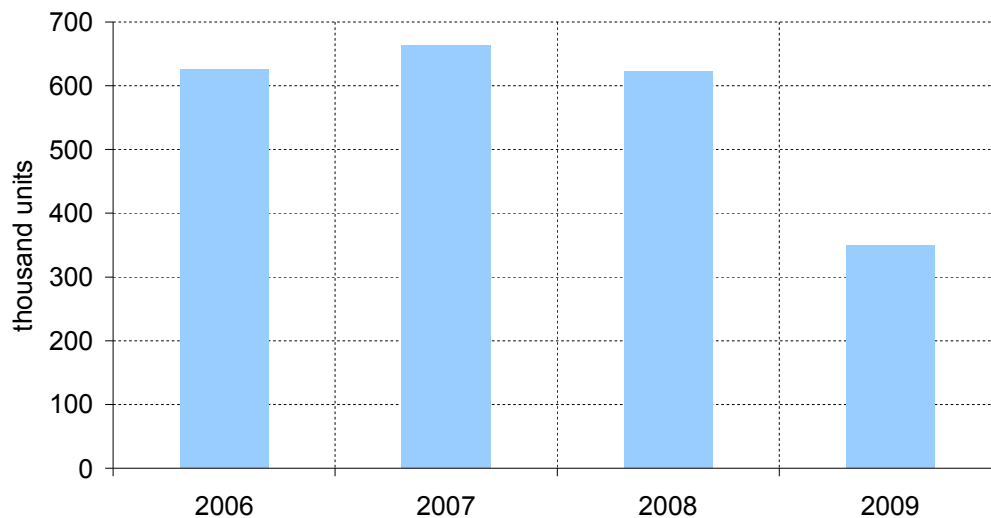


AVTOVAZ STAKES ON LADA PRIORA

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Russia's largest carmaker, AvtoVAZ, emerged in the domestic market last year as a competitive carmaker. Even upsetting sales (nearly 350 thousand vehicles were sold in 2009 versus 600 thousand in the previous years) cannot be reckoned as a reason to consider the plant uncompetitive (see Figure 1).

Figure 1. AvtoVAZ sales in Russia



Source: AvtoVAZ

Many automakers are seeing sinking sales as the global crises pushed down the demand for cars. Foreign car make sales (including popular models manufactured in Russia) have plummeted drastically (see Table 1).

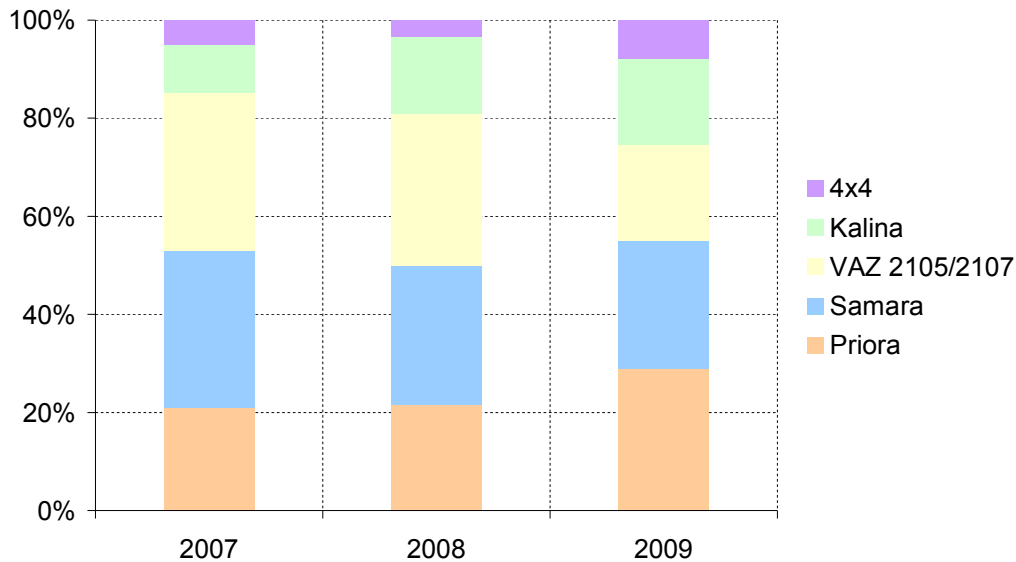
Table 1. Car sales in Russia, thousand units

	sales	versus 2008
domestically manufactured cars	390	-44%
including AutoVAZ	349.5	-43.8%
foreign cars assembled in Russia	360	-38%
foreign cars (new)	640	-69%
foreign cars (used)	12	-96.6%
total	1402	-56%

Source: Association of European Businesses

However, negative quantitative results are accompanied by positive qualitative changes. Particularly, new models currently prevail in the AutoVAZ sales mix (see Figure 2).

Figure 2. AutoVAZ sales mix



Source: AK&M information agency

The list of 2009 bestselling cars proves the competitive power of AutoVAZ: Priora tops the list and Kalina is among the top five models (see Table 2).

The first full-fledged replacement of the model range (Lada 110 family has been replaced with the Lada Priora versions) has been successfully completed.

Table 2. TOP-10 best selling cars in Russia

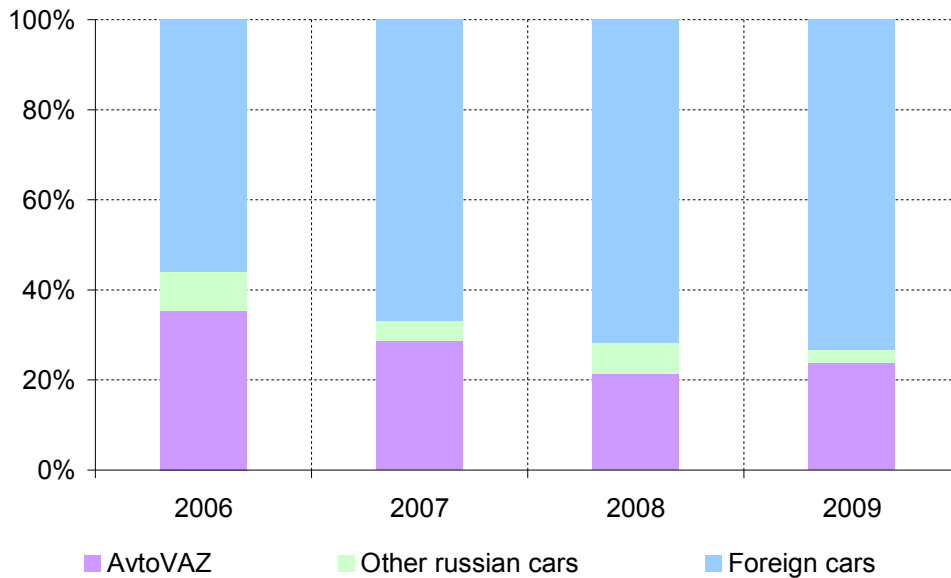
Position	Model
1	Lada Priora
2	Lada Samara
3	Lada 2105/2107
4	Lada Kalina
5	Renault Logan
6	Ford Focus
7	Chevrolet Lacetti
8	Daewoo Nexia
9	Lada 4x4
10	Chevrolet Niva

Source: Association of European Businesses

The closest foreign competitor, Renault Logan, has taken the fifth position –following almost all Lada models. This proves competitiveness of the Priora model compared to its

analogue manufactured by Logan. Such models helped AutoVAZ to increase its market share to 2.5%.

Figure 3. Car sales in Russia



Source: Association of European Businesses, IFS estimates

Rhetoric suggesting that AutoVAZ is totally uncompetitive should be stopped. If the plant manages to keep the prices low and upgrade the product lineup (with the help of Renault) it will strengthen its position in the economy class car segment.