



Russian automotive market

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2018 results and outlook

Passenger cars | Light commercial vehicles | Trucks | Buses

February 2019



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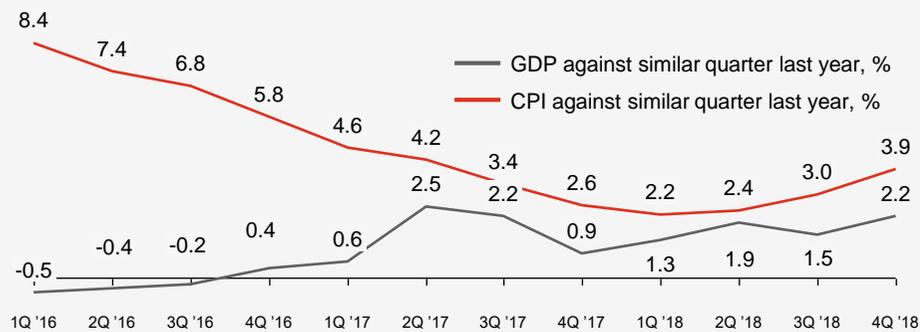


Overview of the Russian passenger car market

Sanctions-related risks materialising in the first half of 2018 triggered year-end declines in several key macroeconomic indicators

GDP growth rate and consumer price index (CPI),

Q1 2016 to Q4 2018



Sources: Ministry of Economic Development of the Russian Federation, Rosstat.

Average nominal RUB/USD exchange rate,

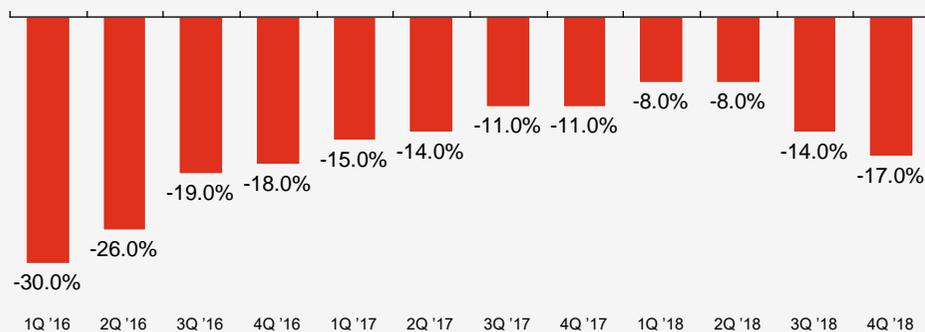
Q1 2016 to Q4 2018



Source: Central Bank of the Russian Federation

Consumer confidence index,

Q1 2016 - Q4 2018



Source: Rosstat

Q-end Brent oil price behaviour, USD

Q1 2016 - Q4 2018



Source: Bloomberg

In 2018, the passenger car market continued to recover, demonstrating 13% growth despite the slowdown in the Russian economy

In 2018, sales of new passenger cars in Russia reached 1.669m, around 13% higher than for the same period in 2017 (1.425m cars).

Sales among Russian makers increased by 14%, driven by surging demand for Lada models, including the Vesta, Largus and Granta. Sales of UAZ models shrank 3% compared with the previous year, while the company's market share fell to 1.2%.

Sales of foreign brands assembled in Russia grew by 15%, exceeding the average growth rates in the industry. This segment accounted for over 60% of all new passenger car sales in 2018.

Imports accounted for around 16% of total sales in 2018. Increased scrappage fees and a stronger Russian rouble helped to drive higher foreign brand sales in the first quarter of 2018 than in the last nine months of 2017. By the end of 2018, the slumping economy and weaker national currency contributed to slowing the growth of foreign brand sales to 6%.



Passenger car categories (exclusive of LCV)	Sales,* thousand cars			Sales,* RUB billion			Sales,* USD billion		
	Jan-Dec	Jan-Dec	Change	Jan-Dec	Jan-Dec	Change	Jan-Dec	Jan-Dec	Change
	2018 г.	2017 г.		2018 г.	2017 г.		2018 г.	2017 г.	
Domestic brands	369	323	14%	231	188	22%	3.7	3.2	13%
Foreign car models assembled in Russia	1,030	897	15%	1,196	1,018	18%	19.0	17.5	9%
Imported new cars	270	255	6%	948	764	24%	15.1	13.1	15%
TOTAL	1,669	1,475	13%	2,375	1,970	21%	37.7	33.8	12%

* Passenger car shipments

Sources: AEB, Russian Federal Customs Service, Autostat, PwC analysis

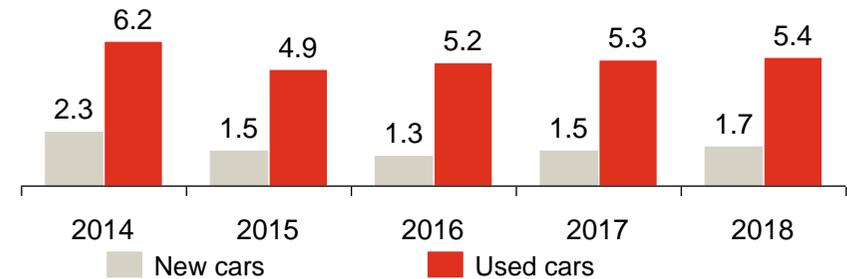
In monetary terms, the market grew in both Russian roubles and US dollars. In rouble terms, growth was higher (21% vs 12%), as the rouble was weaker and the average new car price was higher in 2018 than in the previous year.

Car loans continue to play an important role in passenger vehicle sales, including in the used car market

- **In 2018, used car sales grew 2%**, amounting to 5.4m cars. Around 80% of these sales were P2P sales with dealers, which accounted for a growing share of all sales (from 3% in 2013 to 13% in 2018). One factor playing an increasingly important role in the market is the development of car history verification services.
- **A large number of poor-performing dealers have left the market** owing to their failure to service their debts or generate enough sales with unbalanced brand portfolios.
- **More cars are being sold via loan.** According to Autostat and the National Bureau of Credit Histories (NBCH), more than 800,000 cars were sold in 2018 via loan, around the same number as in 2014.



Passenger vehicle sales in Russia, 2014-2018, millions

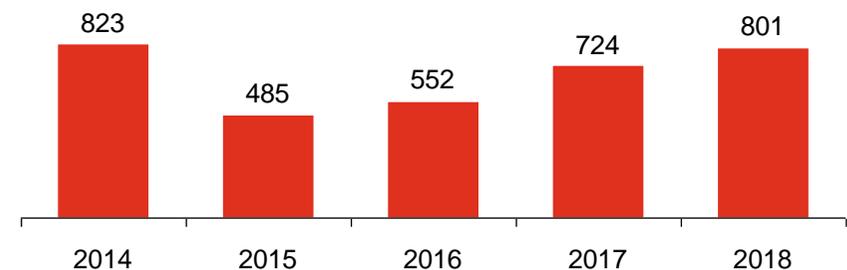


Number of dealer networks, 1 January 2018 - 1 January 2019



Source: Autostat

New loans for cars, 2015-2018, thousands



Sources: Autostat, the National Bureau of Credit Histories (NBCH)

In 2019, the growth of passenger vehicle sales is expected to slow due to declining incomes and currency fluctuations

In the optimistic scenario for 2019, sales of new passenger cars in Russia may grow 0.5% to 1.68m cars.

In the baseline scenario, sales are expected to drop 2% to 1.64m cars.

The likelihood of either scenario will mainly depend on macroeconomic conditions.



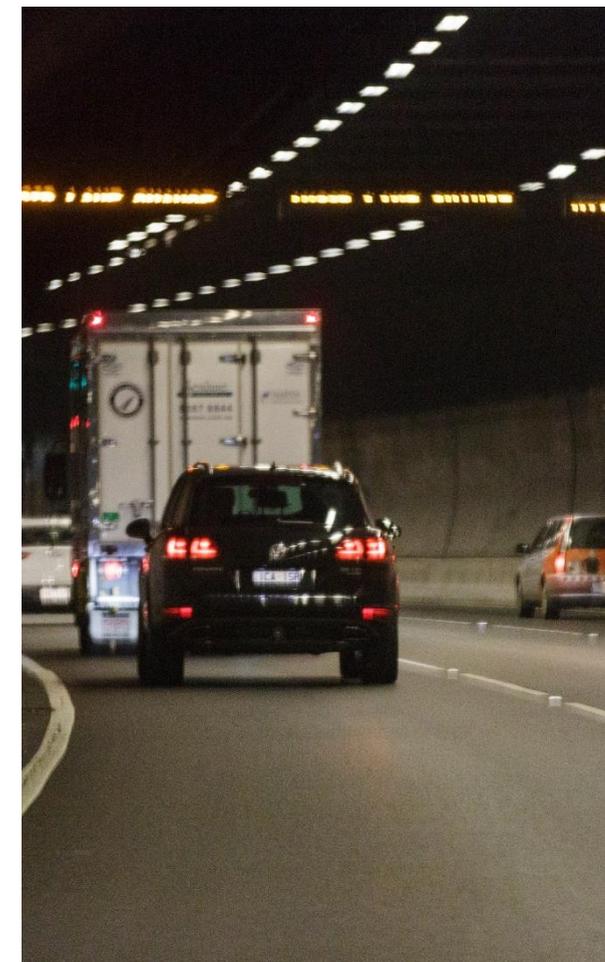
Factors that may put a brake on sales growth in 2019:

- Price increases driven by higher VAT (from 18% to 20%);
- Uncertain macroeconomic environment and increased currency volatility if new sanctions are enacted;
- Increased scrappage fees;
- Reduced government support for the automotive industry.

Factors that may drive sales growth in 2019:

- Market transition to natural growth, assuming that there are no external shocks, national currency devaluation or additional sanctions.

In 2018-2019, the Industrial Assembly Agreement for most car manufacturers will expire. To maintain the industry's investment appeal and avoid freezing new projects, the Russian Government introduced a new investment regime in 2016 to provide tax benefits and reduced import duties in exchange for investments and localisation of production (special investment contracts). As of February 2019, special investment contracts have been signed with AVTOVAZ-Renault-Nissan-Mitsubishi, Hyundai, GAZ Group and Daimler under Special Investment Contract 1.0 (SpIC 1.0). The Government is currently discussing amending certain SpIC provisions for 2019 (SpIC 2.0).



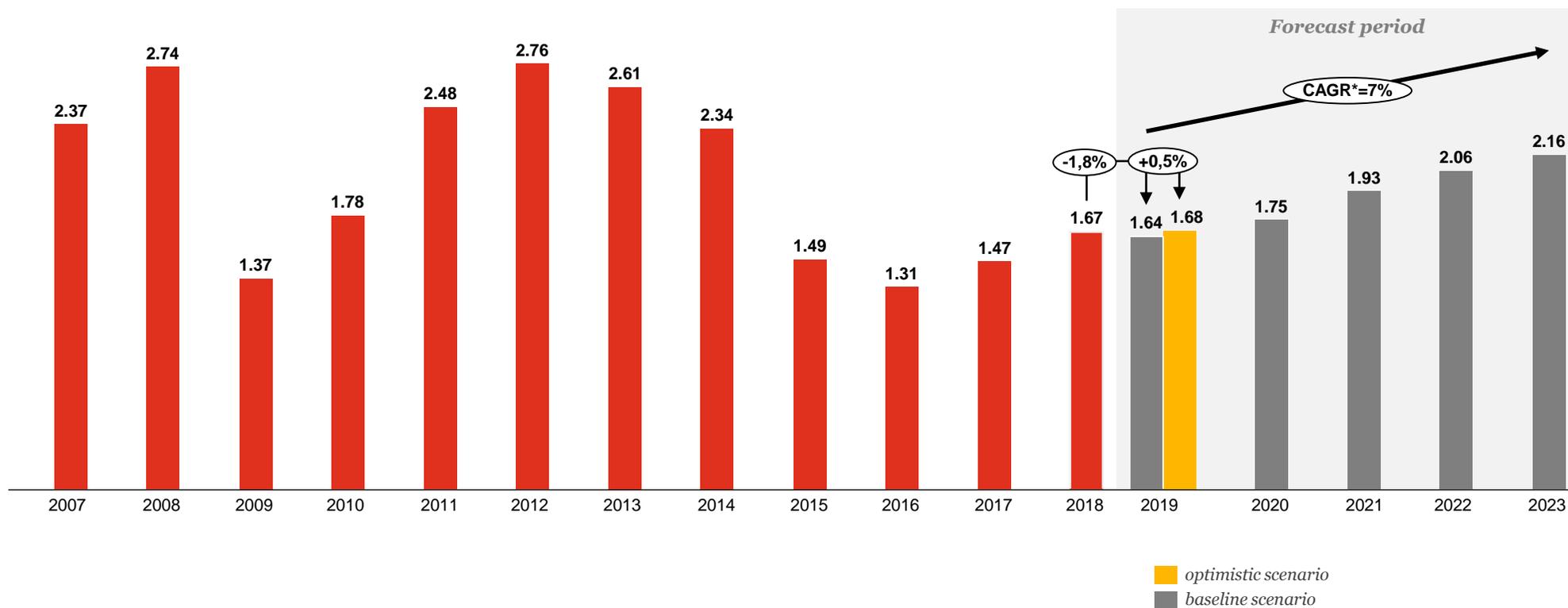
New car market forecast, thousand units (exclusive of LCV)

Passenger car categories	2018 (actual)	2019 (baseline forecast)	2019 (optimistic forecast)
Domestic brands	369	363	371
Foreign car models as assembled in Russia	1,030	1,012	1,035
Imported new cars	270	265	271
TOTAL	1,669	1,639	1,667

Source: PwC analysis

Strategies applied by car makers during the transition from the industrial assembly regime to the new investment regime will influence further market developments

New passenger car market outlook for Russia, 2019-2023, million cars



*CAGR: compound annual growth rate

Source: PwC analysis

Car sharing and mobile maintenance services are gaining traction in Russia

Trends in Russian mobile maintenance services



Car sharing

A growing number of people in urban settings are realising the utility of car sharing services. In 2018, Moscow had the second highest number of registered car sharing vehicles.* There is a wide variety of cars on the car sharing market, from entry-level to luxury. On the whole, car sharing can help car manufacturers and dealers to raise brand awareness.



More economic “mobility”

Technology is beginning to transform traditional car services, as a growing number of car maintenance and repair shops are using mobile applications to communicate with their customers.

In addition, mobile car maintenance and repair services are springing up in the market (e.g. mobile refuelling and car wash services).



Promotion of healthy lifestyles

Bicycle and scooter rental services are also helping people to save on their transportation costs. Renting a car for a short period of time is cheaper than owning a vehicle, but renting a bicycle or a scooter is even more economically feasible over short distances.

Sources: Russian Association for Electronic Communications (RAEC), PwC analysis, public sources



Overview of the Russian commercial vehicle market

Sales growth in the light commercial vehicle segment will depend on the performance of small and medium-sized businesses

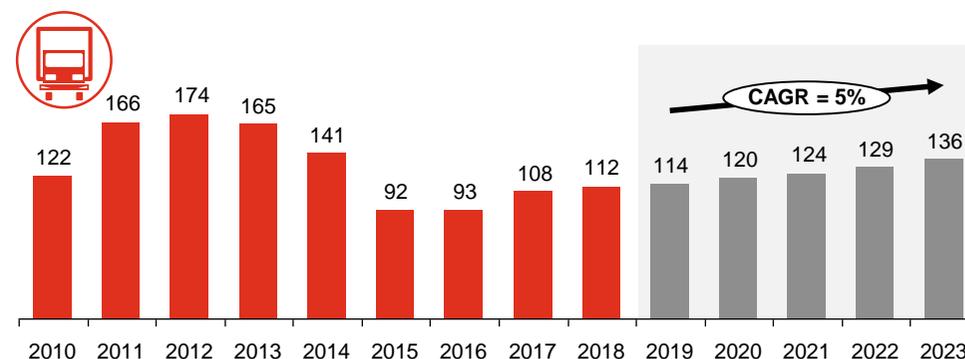
The light commercial vehicle segment includes vehicles with a gross weight of up to 3.5 tonnes

In 2018, the light commercial vehicle market grew 3.4%, with 112,000 units sold. Peugeot (+45%), Ford (+31%) and Citroen (+25%) had the highest growth figures.

The Russian brands GAZ, UAZ and Lada lost market share (3 pp) against the same period in 2017 but still account for well over half (69%) of the new LCV market. Lada has the highest sales growth (+5%).

According to our projections, sales growth for light commercial vehicles in 2019 will amount to 1%, with 114,000 units sold.

Forecast for LCV sales, thousand units



Sources: Autostat, PwC analysis

Brand	Market share		Change in market share
	2018, %	2017, %	
GAZ	43.8%	44.0%	▼
UAZ	16.0%	18.5%	▼
FORD	10.3%	8.1%	▲
LADA	9.6%	9.4%	▲
MERCEDES	6.8%	7.4%	▼
VOLKSWAGEN	4.9%	4.6%	▲
PEUGEOT	2.4%	1.7%	▲
HYUNDAI	1.8%	1.6%	▲
CITROEN	1.8%	1.5%	▲
FIAT	0.8%	1.8%	▼
Other	1.7%	1.4%	▲

Sources: Autostat, PwC analysis

Key factors in the LCV market:

- *Small and medium enterprises.* The Government's plans to double the market share held by small and medium businesses in the Russian economy could positively influence LCV sales.

The expansion of retail networks and the development of agriculture will drive truck sales

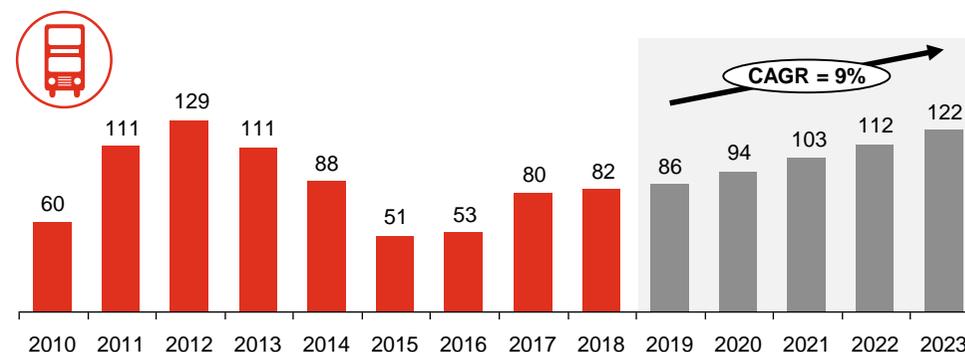
The truck market includes medium-capacity (3.5-16 tonnes) and large-capacity (over 16 tonnes) trucks

In 2018, truck sales amounted to 82,000, an increase of 2.7%, led by SCANIA (+17%), MAZ (+9%) and MAN (+7%).

In 2018, Russian brands held a 45% market share, down from 47% in the previous year.

According to our projections, sales growth for cargo vehicles in 2019 will amount to 4%, with 86,000 units sold.

Truck sales forecast, thousand units



Sources: Autostat, PwC analysis

Brand	Market share		Change in market share
	2018, %	2017, %	
KAMAZ	31.3%	33.0%	▼
GAZ	10.1%	9.7%	▲
SCANIA	8.1%	7.1%	▲
VOLVO	7.7%	7.5%	▲
MAN	6.2%	5.9%	▲
MERCEDES	5.9%	7.0%	▼
MAZ	5.1%	4.9%	▲
ISUZU	4.7%	4.6%	▲
URAL	3.9%	4.1%	▼
DAF	3.4%	4.6%	▼
Other	13.5%	11.7%	▲

Sources: Autostat, PwC analysis

Key factors in the truck market:

- *Retail.* Extensive development of retail networks and anti-monopoly policies are leading retailers to expand to the regions, which could lead to growth in shipping.
- *Agribusiness.* Execution of the Russian President's May Order* on agricultural exports will help stimulate truck sales.

*Order On National Goals and Strategic Objectives for the Development of the Russian Federation to 2024

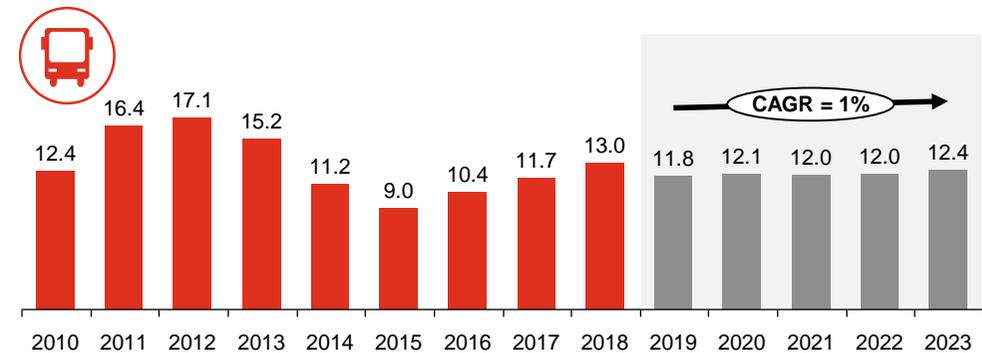
Upgrades to the country's bus fleets will depend on legislative initiatives

The bus segment comprises vehicles that have at least eight seats apart from the driver's seat and are intended for the transport of passengers and luggage (excludes light commercial vehicles)

In 2018, new bus sales market grew 11.1%, with 13,000 units sold. NEFAZ (+115%), Volgabus (+58%) and MAZ (+28%) were the leaders in sales growth.

According to our projections, bus sales in 2019 will grow 9%, with 11,800 units sold.

Bus sales forecast, thousand units



Sources: Autostat, PwC analysis

Key factors in the bus market:

- **Regulations.** New bus sales are not expected to grow, as the Russian Ministry of Transportation has not supported an initiative pushed by bus manufacturers to ban the use of older buses. The Ministry has decided to prioritise technical monitoring of the existing fleet.

Brand	Market share		Change in market share
	2018, %	2017, %	
PAZ	58.5%	65.0%	▼
LIAZ	13.0%	12.8%	▲
NEFAZ	5.9%	4.3%	▲
MAZ	4.9%	3.1%	▲
Volgabus	4.5%	3.1%	▲
Other	13.2%	11.8%	▲

Sources: Autostat, PwC analysis



Conclusions

Conclusions

- 1 Sanctions-related risks materialising in H1 2018 triggered year-end declines in several key macroeconomic indicators.
- 2 In 2018, passenger vehicle market continued recovering and showed a 13% growth despite economic uncertainty.
- 3 Car loans continue to play an important role in passenger vehicle sales, including in the used car market.
- 4 In 2019, passenger vehicle sales growth is expected to slow due to declining incomes and currency fluctuations.
- 5 Strategies applied by car makers during the transition from the industrial assembly regime to the new investment regime will drive further market developments.
- 6 Car sharing and mobile maintenance services are gaining traction in Russia.
- 7 Sales growth in the light commercial vehicle segment will depend on the performance of small and medium-sized businesses.
- 8 The expansion of retail networks and the development of agriculture will help to drive truck sales.
- 9 Upgrades to the country's bus fleets will depend on legislative initiatives.



About PwC

PwC has international experience in providing services to companies in the automotive industry



We are proud that experts recognise us as leaders in our field

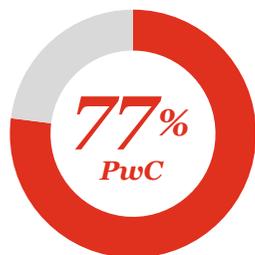
- In 2016, PwC was named the **strongest brand** in the Business for Business category by *Brand Finance* and was ranked among the world's ten most influential global brands in their annual rating.
- PwC's global network holds **first place** in the international rating by the reputable *International Accounting Bulletin* as **the world's largest international network**.
- According to Vault, the PwC network holds:
 - among auditing organisations in forensic;
 - in the rating of the most prestigious audit firms in 2018.
 - in the rating of the top 50 consulting firms in the field of financial consulting for 2018;
- The PwC network is **the world leader in business consulting** according to IDC.
- ALM Vanguard considers the PwC network **the world leader in M&A transactions consulting**.
- In 2017, PwC Russia ranked **second among major audit and consulting groups** in Russia, according to Expert;
- In 2015, PwC Russia was recognised for the sixth time as the **Russian tax consulting firm of the year** in an annual competition held by the *International Tax Review*;
- PwC Legal was listed as one of **the ten leading legal firms in Russia** according to Pravo.Ru-300.

PwC is:

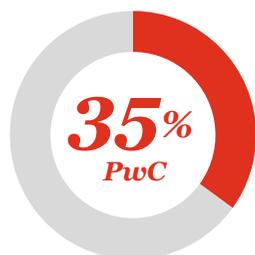
- The PwC network of firms is **the world's largest network** rendering professional services.
- The global network encompasses more than **250,000** people in **158** countries.
- For more than **25** years, PwC has rendered services in Russia. More than **3,000** professionals help us reach success.
- PwC consists of **specialised sectoral subdivisions** that enable us to render services of the highest quality to each individual client.
- In Russia, our clients include more than **3,000** companies, including **290** in the Expert-600 rating of the leading Russian companies.
- **PwC Russia is a member** of a number of leading professional organisations and business associations.

PwC's experience in rendering services to automotive industry companies in Russia

PwC's market share in all types of services rendered to automotive companies in Russia (by number of clients) 31 companies included in Expert RA's Top 400 rating



PwC's market share in audit services rendered to automotive industry companies in Russia (by number of clients) 31 companies included in Expert RA's Top 400 rating



Sources: PwC; Expert-600 rating, October 2018.

A non-exhaustive list of PwC clients in Russia in the automotive industry

Avilon Automobile Group*	Cominvest-AKMT	SP BUSINESS CAR*
Avtovaz	Cordiant*	SUZUKI MOTOR Rus
AgroCentre Holding	Magna Automotive Holding*	Tenneco Automotive Volga*
Asia Auto Ust-Kamenogorsk*	Mazda Motor Rus	Toyo Tires Rus
Automotive Glass Alliance Rus*	MAZDA SOLLERS Manufacturing Rus	Toyota Boshoku*
Automotive Lighting	MAHLE RUS*	Toyota Tsusho Technics*
BMW Russland Trading	MAN Trucks and Bus Rus*	Federal Mogul Powertrain Vostok
Bosch Rexroth*	Mercedes-Benz RUS	Volkswagen Group Rus*
Brembo Russia	Mitsubishi Corporation	Ford Motor Company*
Bridgestone CIS	MMC Rus	Ford Sollers Automotive Components*
Bridgestone Tire Manufacturing CIS	NVH RUS	Ford Sollers Elabuga*
Brose Togliatti Automotive*	NGK Spark Plugs (Eurasia)	Ford-Sollers Holding*
Volvo Vostok*	Nizhnekamskshina*	Faurecia Group*
Voronezh tire plant	Nissan Manufacturing Rus	Fujikura Automotive Rus Cheboksary
Goodyear Russia*	NorautoRus*	Fuyao Glass Rus*
DAIMLER KAMAZ Rus	Peugeot Citroen Rus	Hankook Tire Rus
Daf Trucks Rus	Pirelli Tyre Russia	Hyundai Motor CIS*
JCB Russia	Porsche Russland*	Hyundai Steel Rus*
Johnson Controls*	Renault	Hyundai Truck and Bus Rus
Ingersoll-Rand Services and Trading*	ROLF*	Hyva Russia*
Inchcape Holding*	Skania-Peter*	Zeppelin Russland*
KAMAZ	Scania-Rus*	ZF KAMA*
Caterpillar Eurasia*	SCF*	Schmitz Cargobull Russland*
Caterpillar Tosno*	SOLLERS*	Unipress Rus
KIA Motors Rus	Sollers-Bussan*	Jaguar Land Rover

* - audit clients over the last 5 years

We have the leading automotive practice in Russia

How we can help automotive companies



What should my company's strategy look like to ensure success in the market? How can I achieve my shareholders' objectives? What is my business worth?



Market analytics: where are future market trends heading and what will the demand for cars and other vehicles be in the future?



Searching for sources of financing and partners: how do I negotiate the best terms for my deal?



Driving business efficiency: what is the best organisational structure and headcount for my company? Which business processes are most feasible to automate?



Impact analysis of the latest and anticipated amendments in tax and customs legislation



Legal issues arising from business registration, restructuring and protection



Ensuring the transparency of financial reporting and improving trust among creditors, investors, shareholders and business partners in the information provided to them

Our competitive edge

1

With our industry-based capabilities, we can focus our resources, knowledge and experience on particular activities and lines of service. Our team has gained deep expertise about all aspects of the automotive industry.

2

We are familiar with the best practices in the industry, have access to a global network of databases and can engage leading subject matter experts. This helps us find the most effective solutions for our clients.

3

The automotive industry is one of PwC's key priorities in Russia. We work with a variety of Russian and global automobile, vehicle and spare-part manufacturers, as well as with importers and dealers.

4

Our activities in the automotive sector go beyond providing advisory services to our clients. We also engage extensively in professional conferences, network with industry associations and publish our in-house expert opinions and research findings in the mass media.

5

We have comprehensive knowledge of our clients: PwC Russia provides auditing and advisory services to 65% of the country's automotive leaders.

We conduct automotive market research and keep up on all the main trends

PwC strives to be at the centre of events in the automotive industry and to provide relevant information and research to our clients

To do this, PwC:

- Conducts **detailed research** devoted to the current state of developments in the automotive industry;
- Holds **specialised workshops and seminars** for our automotive industry clients on industry and business development issues;
- Participates in **key industry events**;
- **Sponsors** key industry events and research.

PwC works with the Russian Automobile Dealers Association (RADA) and participates in its annual conferences.

PwC has partnered with the State Scientific Centre of the Russian Federation (NAMI).



The cost of car ownership in Russia



Reinventing the wheel: potential development scenarios for the automotive industry



Automotive M&A insights, mid-year 2016



2016 Global State of Information Security Survey: survey results from companies in the automotive industry



The future of the automotive industry



How do you define business success in an ever-changing world? Suggesting a new definition

Let's talk



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