INTERNATIONAL FINANCIAL REPORTING STANDARDS

AVTOVAZ GROUP
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AND REVIEW REPORT
30 June 2003

Contents **Section page numbers**

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (095) 967 6000
Facsimile +7 (095) 967 6001

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of JSC AVTOVAZ:

1. We have reviewed the accompanying consolidated interim balance sheet of JSC AVTOVAZ (the "Company") and its subsidiaries (the "Group") at 30 June 2003, and the related consolidated interim statements of income, of cash flows and of changes in shareholders' equity for the six months then ended, as expressed in the Russian Rouble (RR). These financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

2. We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and, accordingly, we do not express an audit opinion.

3. The Group's balance sheet at 30 June 2003 carries capitalised development costs of RR 963 million relating to a new range of vehicles. In our opinion, the recognition criteria in IAS 38, "Intangible Assets", for capitalisation of these development costs, have not been met. As a result, development costs should be reduced by RR 963 million, and retained earnings and net income should be reduced by RR 963 million and RR 249 million, respectively.

4. Based on our review, except for the effects of the capitalisation of development costs described in the previous paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

5. As explained in Note 3, US dollar (US$) amounts presented in the financial statements are translated from RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2003 of RR 30.35 to US$ 1. The US$ amounts are presented solely for the convenience of the reader and should not be construed as a representation that the RR amounts have been or could have been converted to US$ at this rate, nor that the US$ amounts present fairly the financial position of the Group or its results of operations or cash flows in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
31 October 2003

AVTOVAZ GROUP
Consolidated Interim Balance Sheet at 30 June 2003
(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR million		US$ million
			Unaudited
	30 June 2003	31 December 2002	30 June 2003
ASSETS			
Current assets:			
Cash and cash equivalents (Note 6)	**7,380**	2,751	243
Trade receivables, net (Notes 5 and 7)	**9,998**	8,247	329
Other current assets (Note 8)	**10,543**	6,662	347
Inventories (Note 9)	**15,992**	18,484	528
Total current assets	**43,913**	36,144	1,447
Property, plant and equipment (Note 10)	**100,525**	100,383	3,312
Financial assets (Note 11)	**212**	466	7
Investments in associates (Note 12)	**553**	754	18
Development costs	**963**	714	32
Other assets	**696**	519	23
Total assets	**146,862**	138,980	4,839
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables current (Note 5)	**18,741**	17,444	617
Other payables and accrued expenses (Note 13)	**5,989**	7,525	197
Taxes payable-current (Note 16)	**3,371**	2,822	111
Provisions (Note 14)	**2,267**	4,760	75
Short-term debt (Note 15)	**11,299**	9,296	372
Advances from customers	**3,178**	1,061	105
Total current liabilities	**44,845**	42,908	1,477
Long-term debt (Note 15)	**6,352**	4,005	209
Long-term taxes payable (Note 16)	**4,411**	4,491	146
Deferred tax liability (Note 25)	**10,756**	10,762	355
Total liabilities	**66,364**	62,166	2,187
Minority interest (Note 26)	**13,804**	12,784	455
Shareholders' equity:			
Share capital (Note 18)	**28,890**	28,890	952
Currency translation adjustment	**1,179**	1,119	38
Retained earnings	**36,625**	34,021	1,207
Total shareholders' equity	**66,694**	64,030	2,197
Total liabilities and shareholders' equity	**146,862**	138,980	4,839

V. Vilchik
President – General Director
31 October 2003

N. Khatuntsov
Chief Accountant

AVTOVAZ GROUP
Consolidated Interim Statement of Income for the six months ended 30 June 2003
(In millions of Russian Roubles, except for earnings per share)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR million		US$ million
	Six months ended		
	30 June 2003	30 June 2002	**Unaudited** 30 June 2003
Net sales (Note 19)	**60,972**	59,981	2,009
Cost of sales (Notes 20 and 24)	**(52,460)**	(49,830)	(1,729)
Gross profit	**8,512**	10,151	280
Administrative expenses (Notes 21 and 24)	**(3,759)**	(4,012)	(124)
Distribution costs (Note 24)	**(1,663)**	(1,418)	(55)
Research and development expenses (Notes 22 and 24)	**(501)**	(1,059)	(16)
Other operating expenses (Note 23)	**(504)**	(416)	(16)
Reversal of impairment loss (Note 10)	**247**	-	8
Operating income	**2,332**	3,246	77
Interest expense	**(1,809)**	(1,614)	(60)
Foreign exchange loss	**(668)**	(611)	(22)
Monetary gain	**-**	2,131	-
Gains on restructuring of debt (Note 17)	**1,966**	15	65
Gain/(loss) from change of fair value of available-for-sale investments and derivatives, net	**(20)**	38	(1)
Profit before taxation	**1,801**	3,205	59
Income tax credit/(expense) (Note 25)	**1,676**	(2,070)	56
Net profit	**3,477**	1,135	115
Minority interest (Note 26)	**(654)**	(182)	(22)
Net income attributable to shareholders of the AVTOVAZ Group	**2,823**	953	93
Weighted average number of shares outstanding during the period (000's)	**14,445**	15,191	14,445
Earnings per share (basic/diluted) (in RR and US $)	**195**	63	6.43

The accompanying notes 1 to 30 are an integral part of the consolidated interim financial statements.

AVTOVAZ GROUP
Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2003
(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 3)

	RR million		US$ million
	Six months ended		
	30 June 2003	30 June 2002	**Unaudited** 30 June 2003
Cash flows from operating activities:			
Profit before taxation	**1,801**	3,205	59
Adjustments for:			
Depreciation	**3,130**	2,994	103
Provision for impairment of receivables	**88**	(179)	3
Provisions	**160**	34	5
Interest expense	**1,809**	1,614	60
Gains on restructuring of debt	**(1,966)**	(15)	(65)
Loss on disposal of property, plant and equipment	**177**	607	6
Loss/(gain) from change of fair value of available-for-sale investments and derivatives, net	**20**	(38)	1
Reversal of impairment loss	**(247)**	-	(8)
Loss on disposal of investments	**47**	162	1
Unrealised foreign exchange effect on non-operating balances	**415**	723	14
Monetary effect on non-operating balances	**-**	(995)	-
Operating cash flows before working capital changes	**5,434**	8,112	179
Increase in gross trade receivables	**(2,022)**	(456)	(67)
Increase in prepaid expenses, advances and other receivables	**(3,984)**	(1,403)	(131)
Decrease in inventories	**2,306**	399	76
Increase in trade payables and other payables and accrued expenses	**2,565**	208	85
Increase/(decrease) in other taxes payable	**37**	(299)	1
Increase/(decrease) in advances from customers	**2,117**	(91)	70
Cash provided from operations	**6,453**	6,470	213
Income tax paid	**(287)**	(1,727)	(10)
Interest paid	**(541)**	(247)	(18)
Net cash provided from operating activities	**5,625**	4,496	185
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(3,184)**	(3,972)	(105)
Proceeds from the sale of property, plant and equipment	**46**	53	2
Proceeds from the sale of investments	**34**	37	1
Purchase of investments	**(96)**	(46)	(3)
Net cash used in investing activities:	**(3,200)**	(3,928)	(105)
Cash flows from financing activities:			
Proceeds from borrowings	**4,034**	3,228	133
Repayment of loans and long-term taxes payable	**(1,634)**	(2,755)	(54)
Dividends paid	**(207)**	-	(7)
Net cash provided from financing activities	**2,193**	473	72
Effect of inflation on cash	**-**	(178)	-
Effect of exchange rate changes	**11**	66	-
Net increase in cash and cash equivalents	**4,629**	929	152
Cash and cash equivalents at the beginning of the period	**2,751**	4,570	91
Cash and cash equivalents at the end of the period (Note 6)	**7,380**	5,499	243

Consolidated Interim Statement of Changes in Shareholders' Equity for the six months ended 30 June 2003

(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 3)

In RR million	Share capital	Treasury shares (Notes 5C and 18)	Currency translation adjustment	Retained earnings	Total shareholders' equity
Balances as of 31 December 2001	**64,251**	**(34,058)**	**961**	**32,725**	**63,879**
Sale of treasury shares (ordinary)	-	377	-	(41)	336
Currency translation adjustment	-	-	(92)	-	(92)
Dividends	-	-	-	(248)	(248)
Profit for the period	-	-	-	953	953
Balances as of 30 June 2002	**64,251**	**(33,681)**	**869**	**33,389**	**64,828**
Balances as of 31 December 2002	**64,251**	**(35,361)**	**1,119**	**34,021**	**64,030**
Currency translation adjustment	-	-	60	-	60
Dividends	-	-	-	(219)	(219)
Profit for the period	-	-	-	2,823	2,823
Balances as of 30 June 2003	**64,251**	**(35,361)**	**1,179**	**36,625**	**66,694**

(Unaudited) In US$ million	Share capital	Treasury shares	Currency translation adjustment	Retained earnings	Total shareholders' equity
Balances as of 30 June 2003	**2,117**	**(1,165)**	**38**	**1,207**	**2,197**

The statutory accounting reports of JSC AVTOVAZ (the "Company") are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the six months ended 30 June 2003, the current net statutory profit for the Company as reported in its statutory reporting forms was RR 1,487 (the year ended 31 December 2002: RR 700). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

1. JSC AVTOVAZ and subsidiaries

JSC AVTOVAZ and its subsidiaries' (the "Group") principal activities include the manufacture and sale of passenger automobiles. The Group's manufacturing facilities are primarily based in the Samara Oblast of Russia. The Group has a sales and service network spanning the Commonwealth of Independent States and some other countries. The parent company, JSC AVTOVAZ ("the Company" or JSC AVTOVAZ), was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. At 30 June 2003 the Group employed 157,278 employees (31 December 2002: 161,148). JSC AVTOVAZ is registered at Yuzhnoye Shosse, 36, Togliatti, 445633, Russian Federation.

2. Operating environment of the Group

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

During the transition to a market economy the Group has experienced, as have some other large manufacturing entities in Russia, financial difficulties. This has resulted in losses in prior years and the build-up of outstanding obligations to the tax authorities, lenders of finance and suppliers. As a result of these matters the Group's current liabilities exceeded its current assets in prior years.

In order to improve the Group's financial position management undertook the following initiatives:

- Reduced the time needed to update the model range; the Calina range and the VAZ-2170 model are to be launched in late 2004 or early 2005;
- Continued the strategic partnership with General Motors Corporation ("GM") and the European Bank for Reconstruction and Development ("EBRD") by considering further potential joint projects. In October 2003, JSC AVTOVAZ and GM announced a second project: the launch of the Chevrolet Astra vehicle;
- Completed the restructuring of outstanding obligations to the tax authorities and lenders of finance;
- Achieved positive operating income during the past four years through improvements in control over costs;
- Significantly reduced the level of finished goods inventory from RR 6,065 at 31 December 2002 to RR 2,506 at 30 June 2003; and
- Reduced working capital deficit to RR 932 at 30 June 2003 (31 December 2002: RR 6,764).

In view of the measures outlined above and continued support by the government of the national automotive industry, management is confident that the Group will continue as a going concern for the foreseeable future.

3. Basis of presentation of the consolidated financial statements

These consolidated financial statements have been prepared in accordance with, and comply with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB ("IFRS").

JSC AVTOVAZ and its subsidiaries resident in the Russian Federation, which account for approximately 95% of assets and liabilities of the Group, maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Similarly, adjustments to conform with IFRS, where necessary, are recorded in the financial statements of companies not resident in the Russian Federation.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale investments are shown at fair value. The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of financial instruments, depreciation of property, plant and equipment, the impairment provisions, deferred profits taxes and the provision for impairment of receivables and other payables. Actual results could differ from these estimates.

A. Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

(In millions of Russian Roubles)

3. Basis of presentation of the financial statements (continued)
A. Accounting for the effect of inflation (continued)
Corresponding figures, for the six months ended 30 June 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Year	Indices	Conversion Factor
31 December 1998	1,216,400	2.24
31 December 1999	1,661,481	1.64
31 December 2000	1,995,937	1.37
31 December 2001	2,371,572	1.15
30 June 2002	2,587,578	1.06
31 December 2002	2,730,154	1.00

The main guidelines followed in restating the corresponding figures were:

- All corresponding amounts, were stated in terms of the measuring unit current at 31 December 2002;
- Monetary assets and liabilities held at 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002;
- All items in the statement of income and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2002; and
- Gains or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 30 June 2002 were included in the statement of income as a monetary gain or loss.

B. U.S. Dollar Translation
U.S. dollar ("US$") amounts shown in the accompanying consolidated financial statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2003 of RR 30.35 = US$1. The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

4. Summary of significant accounting policies
A. Group reporting
Subsidiary undertakings
Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are included into the consolidated financial statements. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between the Group's companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date includes the minority shareholders' portion of the fair values of the identifiable assets and liabilities of subsidiaries at the acquisition date, and the minority's portion of movements in those subsidiaries' equity since the date of acquisition. Minority interest includes a portion of the net assets of the Group attributable to minority shareholders in subsidiaries that own shares in JSC AVTOVAZ, as discussed in Note 5C.

Minority interest is presented separately from liabilities and shareholders' equity.

Associated undertakings
Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or otherwise has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

4. Summary of significant accounting policies (continued)

B. Financial assets

Available-for-sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

Borrowings issued

Borrowings are recognised initially at fair value of the proceeds received, net of transaction costs incurred. The fair value is determined using the prevailing market rate of interest at which debt is available to borrowers. Borrowings issued by the Group are recorded at amortised cost, which is the amount of the loan when it was originally recorded net of repayments of the principal debt plus any cumulative amortisation of any difference between the initial amount and redemption amount at maturity and less any losses for impairment.

The Group holds neither trading investments, nor held-to-maturity investments.

C. Revenue recognition

Revenues on domestic sales of automobiles, spare parts and miscellaneous production are recognised when they are dispatched to customers as this is the date that the risks and rewards of ownership are transferred to the customers.

Value-added and excise taxes are deducted to obtain the value of revenue.

D. Seasonality

Demand for finished vehicles is not significantly influenced by seasons of the year. However, there is a slight increase in demand for vehicles prior to the summer months and a decrease in demand prior to the end of calendar year. The seasonality in the demand for vehicles does not significantly influence production, inventory levels are adjusted for these movements in demand. Seasonality does not impact the revenue or cost recognition policies of the Group.

E. Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and include value added taxes. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

F. Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) are recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

G. Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis, and includes material, labour and the appropriate indirect manufacturing costs (based on normal operating capacity). Obsolete and slow-moving inventories are written down, taking into account their expected use, to their future realisable value.

H. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments which are readily converted to cash, are not subject to significant risk of changes in value and mature within three months of the balance sheet date.

(In millions of Russian Roubles)

4. Summary of significant accounting policies (continued)

I. Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. Before 31 December 2002 property, plant and equipment were recorded at purchase or construction cost restated to the equivalent purchasing power of the RR. At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	40 to 50
Foundry equipment	25
Plant, machinery and equipment	10 to 20
Other	5 to 10

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated statement of income as incurred.

J. Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

K. Borrowings and restructured taxes

Borrowings are recognised initially at the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. All borrowing costs are expensed. Interest expense, which is currently due, is recorded within other payables, whilst other interest that accrues is included within the restructured liabilities.

L. Foreign currency transactions and translation

Exchange restrictions and controls exist relating to converting the RR into other currencies. The RR is not a freely convertible in most countries outside of the Russian Federation.

Monetary assets and liabilities of the Group, which are denominated in foreign currencies at 30 June 2003, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the consolidated statement of income.

Foreign subsidiary balance sheets and statements of income have been translated in RR at the exchange rate ruling at 30 June 2003 and average exchange rates for the six months then ended, respectively. Differences arising from translation of foreign subsidiaries' balances are included in shareholders' equity as currency translation adjustments.

M. Product warranty costs

Estimated costs of future product warranties are fully provided for at the time of the sale of products.

(In millions of Russian Roubles)

4. Summary of significant accounting policies (continued)

N. Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred for development projects are recognised as intangible assets if, and only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

O. Social costs

The Group incurs costs on social activities, principally within the City of Togliatti. These costs include the provision of health services and kindergartens. These amounts represent an implicit cost of employing principally production workers and, accordingly, have been charged to cost of sales in the Group's IFRS consolidated statement of income.

P. Interest expense and interest income

Interest income and expenses are recognised on the accrual basis, as earned or incurred.

Q. Earnings (loss) per share

Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. An earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weight average number of participating shares outstanding during the reporting period. Losses are allocated to preference shares in this calculation.

R. Pension costs

The Group's obligatory contributions to the Pension Fund of the Russian Federation are expensed as incurred.

S. Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent power of the RR as at 31 December 2002. Any difference between cost and nominal value on the purchase of treasury shares is recorded direct to retained earnings. Any gains or losses arising on the disposal of treasury shares are recorded direct to the consolidated statement of changes in shareholders' equity.

T. Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that a significant outflow of resources will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

U. Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared for payment before or on the balance sheet date. Dividends are disclosed in the Notes to the financial statements when they are proposed or declared for payment after the balance sheet date but before the financial statements are authorised for issue.

5. Principal subsidiaries, balances and transactions with related parties

The principal subsidiaries of the Group and the degree of control exercised by the Group are as follows:

Entity	Country of Incorporation	Activity	**30 June 2003 % share**	31 December 2002 % share
OAO DAAZ	Russia	Car components	**100**	100
OAO SAAZ	Russia	Car components	**100**	100
OAO AvtoVAZtrans	Russia	Transport	**100**	100
OAO TEVIS	Russia	Utilities	**100**	100
OAO SeAZ	Russia	Car assembly	**100**	100
OAO Elektroset	Russia	Power supply	**100**	100
OAO AvtoVAZstroi	Russia	Construction	**100**	100
Lada International Ltd.	Cyprus	Car distribution	**99.9**	99.9
OAO AVVA	Russia	Investments	**85**	85
Oy Konela Ab	Finland	Car distribution	**70**	70
ZAO CB AFC	Russia	Financial	**58.5**	58.5
ZAO CB Avtomobilny Bankirsky Dom	Russia	Bank services	**58.4**	36
ZAO IFC	Russia	Financial	**51**	51
OOO Eleks-Polyus	Russia	Car distribution	**51**	51
133 Technical Service Centres	Russia	Car service centres	**50.1-100**	50.1-100

All of the above subsidiaries have been consolidated.

(In millions of Russian Roubles)

5. Principal subsidiaries, balances and transactions with related parties (continued)

During the reporting period the Group acquired an additional 60.6% of ordinary shares of ZAO VAZinterService, bringing the Group's total shareholding in this entity to 73.6%, with the intention to sell these shares in the foreseeable future. Consequently, the above-mentioned subsidiary was not consolidated at 30 June 2003.

The principal associated companies and degree of ownership by the Group are as follows:

Entity	Country of Incorporation	Activity	**30 June 2003 % share**	31 December 2002 % share
FerroVAZ GmbH	Germany	Metal production	**50**	50
ZAO GM-AVTOVAZ	Russia	Vehicle production	**47.6**	47.6
Lada Hellas S.A.	Greece	Car distribution	**50**	50
Lada Parts Hellas S.A.	Greece	Spare parts distribution	**50**	50
National Trade Bank	Russia	Bank services	**27**	27
ZAO ASOL	Russia	Insurance	**34**	34

In January 2003 the Group purchased an additional number of ordinary shares of ZAO CB Avtomobilny Bankirsky Dom. The share of the Group in this entity's capital increased to 58.4% (at 31 December 2002: 36%). As a result, ZAO CB Avtomobilny Bankirsky Dom was classified as a subsidiary and included in the Group's consolidated interim financial statements at 30 June 2003.

The identifiable assets and liabilities and goodwill arising from the acquisition are as follows:

	RR million
Cash and cash equivalents	87
Property, plant and equipment	23
Other assets	220
Short-term investments	3,158
Taxes payable	(12)
Payables	(282)
Borrowings	(2,375)
Fair value of net assets	819
Share of net assets acquired from minority shareholders	135
Purchase consideration	90
Negative goodwill	(45)

The transactions with related parties noted below are made in the ordinary course of business on normal commercial terms. The volume of transactions with these related parties is not significant in the context of the Group's overall activities. Balances with related parties at 30 June 2003 and 31 December 2002 and transactions with related parties for the six months ended 30 June 2003 and 30 June 2002 consist of the following:

A. Balances with related parties:

Consolidated balance sheet caption	Relationship	**30 June 2003**	31 December 2002
Trade receivables, gross:	Associates	**1,065**	355
Provision for impairment of receivables:	Associates	**(83)**	(76)
Trade payables current:	Associates	**506**	440

B. Transactions with related parties:

Consolidated statement of income caption	Relationship	**Six months ended 30 June 2003**	Six months ended 30 June 2002
Net sales:	Associates	**2,826**	1,281
Purchases:	Associates	**3,198**	2,412

(In millions of Russian Roubles)

5. Principal subsidiaries, balances and transactions with related parties (continued)

C. Cross shareholding:

At 30 June 2003 OAO AVVA, an 85% owned subsidiary of JSC AVTOVAZ, owned 38% of the ordinary shares of JSC AVTOVAZ. ZAO "Central Branch of Automobile Financial Corporation" (ZAO CB AFC), a company in which JSC AVTOVAZ has an effective ownership of 58.5%, in turn owns 24% of the ordinary shares of JSC AVTOVAZ. Furthermore, ZAO IFC, a 51% owned subsidiary of JSC AVTOVAZ, owns 2% of the ordinary shares of JSC AVTOVAZ. As a result, 64% (2002: 64%) of the ordinary voting share capital of JSC AVTOVAZ is held by entities within the AVTOVAZ Group. The shares of JSC AVTOVAZ that are owned by subsidiaries are recognised as treasury shares in these financial statements.

Compensation of the Board of Directors and the Management Board is disclosed at Note 30.

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	30 June 2003	31 December 2002
RR denominated cash on hand and balances with banks	**5,676**	974
Foreign currency denominated balances with banks	**1,704**	1,777
	7,380	2,751

7. Trade receivables

	30 June 2003	31 December 2002
Trade receivables		
Rouble denominated	**6,174**	4,488
Foreign currency denominated	**4,365**	4,257
	10,539	8,745
Less Provision for impairment of receivables		
Rouble denominated	**(338)**	(361)
Foreign currency denominated	**(203)**	(137)
	(541)	(498)
Net receivable		
Rouble denominated	**5,836**	4,127
Foreign currency denominated	**4,162**	4,120
	9,998	8,247

Net trade receivables denominated in foreign currencies consist of the following:

Currency	**30 June 2003**	31 December 2002
Euro	**1,288**	986
US$	**2,828**	3,131
Other currencies	**46**	3
Total net trade receivables denominated in foreign currencies	**4,162**	4,120

8. Other current assets

Other current assets consist of the following:

	30 June 2003	31 December 2002
Short-term financial assets	**5,020**	1,154
Value-added tax	**3,310**	3,771
Prepaid expenses, advances and other receivables	**2,213**	1,737
	10,543	6,662

(In millions of Russian Roubles)

9. Inventories

Inventories consist of the following:

	30 June 2003	31 December 2002
Raw materials	**10,306**	9,355
Work in progress	**3,180**	3,064
Finished products	**2,506**	6,065
	15,992	18,484

Inventories are recorded net of obsolescence provision of RR 651 at 30 June 2003 (31 December 2002: RR 524).

10. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2002	70,675	108,199	10,871	17,398	207,143
Additions	-	-	-	3,805	3,805
Disposals	(101)	(532)	(413)	(414)	(1,460)
Transfers	198	1,723	710	(2,631)	-
Balance at 30 June 2003	**70,772**	**109,390**	**11,168**	**18,158**	**209,488**
Accumulated Depreciation					
Balance at 31 December 2002	(30,759)	(61,591)	(9,859)	(4,551)	(106,760)
Depreciation expense for the six months ended 30 June 2003	(863)	(2,057)	(210)	-	(3,130)
Disposals	66	364	250	-	680
Reversal of impairment loss	-	-	-	247	247
Balance at 30 June 2003	**(31,556)**	**(63,284)**	**(9,819)**	**(4,304)**	**(108,963)**
Net Book Value					
Balance at 31 December 2002	39,916	46,608	1,012	12,847	100,383
Balance at 30 June 2003	**39,216**	**46,106**	**1,349**	**13,854**	**100,525**

Assets Under Construction ("AUC") includes the cost of fixed assets which have yet to be put into production. The majority of the transfers out from AUC were placed in service and transferred into Buildings and Plant and Equipment. The balance of accumulated depreciation of AUC as at 31 December 2002 of RR 4,551 includes an impairment provision made in prior years against construction projects started but not expected to be completed as well as a provision against the construction of properties to be used by the local community.

At 30 June 2003, management estimates that the recoverable amount of AUC projects increased by a further RR 247. This amount was recorded as a reversal of the impairment provision for AUC in the consolidated interim financial statements for the six months ended 30 June 2003.

The assets transferred to the Company upon privatisation do not include the land on which the Company's factory and buildings, comprising the Group's principal manufacturing facilities, are situated. Until 11 December 2001 the land on which the Group's manufacturing facilities are situated was provided to JSC AVTOVAZ by local authorities for unlimited use. As a result of changes in existing legislation, on 11 December 2001 rental agreements were made with local authorities in relation to this land for the period of 49 years.

Included in Property, plant and equipment and AUC are properties used by the local community (such as rest houses, kindergartens, sports and medical facilities) of a gross carrying value of RR 4,015 and RR 4,075 as of 30 June 2003 and 31 December 2002, respectively. These properties are fully provided for.

At 30 June 2003 and 31 December 2002, the gross carrying value of fully depreciated property, plant and equipment was RR 47,600 and RR 46,630, respectively.

(In millions of Russian Roubles)

11. Financial assets

	2003
Balance at 31 December 2002	466
Additions	-
Revaluation surplus	(57)
Disposals	(197)
Balance at 30 June 2003	**212**

Available-for-sale investments comprise principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and borrowings issued by the Group with maturity period of more than one year.

12. Investments in associates

	2003
Balance at 31 December 2002	754
Share of income	20
Disposals	(221)
Balance at 30 June 2003	**553**

13. Other payables and accrued expenses

Other payables and accrued expenses includes the following:

	30 June 2003	31 December 2002
Payable for financial assets	**1,651**	2,077
Vacation and salary accruals	**1,323**	1,302
Payable to customs authorities	**763**	117
Salaries payable	**680**	1,070
Accrued interest	**587**	1,536
Other	**985**	1,423
Total	**5,989**	7,525

During 2003, interest payable of US$ 56 million on the loan from Vnesheconombank was restructured. For details of this restructuring, see Note 17.

14. Provisions

	Warranties	Tax claims	Legal and other claims	Termination benefits provision	Total
Balance at 31 December 2002	1,549	2,571	290	350	4,760
Utilised	(590)	-	-	(137)	(727)
Released	-	(2,454)	-	-	(2,454)
Additional provisions	528	-	160	-	688
Balance at 30 June 2003	**1,487**	**117**	**450**	**213**	**2,267**

Warranties

The Group undertakes to repair vehicles or replace certain components that fail to perform satisfactorily during two years after sale or until a mileage of 35,000 kilometres is reached.

Tax claims

In 2000, in accordance with IAS 37 (“Provisions, contingent liabilities and contingent assets”) the Group accrued a provision of RR 2,454 in respect of claims raised by the tax authorities for profits taxes. By 30 June 2003 it became clear that these claims would never be enforced. As a result, the release of this provision for the entire amount was recorded under the heading Income tax expense/(credit).

(In millions of Russian Roubles)

14. Provisions (continued)

Legal and other claims

In 2002 the Group recorded a provision for a claim submitted by Vittorio-Martorelli (Italy) against the Company in the amount of RR 290 for the termination of the Agent agreement signed in 1999. In the six months ended 30 June 2003 the Group recorded a provision for a claim submitted by Lada Bulgaria against the Company in the amount of RR 160 for violating exclusive vehicle distribution rights. The provisions are expected to be utilised during 2003.

Termination benefits provision

In 2002, the Group recorded a provision for termination benefits amounting to RR 350. By undertaking to pay these benefits the Group encourages voluntary redundancy of employees who reach retirement age during 2003. During the six months ended 30 June 2003 the Group utilised RR 137 of the provision for termination benefits.

15. Short-term and long-term debt due after one year

Short-term debt by category of loan consists of the following:

Currency	Effective interest rate	**30 June 2003**	31 December 2002
RR	16%-24%	**10,356**	6,437
US$	13%-14%	**926**	1,067
Euro	12%-13%	**17**	1,792
Total loans from financial institutions		**11,299**	9,296

Long-term debt by category of loan consists of the following:

Currency	Effective interest rate	**30 June 2003**	31 December 2002
RR	16%-24%	**6,041**	968
Euro	10%	**311**	2,690
US$	-	**-**	347
Total loans from financial institutions		**6,352**	4,005

Long-term debt is repayable as follows:

	30 June 2003	31 December 2002
1 to 2 years	**1,145**	1,530
2 to 3 years	**5**	564
3 to 4 years	**3,039**	593
4 to 5 years	**275**	374
Over 5 years	**1,888**	944
	6,352	4,005

In June 2003 the Company restructured its obligations with Vnesheconombank and the Ministry of Finance of the Russian Federation. This is discussed further in Note 17.

As at 30 June 2003 and 31 December 2002 loans for RR 7,706 and RR 8,348, respectively, inclusive of short-term borrowings, are guaranteed by collateral of receivables, inventories and equipment.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

(In millions of Russian Roubles)

16. Taxation

Taxes payable-current

Taxes payable-current are comprised of the following:

	30 June 2003	31 December 2002
Current portion of taxes restructured to long-term	**1,150**	965
Property, road users, pensions and other taxes	**1,150**	986
Penalties and interest on property, pensions and other taxes	**560**	674
Value-added tax	**499**	185
Income tax	**4**	5
Penalties and interest on income tax	**8**	7
	3,371	2,822

The principal tax liabilities past due accrue interest each day at one three hundredth of the current refinancing rate of the Central Bank of Russia which, at 30 June 2003 was equal to an effective rate of 18% (2002: 26%). The principal tax liabilities (interest, penalties) past due at 30 June 2003 and 31 December 2002 were approximately RR 50 and RR 144 respectively.

Long-term taxes payable

Long-term taxes payable comprise various taxes payable to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of the Russian Government Resolutions No. 1002 dated 3 September 1999 "Terms of the restructuring of payables to the Federal Budget" and No. 927 dated 29 December 2001 "On changes of terms of JSC AVTOVAZ's tax liabilities and accrued fines and interest payable to the Federal Budget", as discussed further.

The carrying value of this debt and its maturity profile is as follows:

	30 June 2003	31 December 2002
Current	**1,150**	965
1 to 2 years	**673**	809
2 to 3 years	**903**	566
3 to 4 years	**705**	1,034
4 to 5 years	**213**	212
Thereafter	**1,917**	1,870
Total restructured	**5,561**	5,456
Less: portion of taxes payable – current	**(1,150)**	(965)
Long-term portion of restructured taxes	**4,411**	4,491

The above liability is carried at historical cost, which is the fair value of the obligation at the date of restructuring. This is calculated by discounting the restructured liability using discount rates ranging between 21% and 30%.

In the event of the Company fails to make current tax payments and payments of restructured tax liabilities by the end of each quarter, the Ministry of Taxes and Duties may, within one month, recommend to the Government to cancel the restructuring agreement and call the entire liability.

As at 30 June 2003, fair value of these liabilities was estimated to be RR 5,550 using current market interest rates ranging between 17% and 18%. As at 31 December 2002, fair value of these liabilities was estimated to be RR 5,970.

The Company is in compliance with the terms of restructuring the federal, regional and local tax debts at 30 June 2003.

(In millions of Russian Roubles)

17. Gains on restructuring of debt

Gains on restructuring of debt credited to the consolidated interim statement of income comprise:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Gains on restructuring of debt	**1,966**	15
	1,966	15

During 2003, management negotiated the restructuring of the liability of US$ 237 million (including liabilities to the Ministry of Finance restructured as of 31 December 2002) with Vnesheconombank and the Ministry of Finance of the Russian Federation through the consideration of RR 7,149 of Rouble denominated bills of exchange payable between 3 and 9 years and bearing an interest rate of 9%. The present value of these bills of exchange using a discount rate ranging between 16% and 18% is RR 4,908. The resulting gain of RR 1,966 was credited to the consolidated interim statement of income for the six months ended 30 June 2003 as a gain on restructuring of debt. Any increase of the carrying amount of the debt in subsequent years will be recognised in the statement of income as an interest expense.

18. Share capital

The carrying value of share capital and the legal share capital value subscribed, issued and fully paid up, consists of the following classes of shares:

	30 June 2003			31 December 2002		
	No. of shares	**Legal statutory value**	**Carrying amount**	No. of shares	Legal statutory value	Carrying amount
Class A preference	4,930,340	2,465	9,861	4,930,340	2,465	9,861
Ordinary	27,194,624	13,597	54,390	27,194,624	13,597	54,390
Total share capital	32,124,964	16,062	64,251	32,124,964	16,062	64,251
Less: treasury share capital						
Class A preference	(312,697)	(156)	(625)	(312,697)	(156)	(625)
Ordinary	(17,367,655)	(8,684)	(34,736)	(17,367,655)	(8,684)	(34,736)
Total treasury share capital	(17,680,352)	(8,840)	(35,361)	(17,680,352)	(8,840)	(35,361)
Total outstanding share capital	**14,444,612**	**7,222**	**28,890**	14,444,612	7,222	28,890

Ordinary shares give the holders the right to vote on all matters within the remit of the General Shareholders' Meeting.

Class A preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Preference shares obtain the right to vote on all matters within the remit of the General Shareholders' Meeting if at the previous Annual Shareholders' Meeting it was decided not to pay a dividend on preference shares even though the Company had statutory net profit for the year.

Preference shareholders are equally entitled to dividends along with holders of ordinary shares on the basis of a resolution of the General Shareholders' Meeting. A resolution regarding the payment and the amount of dividends is taken by the General Shareholders' Meeting upon recommendations of the Board of Directors in view of financial results for the year.

(In millions of Russian Roubles)

18. Share capital (continued)

If the dividend paid on one ordinary share in the current year exceeds the dividend that is payable on one preference share, then the dividend paid on one preference share should be increased to the dividend paid on one ordinary share. As such, the preference holders share in earnings along with ordinary holders and thus the preference shares are considered participating shares for the purpose of the calculation of earnings per share.

In 2003, a dividend was declared and is being currently paid in respect of 2002 to holders of preference shares of RR 17 per preference share (2002: RR 47.58) and to holders of ordinary shares of RR 5 per ordinary share (2002: nil). As a result, in 2003 preference shareholders are not entitled to vote except for matters discussed above.

19. Net sales revenue

The components of net sales revenue were as follows:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Finished vehicles	**48,859**	48,659
Automotive components and assembly kits	**8,929**	9,502
Other sales	**3,184**	1,820
	60,972	59,981

20. Cost of sales

The components of cost of sales were as follows:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Materials and components used	**36,355**	35,931
Labour costs	**5,878**	5,653
Production overheads	**2,546**	3,851
Depreciation	**3,130**	2,994
Social expenditure	**1,108**	1,165
Changes in inventories of finished goods and work in progress	**3,443**	236
	52,460	49,830

21. Administrative expenses

Administrative expenses comprise:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Labour	**1,523**	1,464
Transportation	**246**	287
Property tax	**668**	811
Materials	**268**	176
Provision for impairment of receivables	**88**	(179)
Repair expenses	**80**	85
Consultants' fees	**60**	57
Advertising	**19**	20
Road user tax	**2**	573
Other	**805**	718
	3,759	4,012

(In millions of Russian Roubles)

22. Research and development expenses

Research and development expenses comprise:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Labour costs	**165**	459
Materials	**108**	390
Other	**228**	210
	501	1,059

23. Other operating expenses

The components of other operating expenses were as follows:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Provisions and settlements of claims and similar charges	**160**	(684)
Write-off or loss on disposal of property, plant and equipment	**177**	607
Loss on disposal of investments	**47**	162
Other	**120**	331
	504	416

24. Labour expenses

Labour expenses included in different captions of the statement of income were as follows:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Cost of sales	**5,878**	5,653
Administrative expenses	**1,523**	1,464
Distribution costs	**140**	257
Research and development expenses	**165**	459
	7,706	7,833

Labour expenses are comprised of wages, salaries, bonuses, payroll taxes, termination costs, vacation and salary accruals.

25. Income tax expense/(credit)

	Six months ended 30 June 2003	Six months ended 30 June 2002
Income tax expense – current	**784**	1,036
Release of income tax provision	**(2,454)**	-
Movement in deferred tax account	**(6)**	1,034
	(1,676)	2,070

(In millions of Russian Roubles)

25. Income tax expense/(credit) (continued)

The tax charge of the Group is reconciled as follows:

	Six months ended 30 June 2003	Six months ended 30 June 2002
IFRS profit before taxation in the Group's consolidated financial statements	**1,801**	3,205
Theoretical tax charge at statutory rate of 24% (2002: 24%)	**432**	769
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	**25**	12
Non-temporary elements of monetary gains/losses	**-**	1,719
Non-deductible expenses, net	**209**	87
Release of income tax provision (Note 14)	**(2,454)**	-
Other	**112**	130
Inflation effect on deferred tax balance at the beginning of the year	**-**	(647)
Income tax expense/(credit)	**(1,676)**	2,070

In general during the six months 2003 the Group was subject to tax rates of approximately 24% on taxable profits. Income tax rate of 24% has been enacted starting from 1 January 2002 as a result of the changes in the Russian tax legislation. Deferred tax assets/liabilities are measured at the rate of 24% as at 30 June 2003 (24% as at 31 December 2002).

Deferred tax liabilities

	31 December 2002	**Movement for the six months ended 30 June 2003**	**30 June 2003**
Tax effects of temporary differences:			
Trade receivables	151	15	**166**
Inventories	59	137	**196**
Property, plant and equipment	(9,699)	(208)	**(9,907)**
Investments	293	209	**502**
Accounts payable and provisions	686	26	**712**
Long-term debt	(2,316)	(433)	**(2,749)**
Other temporary differences	64	260	**324**
Deferred tax liability	(10,762)	6	**(10,756)**

The deferred tax assets will be realised in different periods than the deferred tax liabilities will be settled. Management believe that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

26. Minority interest

	Minority interest
Balance at 31 December 2001	**12,283**
Share of net income	(182)
Purchase of additional interest in subsidiary	27
Balance at 30 June 2002	**12,128**
Balance at 31 December 2002	**12,784**
Share of net income	654
Purchase of subsidiary	366
Balance at 30 June 2003	**13,804**

27. Barter transactions
There were no non-cash transactions during the six months ended 30 June 2003 (six months ended 30 June 2002: RR 715).

28. Contingencies, commitments and guarantees
A. Contractual commitments and guarantees
As at 30 June 2003 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 619 (31 December 2002: RR 934).

Other than these commitments, there are no other commitments and guarantees in favour of third parties or related companies that were not disclosed in these consolidated financial statements.

B. Taxation
Russian tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years. In addition, the Group is subject to several claims from tax authorities for additional taxes and related fines and penalties. In the opinion of management, the ultimate outcome of these claims, other than those discussed in Note 14, should not have a material adverse effect on the result of operations or financial position of the Group.

C. Insurance policies
The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering export shipments and for all events subject to mandatory insurance. No provisions for self-insurance are included in the accompanying consolidated interim balance sheet.

D. Environmental matters
The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believe that there are no significant liabilities for environmental damage.

E. Legal proceedings
During the 2003 year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the result of operations or financial position of the Group, other than those discussed in Note 14.

29. Financial instruments and financial risk factors
A. Credit risk
Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believe that there is no significant risk of loss to the Group beyond the allowance already recorded.

B. Foreign exchange risk
The Group's manufacturing operation is in the Russian Federation with limited imports of raw materials and components. Revenue from export of the Group's automobile production to western and eastern Europe is 9% (six months ended 30 June 2002: 9%) of total revenue, these sales are denominated in hard currency. Net foreign currency receivables amount to RR 4,225 (31 December 2002: RR 4,120). The Group has debt obligations of RR 1,254 (31 December 2002: RR 5,896) denominated in hard currency.

C. Interest rate risk
The majority of interest rates on debt are fixed, these are disclosed in Note 15. Existing interest rates can be changed subject to agreement by the parties. Assets are generally non-interest bearing.

D. Fair values
In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

At 30 June 2003 and 2002, the fair value of certain financial liabilities was estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, and is disclosed in the relevant notes to these financial statements.

30. Compensation of the Board of Directors and the Management Board

Total compensation of the members of the executive bodies (the Board of Directors composed of 12 members and the Management Board composed of 45 members) included in Administrative expenses in the consolidated interim statement of income amounted to RR 14 for the six months ended 30 June 2003 (six months ended 30 June 2002: RR 18).