model cars in the market, and price trends for similar new cars.



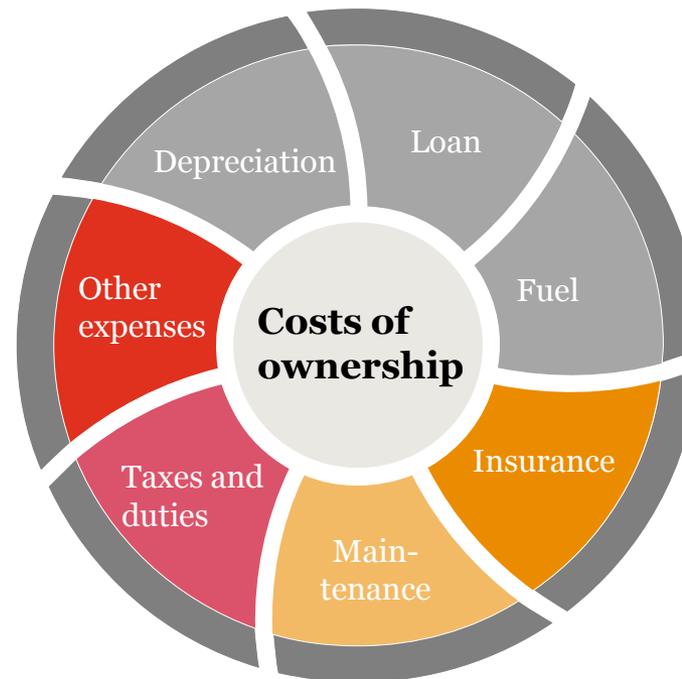
- **17-21%** of the total cost of ownership;
- Late 2014 – early 2015, the rouble depreciation and prime rate increase led to an increase in car loan interest rates up to 19-23%;
- Sales in the low- and medium-price segments are most sensitive to the interest rate growth, while premium segment cars sales are less dependent on loan interest rate changes.

- **7-24%** of the total cost of ownership, depending on the car segment;
- Fuel expenses in the total cost of car ownership differ in the reviewed segments: the share of fuel expenses is lower for more expensive cars despite higher fuel consumption (due to more powerful engines).

Survey findings on the key components in the cost of ownership (2 of 2)

- **2-5%** of the total cost of ownership;
- Other expenses (winter tyres, car wash twice per month) are nearly at the same level in monetary terms, so their share in the total cost of ownership is driven by the car price.

- **1-4%** of the total cost of ownership;
- Transport tax depends on engine capacity and region;
- A multiplier used for the transport tax on cars that cost more than RUB 3 million significantly increases the cost of ownership.



- **20-30%** of the total cost of ownership (mainly driven by the cost of KASKO);
- In monetary terms, the amount of insurance expenses (KASKO) grows along with the cost of a car. Yet, as a percentage of the cost of a car, KASKO expenses are normally lower for more expensive vehicles;
- Other factors, driving the cost of KASKO, include: cost of spare parts and repairs, car exclusivity, etc.

- **2-4%** of the total cost of ownership;
- Normally, the more expensive a car, the smaller share of maintenance expenses in the cost of ownership.

Key assumptions underlying the survey

- The survey covered new cars that are officially supplied to Russia.
- For the purposes of our analysis, 8 car classes have been identified in accordance with car size and price*.
- Each class includes 5 popular car brands.
- The findings of the analysis for each car class show the average result for the cars in the corresponding class.
- All major indicators (car price, loan terms and conditions, etc.) are as of the second half of January 2015 and are based on PwC analysis, data provided by car dealers and information from open sources.
- The following key assumptions underlie our survey:
 - A car is bought with a standard equipment package, a gasoline engine and an automatic transmission;
 - A car is bought and used in a major Russian city;
 - A car is used by one owner for 3 years;
 - A car is bought, using a loan, with a down payment of 50%.

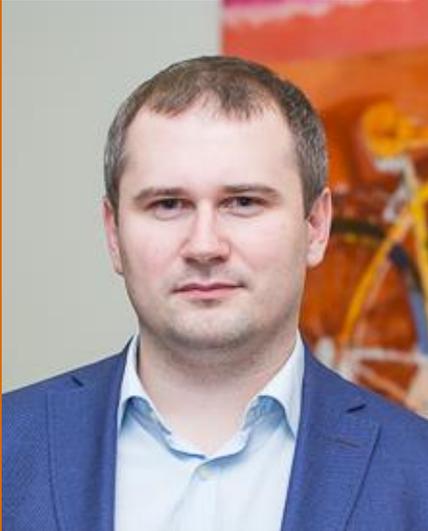
Average characteristics of reviewed cars by class

	B Class (Compact)	C Class (Golf)	D Class (Mid-size)	E Class (Business)	Compact crossover	Mid-size crossover	Full-size SUV (up to RUB 3 mln)	Full-size SUV (over to RUB 3 mln)
Car price, RUB thousand	551.6	928.4	1,280.0	2,276.5	1,135.2	1,541.8	2,258.6	3,308.9
Engine, h.p.	98	115	149	194	149	177	205	300
Kilometres travelled, km/year	24,342	24,600	25,420	20,700	21,140	23,380	25,700	24,440
Fuel consumption (gasoline AI-95, AI-92 or similar), l/100 km	6.8	7.4	6.4	7.0	7.5	8.1	11.6	11.3
Loss in value over three years, % of original cost	23%	33%	30%	38%	24%	31%	27%	47%
Loan interest rate	22.6%	21.2%	22.2%	21.7%	21.9%	20.7%	18.8%	23.0%

(*) Composition and criteria of each class have been identified on the basis of PwC analysis

Source: PwC analysis

Thank you!



Sergey Litvinenko

Director, PwC Automotive Practice

sergey.litvinenko@ru.pwc.com

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