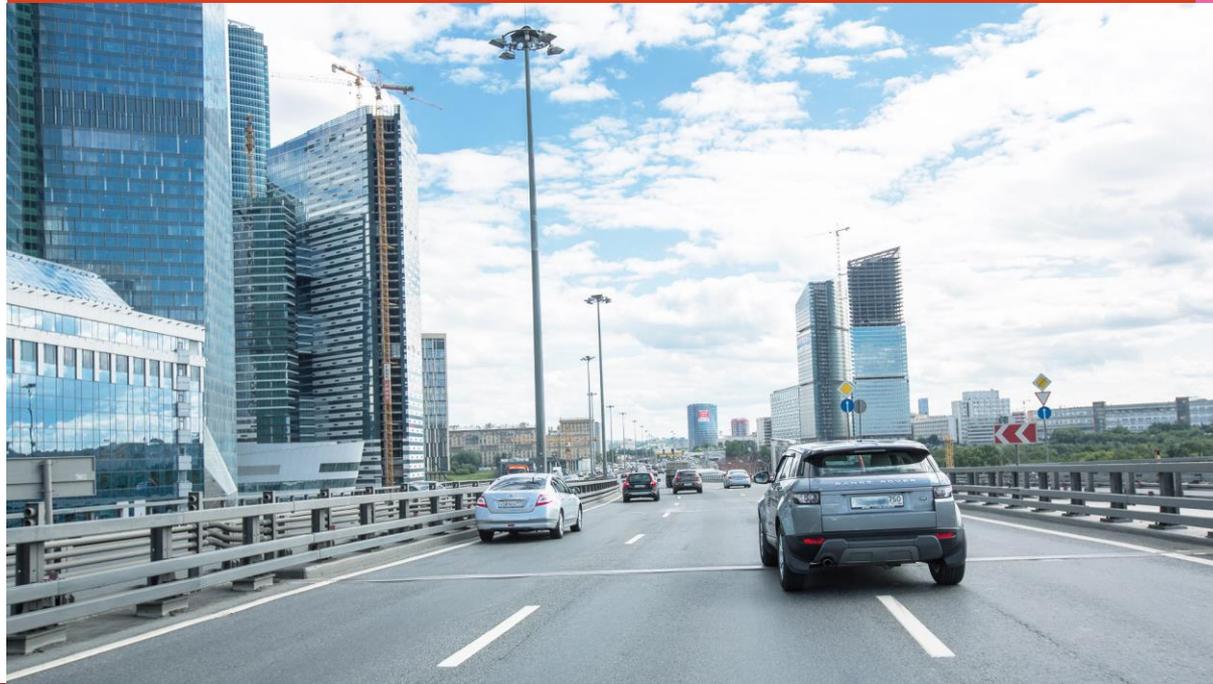


The Russian automotive market: 9M 2015 results

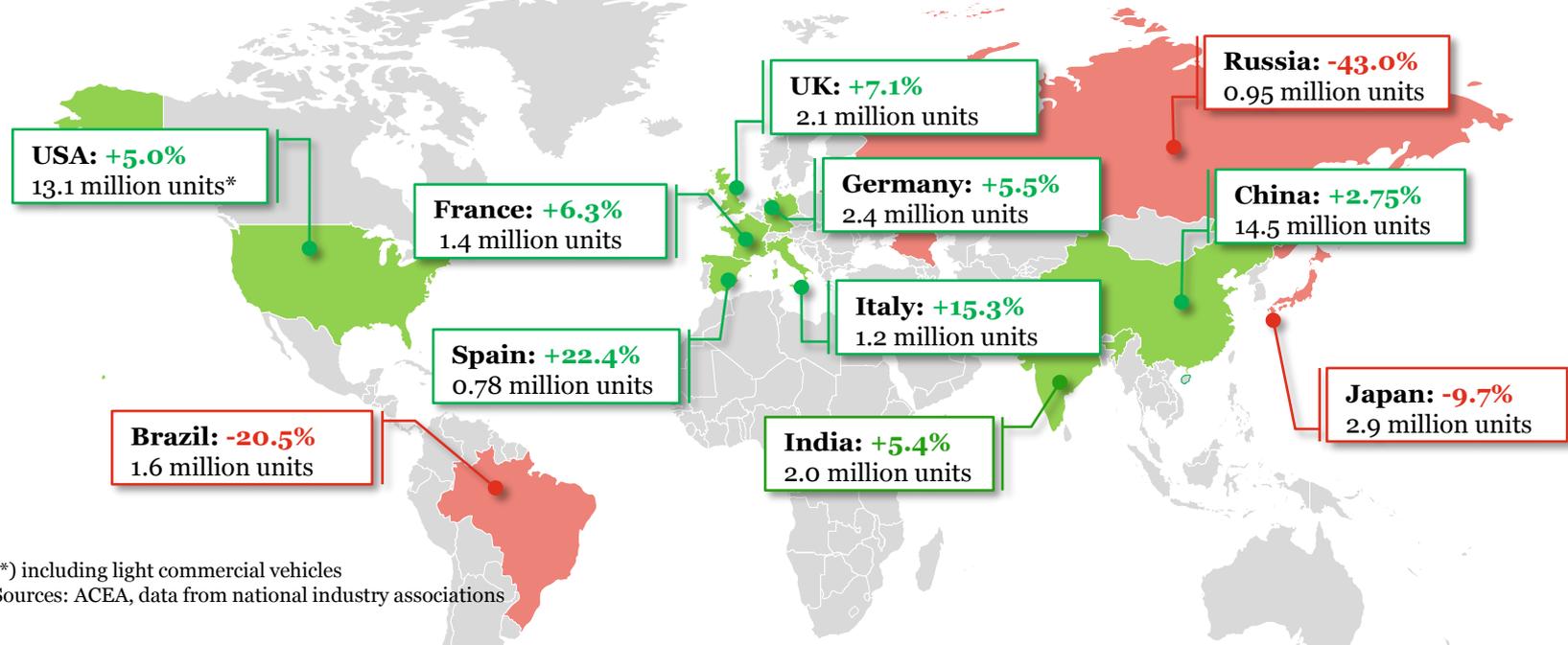
November 2015



The Russian market for new passenger cars: 9M 2015 results

Russia demonstrated the largest drop in sales among the world's leading automotive markets

New passenger car sales in key markets for 9M 2015



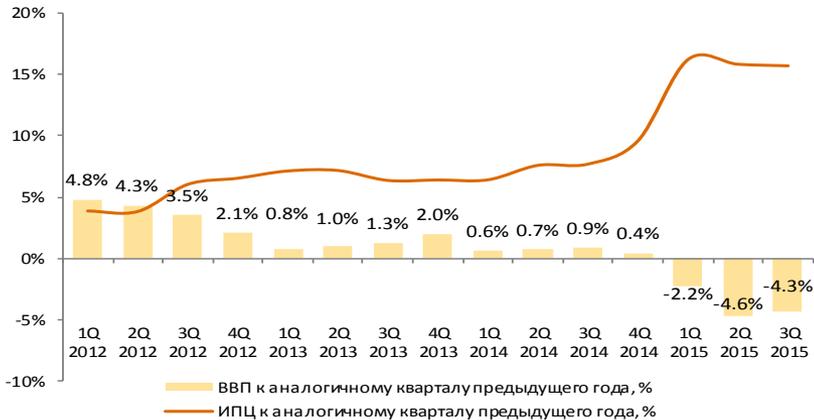
(*) including light commercial vehicles

Sources: ACEA, data from national industry associations

- The European economy's steady recovery has boosted car sales. For instance, **Spain** demonstrated the greatest growth in new car sales among key European markets (+22.4%), thanks largely to a government-funded vehicle scrappage programme.
- The **US** market is growing due to low fuel costs, rising household incomes, and overall favourable economic conditions.
- The China Association of Automobile Manufacturers (CAAM) forecasts that sales growth in **China** in 2015 will decline to a four-year low as a result of the country's recent stock market crash combined with relatively slower rates of economic growth.
- Growth on **India's** car market has been driven by lower interest rates and cheaper fuel.
- In **Japan**, car sales dropped due to a sales tax increase and a weaker yen.
- The **Brazilian** market declined mainly due to high interest rates coupled with overall economic instability.
- A detailed analysis of how **Russia's** car market performed over the first nine months of 2015 is presented below.

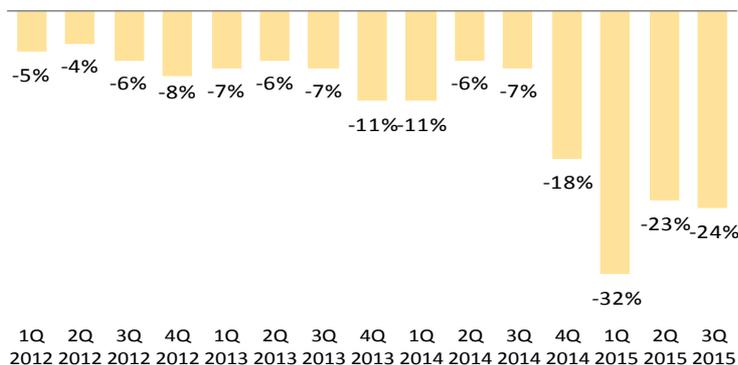
The worsening macroeconomic environment has been the primary reason for the decline in Russia's car market

GDP growth rates and consumer price index (CPI), 1Q 2012 – 3Q 2015



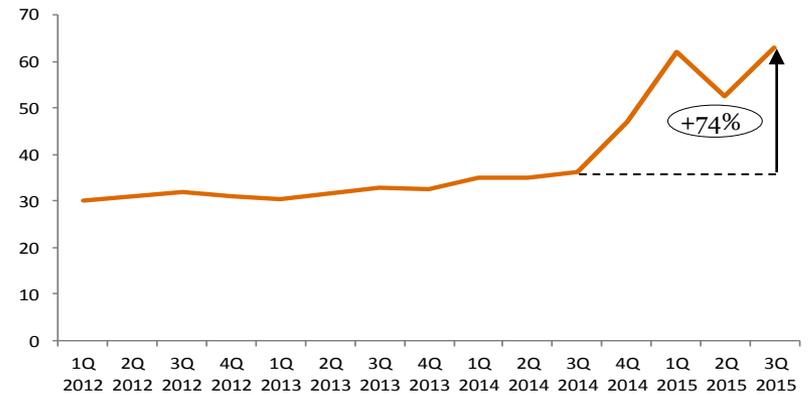
Source: Russian Ministry of Economic Development, Rosstat

Consumer confidence index, 1Q 2012 – 3Q 2015



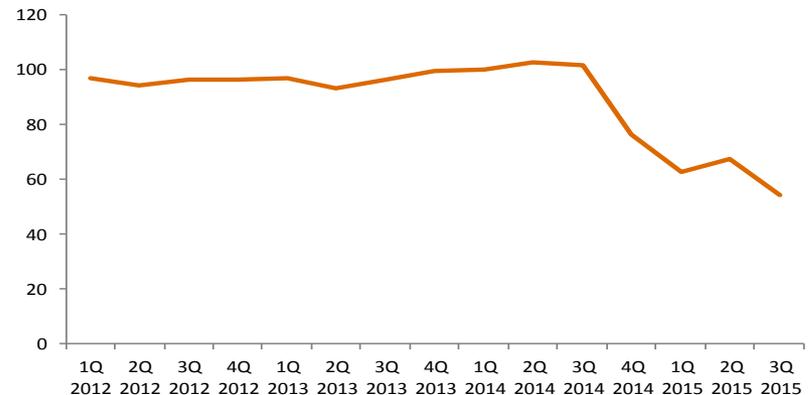
Source: Rosstat

Average nominal RUB/USD exchange rate, 1Q 2012 – 3Q 2015



Source: Central Bank of Russia

Brent oil price trends, in USD, 1Q 2012 – 3Q 2015



Source: Bloomberg

For 9M 2015, new car sales in Russia (in unit terms) declined by 43%¹

- Since April 2015, the Russian Government has been implementing programmes to spur demand, which are aimed at propping up Russia's sagging car market. Thanks to these efforts, the rate of decline on the market slowed somewhat in 3Q 2015. The relatively slower rate of decline in car sales in 3Q 2015 was also due to a low base effect given the sharp slump in sales seen in 3Q 2014. Specifically, sales plunged by 26% in August 2014. Consequently, when comparing sales performance in 3Q 2015 against the same period last year, it becomes clear that the rate of decline has slowed down.
- Based on the results for the first nine months of 2015, passenger car sales in Russia dropped by 43% in terms of total units. In Russian rouble terms the market declined by 34%, whereas in US dollar terms it declined by 61% due to changes in the average exchange rate.
- The new imported cars segment once again saw the biggest drop in sales (55%), while sales of domestic makes and models and locally manufactured foreign cars fell by 34% and 39%, respectively.
- The future of the Russian car market will directly depend on the macroeconomic situation, governmental support, and the effectiveness of strategies pursued by key market players during this period of uncertainty.

Categories of passenger cars	Sales, '000 units			Delivered sales, '000 units ²	Sales, RUB bn			Sales, USD bn ³		
	Jan-Sep 2015	Jan-Sep 2014	Change		Jan-Sep 2015	Jan-Sep 2015	Jan-Sep 2014	Change	Jan-Sep 2015	Jan-Sep 2014
Domestic makes and models	193	295	-34%	217	96	121	-21%	1.6	3.4	-53%
Foreign makes and models produced in Russia	519	846	-39%	613	600	822	-27%	10.0	23.2	-57%
Imported foreign makes and models	238	527	-55%	277	349	632	-45%	5.8	17.8	-67%
Total	950	1,667	-43%	1,106	1,045	1,574	-34%	17.5	44.4	-61%

¹ Net of light commercial vehicles

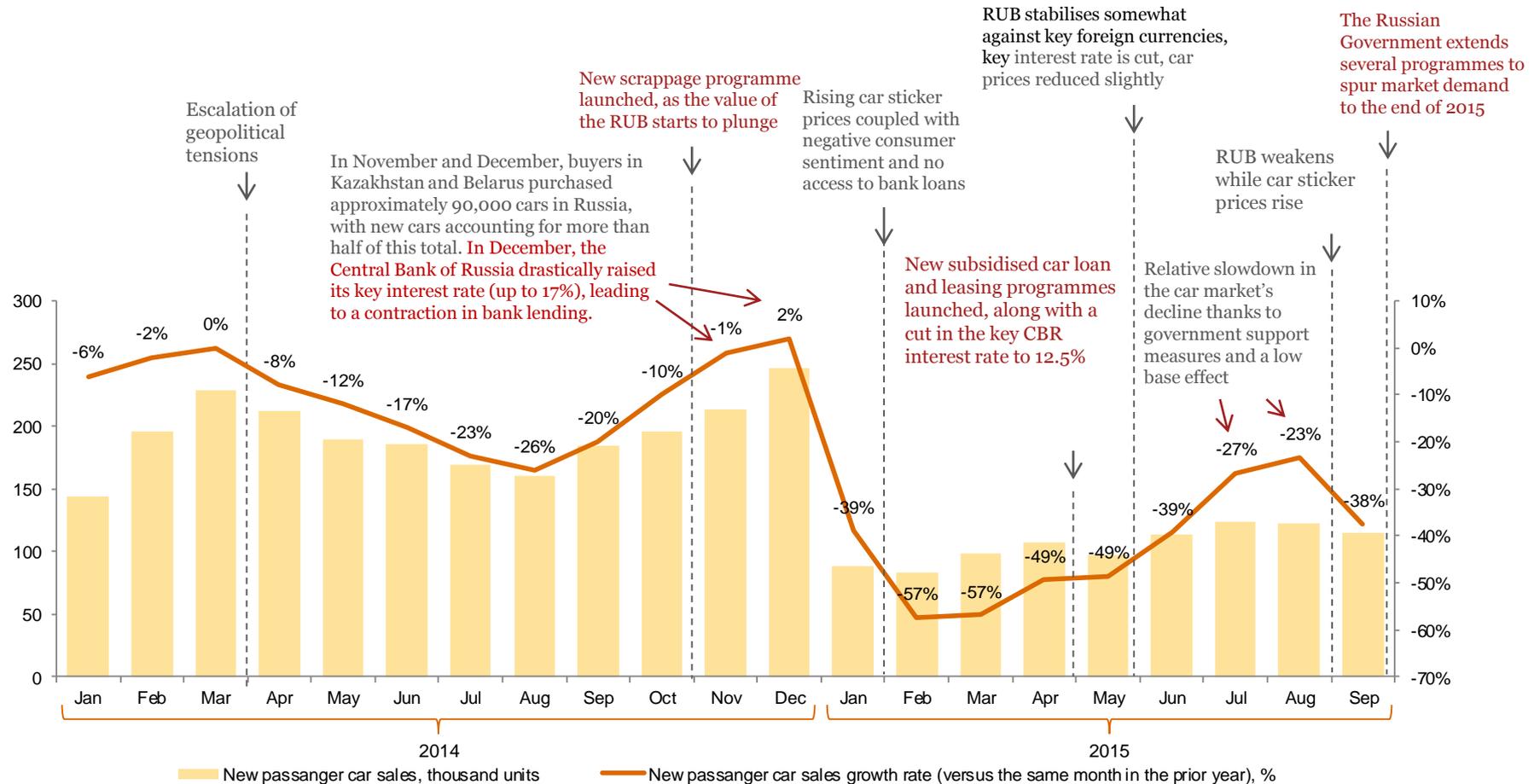
² Sales data are based on car shipments to dealerships and presented for illustrative purposes.

³ Adjusted for the average exchange rate of the Russian rouble to the US dollar for 9M2015 (RUB 59.73 / USD 1.00) and the average RUB / USD exchange rate for 9M2014 (RUB 35.42 / USD 1.00)

Sources: data available from information and analytics agencies, Russian Federal Customs Service, Association of European Businesses (AEB), PwC analysis

Thanks to the Russian Government's support measures, the pace of decline in Russian car sales has slowed since May 2015

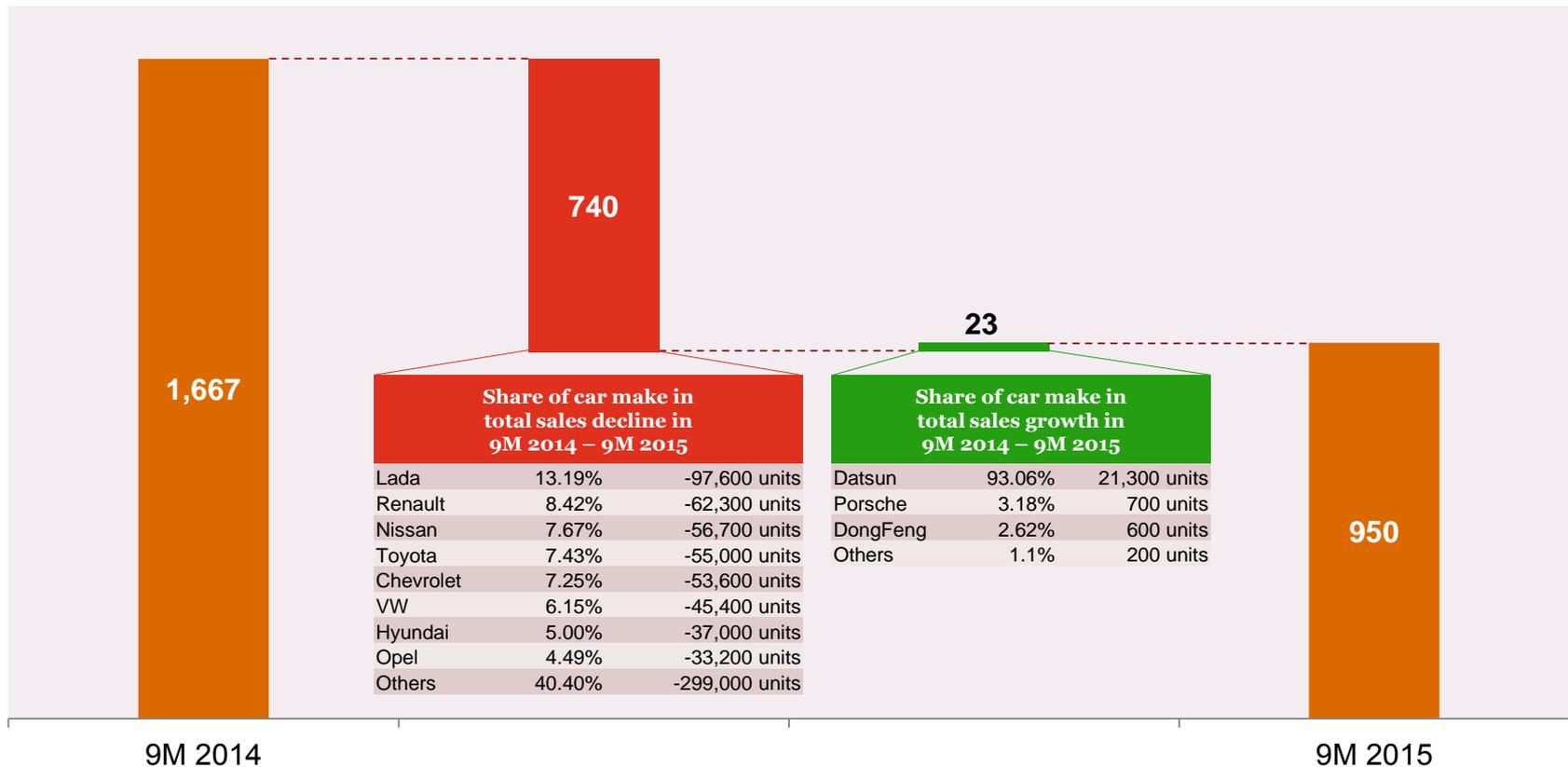
New passenger cars sales by month, 2014 – 9M 2015



Source: Data available from information and analytical agencies, AEB, PwC analysis

For 9M 2015, most car makes and models saw declining sales

New passenger car sales, net of LCV* for 9M 2015 and 9M 2014, '000 units



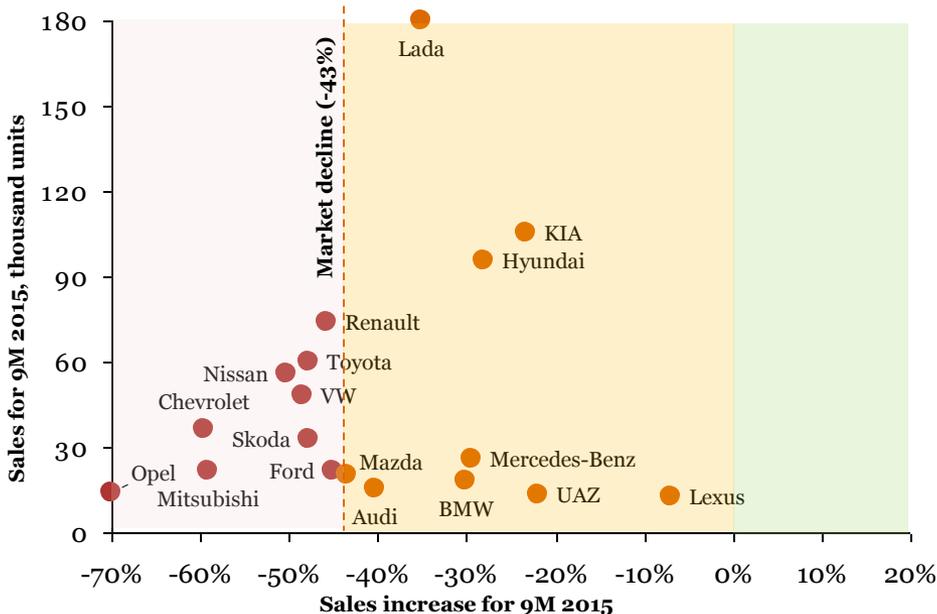
¹ LCV = Light commercial vehicles

Source: Data available from information and analytical agencies, AEB, PwC analysis

Car makes that have gained market share include Russian- and Korean-made autos as well as premium German and Japanese makes and models

- AvtoVAZ's domestically produced Lada models gained market share in the first nine months of 2015 owing to several factors, including a shift in consumer preferences away from medium-priced cars toward vehicles in the lower-price segment, as well as Russian Government incentive programmes and special offers for consumers under the Lada Finance programme.
- Korean makes have been able to maintain their strong foothold on the Russian market by pursuing a consistent strategy aimed at expanding their presence in Russia (e.g. through local production facilities, a favourable price/quality ratio, a wide variety of car models, etc.).
- Traditionally, the premium segment has been less exposed to market fluctuations. Some makes have restyled a number of their models while also launching new models, which has helped to boost sales in this segment.

Volume, sales increase and share of passenger car market by make in 9M 2015¹



Make	Market share for 9M 2015, %	Market share for 9M 2014, %	Change in market share
Lada	18.9%	16.6%	↑
KIA	11.1%	8.2%	↑
Hyundai	10.0%	7.9%	↑
Renault	7.8%	8.2%	↓
Toyota	6.3%	6.9%	↓
Nissan	5.9%	6.8%	↓
VW	5.1%	5.6%	↓
Chevrolet	3.8%	5.4%	↓
Skoda	3.5%	3.8%	↓
Mercedes-Benz	2.7%	2.2%	↑
Datsun	2.3%	0.03%	↑
Ford	2.3%	2.4%	↓
Mitsubishi	2.3%	3.1%	↓
Mazda	2.1%	2.1%	↔
BMW	1.9%	1.6%	↑
Audi	1.6%	1.5%	↑
Opel	1.5%	2.8%	↓
UAZ	1.4%	1.0%	↑
Lexus	1.4%	0.8%	↑
Others	8.1%	12.9%	↓

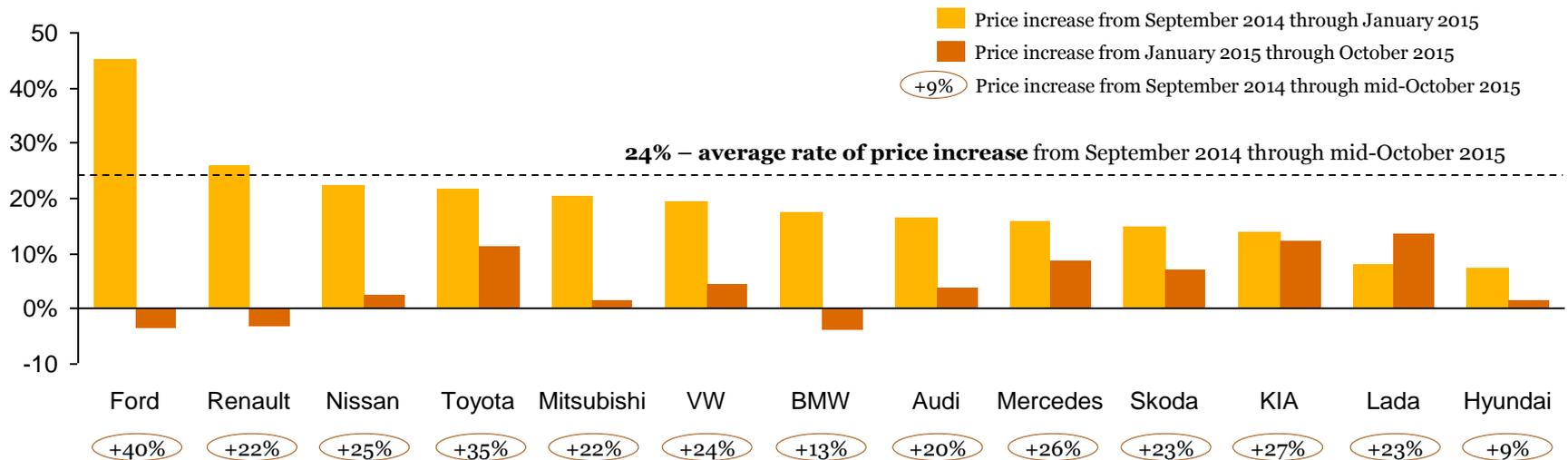
¹Datsun's sales increased more than 40-fold against 2014 due to the low base effect (i.e. Russian sales of Datsun began only in September 2014).

Source: Data available from information and analytical agencies, AEB, PwC analysis

From September 2014 through mid-October 2015, prices for popular car makes rose by about 24% on average

- Since 4Q 2014, automakers have been making material adjustments to RUB-denominated prices for cars sold in Russia.
- To maintain their profitability, many dealerships now must seek out internal reserves and adapt their strategies for doing business on the Russian market.

Increase in average car price by select makes from September 2014 through mid-October 2015*



(*) This analysis was based on a sample of the best-selling models of each car make. Data on price changes for select models were averaged for each make under review. The data were based on actual prices charged by car dealerships, including special offers (but excluding discounts related to scrappage and trade-in programmes).

Source: PwC analysis

Thanks to subsidised car loan, car leasing and car fleet renewal programmes in 2015, the pace of decline in Russia's car market has slowed

- The implementation of subsidised car loan, car leasing and car fleet renewal programmes in 2015 as well as a cut in the CBR's key interest rate have had an impact on almost all major players. These factors have also put a brake on the pace of decline in the auto market since May 2015.
- As of the end of September 2015, car sales under these programmes exceeded the Russian Ministry of Industry and Trade's previous projections. Those factors contributing to the higher-than-expected sales have included easier terms for the car fleet renewal programme and a higher price cap on cars that are eligible for the subsidised car loan programme (i.e. the cap was increased from RUB 0.75 million to RUB 1 million).
- According to Russian Ministry of Industry and Trade estimates, as of the beginning of October 2015, thanks to governmental support measures, the production of passenger cars and light commercial vehicles in 2015 will have reached 1.44 million units (24% less than in 2014). Otherwise, without such measures, production would have been as low as 1.19 million units (or fully 37% less than in 2014).

Key demand incentive programmes for the automotive market in 2015

	Subsidised car loans	Subsidised car leasing	Car fleet renewal
Programme period	• 1 April 2015 – 31 December 2015	• 15 May 2015 – 1 December 2015 (since October, commercial vehicles are eligible)	• 1 January 2015 – 31 December 2015 (scheme extension after 2014)
Key features of Government-sponsored efforts to stimulate the Russian automotive industry	<ul style="list-style-type: none"> • Subsidised loans are offered to customers interested in buying a car priced at RUB 1 million or less • Budget funds subsidise 2/3 of the key interest rate 	• The Russian Government will subsidise a 10% discount on car prices as part of down payments, with the discount coming to a maximum of RUB 500,000	• A discount ranging from RUB 40,000 to RUB 350,000 (according to the vehicle's class) is offered to customers who are interested in buying a new car under scrappage or trade-in programmes
Financing	• Federal budget spending in 2015 is expected to reach RUB 1.5 billion	• Federal budget spending in 2015 is expected to reach RUB 5 billion (including RUB 2.5 billion allocated in Spring 2015, an extra RUB 1 billion allocated in Summer 2015, and RUB 1.5 billion allocated in September 2015)	• Federal budget spending in 2015 is expected to reach RUB 20 billion (RUB 15 billion and an additional allocation of RUB 5 billion)
Expected benefits	• Over 137,000 units were sold since the programme's inception through the beginning of September 2015	• Over 27,000 units were leased from the inception of the programme through the beginning of October 2015	• Over 228,000 units had been sold under the car fleet renewal programme as of the start of September 2015

Source: Russian Ministry of Industry and Trade, public sources, PwC analysis

Outlook for Russia's new passenger car market

By year-end 2015, Russia's new car market is expected to decline by 45% in unit terms

New passenger car sales, thousands of units (net of LCV)

Passenger car categories (net of LCV)	2014 (actual)	2015 (forecast)
Russian cars	410	260 (-37%)
Foreign car makes and models assembled in Russia	1,280	700 (-45%)
Imported new cars	650	320 (-51%)
Total market	2,340	1,280 (-45%)

Key factors driving the development of Russia's automotive market in the coming years:



The geopolitical situation may worsen, which, along with the uncertainty over sanctions, could result in further market decline.



The oil price: The situation in the Russian economy as a whole and across various sectors, including the automotive industry, is largely dependent on oil prices. Further decline in oil prices would adversely affect demand on the car market due to declining consumer purchasing power.



The RUB exchange rate against other currencies: Further depreciation of the Russian rouble could lead to further rises in prices for imported goods (including cars), making them less attractive to Russian consumers.



Government support through a range of measures (aimed at boosting demand and backing up automakers): In 2015, the Russian Government has introduced a number of measures to support Russia's automotive market, including the car fleet renewal scheme, the car loan interest rate subsidy scheme, and the subsidised car leasing scheme. The extension of these measures into 2016 will likely have a significant impact on the automotive market.



Cost of car loans: Given that affordable car loans are a key sales incentive tool, the level of loan interest rates will have a significant effect on demand.

Russia's macroeconomic situation is expected to improve somewhat in 2016 versus 2015

- Similar to 2014, Russia has experienced an unfavourable macroeconomic environment in 2015. During the year, forecasts for several key indicators have been revised, mostly downwards.
- In 2016, macroeconomic indicators are expected to improve slightly. In particular, the Russian Ministry of Economic Development forecasts a slight increase in GDP and a lower inflation rate. According to Global Insight forecasts, the average RUB/USD and RUB/EUR exchange rates will remain at the same level in 2016 as this year's expected rates.

Trends in key macroeconomic indicators

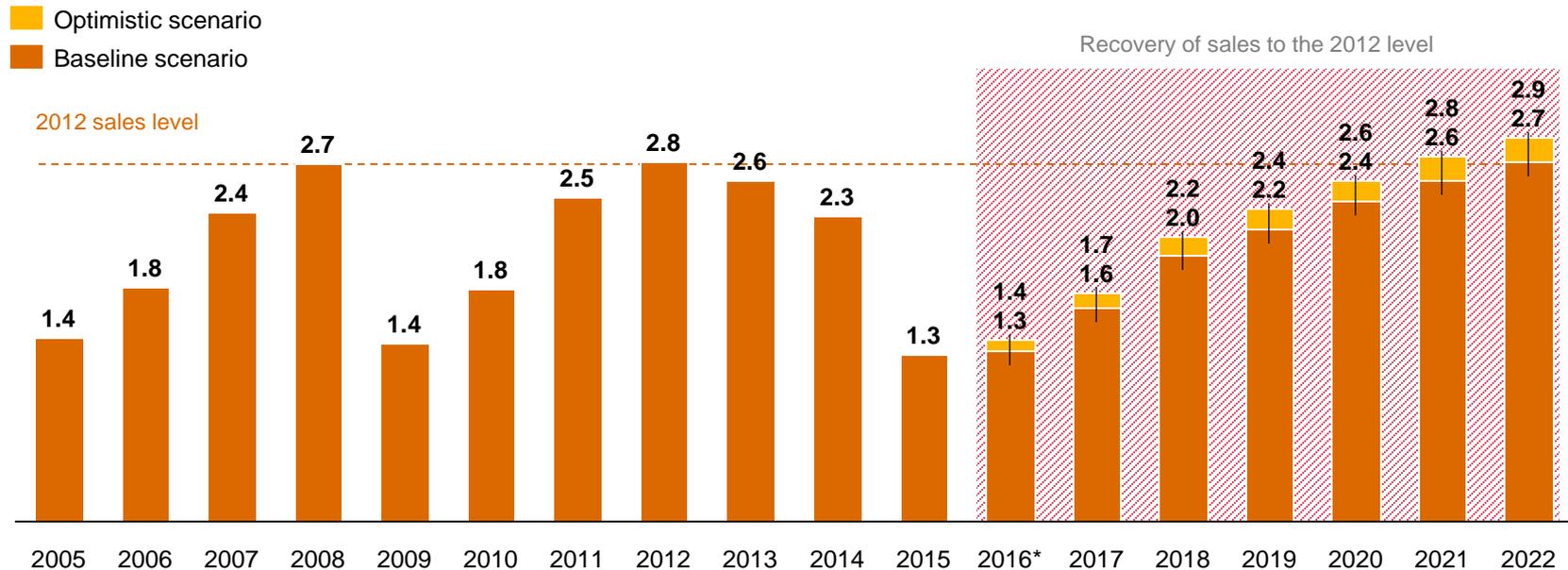
Indicator	2012	2013	2014	2015 estimate	2016 forecast	Source of the forecast
GDP	3.4%	1.3%	0.6%	 -4.1%	 0.7%	Russian Ministry of Economic Development, Global Insight
Inflation rate	6.6%	6.5%	11.4%	 16.0%	 6.4%	Russian Ministry of Economic Development, Global Insight
RUB/USD exchange rate (annual average)	31.1	31.9	38.6	 61	 61	Global Insight
RUB/EUR exchange rate (annual average)	39.9	42.4	60.0	 67	 68	Global Insight
Average Brent oil price, USD/barrel	98.4	99.7	96.0	 59	 55	Global Insight
Real disposable income	4.6%	4.0%	-0.8%	 -4.0%	 0.5%	Russian Ministry of Economic Development
Net capital inflow/outflow, USD billion	-54	-62	-154	 -72	 -56	CBR
Consumer confidence index, 4Q	-8%	-11%	-18%	 -26%	N/A	Rosstat

Source: Central Bank of Russia, Russian Ministry of Economic Development, Russian Ministry of Finance, Global Insight, PwC analysis; forecast for October 2015

It may take the market another six to seven years to recover to 2012 levels

For the purpose of this analysis, two scenarios (baseline and optimistic) for the development of Russia's new passenger car market were considered. The level of motorisation (number of cars per 1,000 people) is projected to increase from 280 units in 2014 to 320 units in 2022.

Forecast for new passenger car sales in Russia in 2015-2022, million units



(*) If the macroeconomic situation worsens and the automotive market does not obtain support from the Government in 2016, the pessimistic scenario is more likely to occur, i.e. new passenger car sales in 2016 would drop as low as 1.1-1.15 million units.

Source: PwC analysis

Conclusions

- The results for the first nine months of 2015 show that the Russian auto market has experienced the biggest drop in sales among the world's leading automotive markets.
- **The worsening macroeconomic environment has been one of the primary causes of this decline in the Russian automotive market.** The weaker rouble, lower GDP, the threat of continuing economic stagnation, and shrinking consumer confidence have all had a significant impact on the automotive market.
- **For 9M 2015, new passenger car sales (in unit terms) in Russia declined by 43%.** In rouble terms, the market contracted by 34%, whereas in US dollar terms it contracted by 61% due to changes in the average FX rate.
- Thanks to Russian Government support measures, however, the rate of sales decline in the Russian automotive market has slowed down since May 2015.
- **For 9M 2015, most car makes posted lower sales. Those makes that have managed to gain market share include Russian- and Korean-made models as well as premium German and Japanese autos.**
- In the current volatile economic environment, automakers have been making material adjustments to their rouble-denominated prices for cars sold in the Russian market. **From September 2014 through mid-October 2015, prices for popular car makes and models rose by about 24% on average.**
- **Due to the implementation of the subsidised car loan, car leasing, and car fleet renewal schemes in 2015, the pace of the automotive market's decline has slowed.**
- **By year-end 2015, Russia's new car market is expected to have plunged 45% in unit terms.** The further development of Russia's auto market will largely be subject to the macroeconomic situation, governmental support, and the individual strategies of market players. **However, it may take another six to seven years for the market to recover to 2012 levels.**

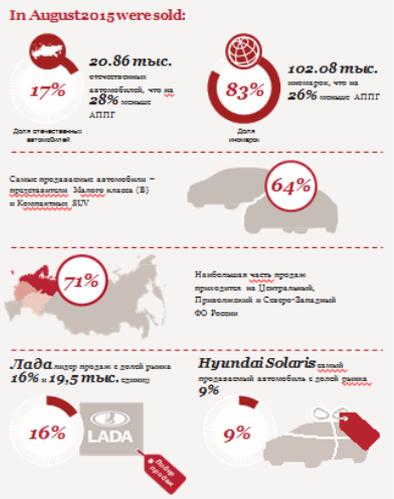
New PwC publication on the automotive industry: Monthly Auto Market Review

In November, PwC plans to publish the very-first issue of its new monthly review of Russia's passenger car market. This new thought leadership publication will feature up-to-date data on car sales, articles on the key factors and trends affecting the market's development, and short-term forecasts for car sales.

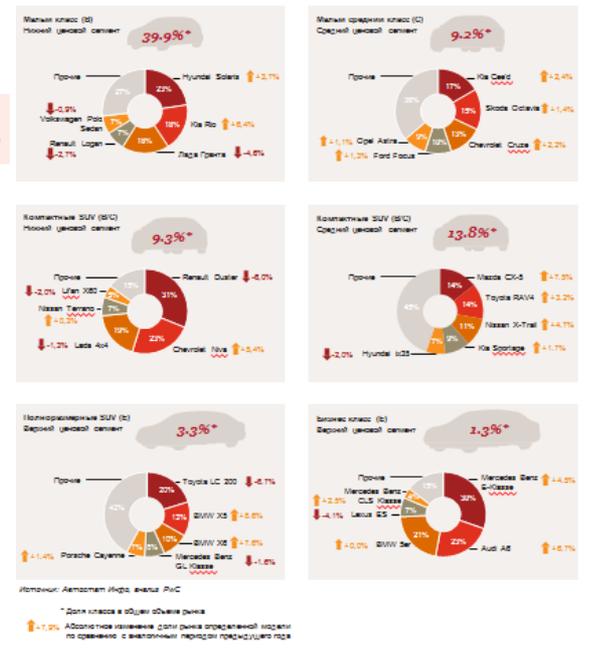
Car sales in Russia October 2015



Key indicators



Top-5 of the largest car segment and their share in October 2015



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