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## RUSSIAN AUTOMOTIVE MARKET OVERVIEW

The Russian market for 4x4 vehicle accessories and off-road equipment continues to develop at a rapid pace, as the growth of Russia's car market keeps expanding year over year. According to a recent study led by the German Car Industry Association, the Russian car market will be one of the fastest-growing vehicle markets in the world over the next ten years.<sup>1</sup> The enormous opportunities presented by the Russian market have already attracted most of the major auto-manufacturers there as they vie to establish a presence in a country where, according to PricewaterhouseCoopers, sales of foreign car models increased by 100% over 2005.<sup>2</sup>

Nine straight years of consistently high GDP growth, along with political stability, high commodity prices, and a great influx of foreign direct investment, have transformed Russia into a modern and vibrant 9<sup>th</sup> biggest economy in the world.<sup>3</sup> Russia is already a bigger economic market than both India and Brazil, and is aiming to become one of the world's top five economies by 2020.<sup>4</sup>

2006 was a record year for car market growth in Russia. Sales of automobiles increased 20% and passed the two million car mark for the first time, with a total of 2,060,000 units sold.<sup>5</sup> According to PricewaterhouseCoopers, the current sales volume has brought the Russian market up to the level of the leading European markets such as Italy, France, and Great Britain. In their estimation, **Russia could become the second largest automobile market in Europe by 2010.** The president of Europe's GM operations, Carl-Peter Forster, is forecasting annual growth in the country to continue to grow at up to 20% annually for the next several years as vehicle sales are set to climb to 3 million.<sup>6</sup> "A growing middle class, an increase in disposable income among the Russian public, the development of car loan policies, and car dealerships chains are among the many factors spurring the Russian demand for foreign cars."<sup>7</sup>

With SUV's comprising around 20% of the total vehicles sold in Russia, the market for 4x4 accessories and off-road equipment is growing in line with the rapidly developing overall automobile market. Taking into consideration Russia's rough geographic terrain, harsh weather conditions, and poor roads, demand for off-road accessories and related products, such as hoists and winches that can help vehicles navigate through the territory, will continue to increase in the coming years.

Russia's newfound wealth has given rise to a rapidly developing middle class. Five million families in Russia are already earning more than \$30,000 annually, a growth of over 60% in just

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<sup>1</sup> Roland Berger Strategy Consultants. Available on-line at:

[http://www.rolandberger.com/press/en/html/releases/515-press\\_archive2005\\_sc\\_content/Join\\_study\\_on\\_the\\_Russian\\_car\\_market.html](http://www.rolandberger.com/press/en/html/releases/515-press_archive2005_sc_content/Join_study_on_the_Russian_car_market.html)

<sup>2</sup> PricewaterhouseCoopers. Available on-line at:

<http://www.pwc.com/extweb/ncpressrelease.nsf/docid/8489C4B2C02FF9308525726700519928>

<sup>3</sup> "Is Ivanov now the presidential front runner," Russia profile.org. June 20 2007. Available on-line at:

<http://www.russiaprofile.org/page.php?pageid=Business+New+Europe&articleid=a1182349717>

<sup>4</sup> Ibid

<sup>5</sup> PricewaterhouseCoopers. Available on-line at:

<http://www.pwc.com/extweb/ncpressrelease.nsf/docid/8489C4B2C02FF9308525726700519928>

<sup>6</sup> Available on-line at:

<http://www.edmunds.com>

<sup>7</sup> PricewaterhouseCoopers. Available on-line at:

<http://www.pwc.com/extweb/ncpressrelease.nsf/docid/8489C4B2C02FF9308525726700519928>

one year! When taken into consideration that the average Russian has a disposable income of 70% compared to an average Westerner with 40%, the Russian market becomes just as attractive as developed Western markets, but with a lot more potential for growth and expansion.

Sales of 4x4 vehicles in this robust market are expected to continue growing. A leading Korean carmaker expects Russian SUV demand to reach at least 370,000 units this year, 170,000 of which will be imports.<sup>8</sup> GM, Volkswagen, Ford, Nissan, and Toyota have already set up manufacturing facilities in the country to take advantage of the growing market and to position their organizations for the anticipated market growth. Seven more foreign car-making plants will be built in Russia within the next three years.<sup>9</sup>

ACG can help automotive accessories companies establish a major presence in Russia and significantly grow its revenues in the region. We can set up a professional sales office in Moscow and other major cities, such as St. Petersburg, provide assistance with recruiting local bilingual personnel, undertake major marketing and PR campaigns, optimize and increase distribution and sales channels, foster development of strategic alliances, help with major client negotiations, develop culturally sensitive sales strategies, and perform various administrative functions.

There are also numerous potential customers who reside in neighboring Ukraine, Baltic States, as well as other Eastern European countries that present your company with immense opportunities for growth in this region as well. Expansion into these other regions can also be highly lucrative.

We are excited about the possibility of a long-term collaborative relationship with your organization and are certain of a mutually beneficial outcome. We will look forward to hearing back from you soon.

With best regards,



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Alexander Aginsky  
Managing Director

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<sup>8</sup> SsangYoung Financial News. Available on-line at:  
<http://www.smotor.com/en?act=FNEWSVIEW&bizCateID=7&bizSeq=497>

<sup>9</sup> Olga Pletneva, 3/22/07. Available on-line at:  
<http://www.russia-ic.com/business>