INTERNATIONAL FINANCIAL REPORTING STANDARDS

AVTOVAZ GROUP
CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

AVTOVAZ GROUP
Consolidated Interim Financial Statements
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Contents **Section page numbers**

Consolidated Interim Balance Sheet at 30 June 2004

(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2.2)

	RR million		US$ million
	30 June 2004	31 December 2003	30 June 2004
ASSETS			
Current assets:			
Cash and cash equivalents (Note 9)	**10,260**	6,767	353
Trade receivables, net (Notes 8 and 10)	**9,356**	7,202	322
Financial assets at fair value through profit and loss (Note 11)	**3,153**	4,359	109
Other current assets (Note 12)	**7,571**	6,499	261
Inventories (Note 13)	**18,465**	19,009	636
Total current assets	**48,805**	43,836	1,681
Non-current assets:			
Property, plant and equipment (Note 14)	**104,132**	104,350	3,587
Available-for-sale financial assets (Note 16)	**1,163**	675	40
Investments in associates and joint ventures (Note 17)	**1,262**	866	44
Development costs (Note 15)	**2,117**	1,699	73
Other assets	**796**	638	27
Total assets	**158,275**	152,064	5,452
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables current (Notes 8 and 18)	**17,401**	17,495	622
Other payables and accrued expenses (Note 19)	**6,823**	5,743	212
Current taxes payable other than income tax (Note 22)	**4,262**	4,289	147
Provisions (Note 20)	**1,591**	1,732	55
Short-term debt (Note 21)	**10,436**	11,852	359
Advances from customers	**8,011**	5,635	276
Total current liabilities	**48,524**	46,746	1,671
Non-current liabilities:			
Long-term debt (Note 21)	**12,843**	10,587	442
Long-term taxes payable (Note 22)	**4,285**	4,405	148
Deferred tax liability (Note 31)	**10,762**	10,824	371
Total liabilities	**76,414**	72,562	2,632
Equity:			
Share capital (Note 23)	**28,890**	28,890	995
Currency translation adjustment	**1,224**	1,289	42
Retained earnings	**50,337**	48,033	1,734
Total shareholders' equity	**80,451**	78,212	2,771
Minority interest (Note 2.3)	**1,410**	1,290	49
Total equity	**81,861**	79,502	2,820
Total liabilities and shareholders' equity	**158,275**	152,064	5,452

V. Vilchik
President – General Director
15 November 2004

N. Khatuntsov
Chief Accountant

The accompanying notes 1 to 37 are an integral part of the consolidated interim financial statements.

Consolidated Interim Statement of Income for the six months ended 30 June 2004

(In millions of Russian Roubles, except for earnings per share)
(Amounts translated into US dollars for convenience purposes, Note 2.2)

	RR million		US$ million
	Six months ended		
	30 June 2004	30 June 2003	30 June 2004
Net sales (Note 24)	**75,857**	60,972	2,636
Cost of sales (Notes 25)	**(62,277)**	(52,213)	(2,164)
Gross profit	**13,580**	8,759	472
Administrative expenses (Notes 26)	**(4,327)**	(3,759)	(150)
Distribution costs (Note 27)	**(2,891)**	(1,663)	(101)
Research and development expenses (Notes 28)	**(321)**	(501)	(11)
Other operating expenses (Note 29)	**(272)**	(554)	(10)
Operating income	**5,769**	2,292	200
Finance costs, net (Note 30)	**(1,699)**	(511)	(59)
Income from associates and joint ventures (Note 17)	**373**	20	13
Profit before taxation	**4,443**	1,801	154
Income tax credit/(expense) (Note 31)	**(1,414)**	1,676	(49)
Net profit	**3,029**	3,477	105
Attributable to:			
Equity holders of the Company	**2,936**	2,823	102
Minority interest (Note 2.3)	**93**	654	3
	3,029	3,477	105
Weighted average number of shares outstanding during the period (000's)	**14,445**	14,445	14,445
Earnings per share (basic/diluted) (in RR and US $)	**2**	1	

The accompanying notes 1 to 37 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 2004

(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2.2)

	RR million		US$ million
	Six months ended		
	30 June 2004	30 June 2003	30 June 2004
Cash flows from operating activities:			
Profit before taxation	**4,443**	1,801	154
Adjustments for:			
Depreciation	**3,274**	3,130	114
Provision for impairment of receivables	**16**	88	1
Provisions	**(90)**	160	(3)
Interest expense	**1,668**	1,809	58
Gains on forgiveness of tax debt and restructuring of other debt	**-**	(1,966)	-
Loss on disposal of property, plant and equipment	**434**	177	15
Income from associates and joint ventures	**(373)**	(20)	(13)
Reversal of impairment loss on property, plant and equipment (Note 14)	**(238)**	(247)	(9)
Impairment loss of available-for-sale investments and derivatives (Note 29)	**41**	40	1
Loss on disposal of investments	**(9)**	47	-
Unrealised foreign exchange effect on non-operating balances	**(144)**	415	(5)
Operating cash flows before working capital changes	**9,022**	5,434	313
(Increase) in gross trade receivables	**(2,446)**	(2,022)	(85)
Decrease/ (increase) advances and other receivables	**87**	(3,984)	3
Decrease in inventories	**545**	2,306	19
Increase in trade payables and other payables and accrued expenses	**264**	2,565	9
(Decrease) in other taxes payable	**(454)**	37	(16)
Increase in advances from customers	**2,375**	2,117	83
Cash provided from operations	**9.393**	6,453	326
Income tax paid	**(1,653)**	(287)	(57)
Interest paid	**(1,044)**	(541)	(36)
Net cash provided from operating activities	**6,696**	5,625	233
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(3,424)**	(3,184)	(119)
Proceeds from the sale of property, plant and equipment	**-**	46	-
Proceeds from the sale of investments	**4**	(96)	-
Purchase of investments	**(507)**	34	(17)
Business combination (Note 7)	**-**	-	-
Net cash used in investing activities:	**(3,927)**	(3,200)	(136)
Cash flows from financing activities:			
Proceeds from borrowings	**5,552**	4,034	193
Repayment of loans and long-term taxes payable	**(4,718)**	(1,634)	(164)
Dividends paid	**(139)**	(207)	(5)
Net cash provided from financing activities	**695**	2,193	24
Effect of exchange rate changes	**29**	11	1
Effect of translation	**-**	-	(2)
Net increase in cash and cash equivalents	**3,493**	4,629	123
Cash and cash equivalents at the beginning of the period	**6,767**	2,751	230
Cash and cash equivalents at the end of the period (Note 9)	**10,260**	7,380	353

Consolidated Interim Statement of Changes in Shareholders' Equity for the six months ended 30 June 2004

(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2.2)

In RR million	Share capital	Treasury shares (Notes 7.1 and 23)	Currency translation adjustment	Retained earnings	Attributable to equity holders of the Company	Minority interest (Note 2.3)	Total equity
Balances as of 31 December 2002 (as restated)	**64,251**	**(35,361)**	**1,119**	**45,218**	**75,227**	**1,587**	**76,814**
Currency translation adjustment	-	-	60	-	60	-	60
Dividends	-	-	-	(219)	(219)	-	(219)
Purchase of additional shares in subsidiary	-	-	-	-	-	-	-
Purchase of subsidiaries	-	-	-	-	-	312	312
Profit for the year	-	-	-	3,829	3,829	(352)	3,477
Balances as of 30 June 2003	**64,251**	**(35,361)**	**1,179**	**48,828**	**78,897**	**1,547**	**80,444**
Balances as of 31 December 2003	**64,251**	**(35,361)**	**1,289**	**48,033**	**78,212**	**1,290**	**79,502**
Currency translation adjustment	-	-	(65)	-	(65)	-	(65)
Dividends	-	-	-	(632)	(632)	-	(632)
Purchase of subsidiaries	-	-	-	-	-	27	27
Profit for the year	-	-	-	2,936	2,936	93	3,029
Balances as of 30 June 2004	**64,251**	**(35,361)**	**1,224**	**50,337**	**80,451**	**1,410**	**81,861**

Supplementary (Note 2.2)

In US$ million	Share capital	Treasury shares (Notes 7.1 and 23)	Currency translation adjustment	Retained earnings	Attributable to equity holders of the Company	Minority interest (Note 2.3)	Total equity
Balances as of 30 June 2004	2,213	(1,218)	42	1,037	2,771	49	2,820

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 period ended 30 June 2004, the current net statutory profit for the Company as reported in its statutory reporting forms was RR 3,570 (the year ended 31 December 2003: RR 4,655). 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 consolidated interim financial statements.

OAO AVVA, an 86 % owned subsidiary of JSC AVTOVAZ (Note 7.1), exchanged 213,812 own ordinary shares into 213,812 ordinary shares of JSC AVTOVAZ valued at RR 428 in 2002. The exchange had no material effect on minority interest.

(In millions of Russian Roubles)

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 2004 the Group employed 165,514 employees (31 December 2003: 161,228). JSC AVTOVAZ is registered at Yuzhnoye Shosse, 36, Togliatti, 445633, Russian Federation.

These consolidated interim financial statements have been approved for issue by the President-General Director on 15 November 2004.

2. Basis of presentation of the consolidated interim financial statements

These consolidated interim 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 94% 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 consolidated interim 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 interim financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale financial assets are shown at fair value. The preparation of consolidated interim 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 consolidated interim 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.

2.1 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 consolidated interim financial statements.

Corresponding figures, for the six months ended 31 December 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2003. 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
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.

2. Basis of presentation of the consolidated interim financial statements (continued)

2.2 U.S. Dollar translation

U.S. dollar ("US$") amounts shown in the accompanying consolidated interim 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 2004 of RR 29,03 = US$1 The consolidated interim statement of income and the consolidated interim statement of cash flows have been translated at the average exchange rates during the six months ended 30 June 2004. The difference was recognized in equity. The US$ amounts are presented solely for the convenience of the reader as supplementary information, 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.

2.3 Changes in accounting policy

The Group has early adopted IAS 27 "Consolidated and Separate Financial Statements" (revised in 2003) and accordingly changed the policy for accounting for minority interest. In prior years minority interest was presented separately from liabilities and equity. From 1 January 2002 minority interest is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

In addition, the Group changed its policy with respect to the method of calculating minority interest. The Group no longer attributes minority interest relating to cross shareholdings (Note 7.1).

The Group adopted IFRS 3 "Business combinations" and accordingly changed the policy for accounting for goodwill from 1 January 2003. In prior years goodwill both positive and negative was included in intangible assets and amortised over its useful life. From 1 January 2003 negative goodwill is written off to the consolidated statement of income immediately as incurred and positive goodwill is initially recognised at cost and subsequently carried at cost less any accumulated impairment losses (Note 3.12).

3. Summary of significant accounting policies

3.1 Early adoption of standards

In 2003 the Group early adopted the IFRS below, which are relevant to its operations. The accounts for the six months ended 30 June 2004 have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003) "Presentation of Financial Statements"
IAS 2 (revised 2003) "Inventories"
IAS 8 (revised 2003) "Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10 (revised 2003) "Events after the Balance Sheet Date"
IAS 16 (revised 2003) "Property, Plant and Equipment"
IAS 17 (revised 2003) "Leases"
IAS 21 (revised 2003) "The Effects of Changes in Foreign Exchange Rates"
IAS 24 (revised 2003) "Related Party Disclosures"
IAS 27 (revised 2003) "Consolidated and Separate Financial Statements"
IAS 28 (revised 2003) "Investments in Associates"
IAS 31 (revised 2003) " Interests in Joint Ventures"
IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation"
IAS 33 (revised 2003) "Earnings per Share"
IAS 39 (revised 2003) "Financial Instruments: Recognition and Measurement"
IFRS 2 (issued 2004) "Share-based Payments"
IFRS 3 (issued 2004) "Business Combinations"
IFRS 5 (issued 2004) "Non-current Assets Held for Sale and Discontinued Operations"
IAS 36 (revised 2004) "Impairment of Assets"
IAS 38 (revised 2004) "Intangible Assets".

The early adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 28, 31, 32, 33 (all revised 2003) and 36 and 38 (both revised 2004) did not result in substantial changes to the Group's accounting policies.

IAS 1 and IAS 8 (all revised 2003) have affected disclosures of the Summary of significant accounting policies and other disclosures.

An effect of the early adoption of IAS 27 (revised 2003) and IFRS 3 has been discussed in Note 2.3.

IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.

3. Summary of significant accounting policies (continued)

3.1 Early adoption of standards (continued)

The early adoption of IFRS 2 and IFRS 5 has not resulted in any changes in the consolidated interim financial statements.

The early adoption of IAS 39 has resulted in reclassification of all the current available for sale investments to financial assets at fair value through profit and loss. All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

3.2 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 interim 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 is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisitions date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the consolidated interim statement of income.

Associated undertakings

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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.

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.

Joint ventures

The Group's interests in jointly controlled entities are accounted for using the equity method. The consolidated interim statement of income reflects the Group's share of the results of operations of the jointly controlled entity.

Equity accounting is discontinued when the Group ceases to have joint control over, or have significant influence in, a jointly controlled equity.

3.3 Investments

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of these financial assets are included in the consolidated interim statement of income in the period in which they arise.

3. Summary of significant accounting policies (continued)

3.3 Investments (continued)

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit and loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated interim statement of income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the consolidated interim statement of income. Impairment losses recognised in the consolidated interim statement of income on equity instruments are not reversed through the consolidated interim statement of income.

3.4 Borrowings issued
Borrowings are recognised initially at cost which is the 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.

3.5 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.

Sales are shown net of VAT and discounts, and after eliminating sales within the Group.

3.6 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.

3.7 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.

3. Summary of significant accounting policies (continued)
3.8 Value added tax

(In millions of Russian Roubles)

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.

3.9 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. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.10 Cash and cash equivalents

Cash comprises cash on hand, demand deposits and bank's veksels. 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 or less from the date of acquisition.

3.11 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 interim 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 interim statement of income as incurred.

3.12 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Any excess of the Group's share of the net identifiable assets over the cost of an acquisition (negative goodwill) is recognised immediately in the consolidated interim statement of income.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred for development projects related to a new range of vehicles 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. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the new vehicles on a straight-line basis over the period of their expected benefits, not exceeding three years.

3. Summary of significant accounting policies (continued)

3.13 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.

3.14 Borrowings and restructured taxes

Borrowings are recognised initially at cost which is 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.15 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 2004, 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 interim statement of income.

Foreign subsidiary balance sheets and statements of income have been translated in RR at the exchange rate ruling at 30 June 2004 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.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which entity operates ("the functional currency"). The consolidated interim financial statements are presented in Russian Roubles, which is the Company's functional and presentation currency. U.S. dollar amounts have been provided as supplementary information only.

3.16 Product warranty costs

The Group recognises the estimated liability to repair or replace products sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

3.17 Employee benefits

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 interim statement of income.

Pension costs

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

3.18 Interest expense and interest income

Interest income and expenses are recognised on the accrual basis, as earned or incurred. Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the similar instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

3. Summary of significant accounting policies (continued)

3.19 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 weighted average number of participating shares outstanding during the reporting period. Losses are allocated to preference shares in this calculation.

3.20 Use of veksels

Veksels (promissory notes) are debt securities. The Group makes extensive use of both third party promissory notes and Group originated veksels in its operations. Bank veksels received are included in the balance sheet within cash and cash equivalents. Veksels issued by the Group, are included within trade payables until they are settled for cash.

3.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated interim statement of income on a straight-line basis over the period of the lease.

3.22 Shareholders' equity

Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent purchasing 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 equity.

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 consolidated interim financial statements when they are proposed or declared for payment after the balance sheet date but before the consolidated interim financial statements are authorised for issue.

3.23 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.

4. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

The Group manages its liquidity risk by maintaining sufficient cash and marketable securities and available funding through an adequate amount of committed credit facilities.

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from borrowings. The majority of interest rates on debt are fixed. Existing interest rates can be changed subject to agreement by the third parties. Assets are generally non-interest bearing.

5. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

5.1 Critical accounting estimates and assumptions

5.1.1 Operating environment of the Group

The Russian Federation 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 tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

5.1.2 Taxes

The Group is subject to taxes. Significant judgement is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the provisions in the period in which such determination is made.
Were the actual final outcome (on the judgement areas) to differ by 10% from management’s estimates, the Group would need to:

- increase in provision for taxes by RR 23, if unfavourable; or
- decrease in provision for taxes by RR 23, if favourable.

5.1.3 Product warranty costs

The Group made a provision for warranties at the year end based on past experience of the level of repairs and returns.
Were the actual outcome to differ by 10% from management’s estimates, the Group would need to increase provision for warranties by RR 147, if unfavourable.

5.1.4 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 2004 and 31 December 2003, 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 consolidated interim financial statements.

6. Segment reporting

The Group operates as one business segment – automobiles manufacturing – as its operations are subject to similar risks and returns.
Revenue from export of the Group’s automobile production to western and eastern Europe is 8% (year ended 31 December 2003: 9%) of total revenue and the geographical segment is not identified as a reportable segment.

(In millions of Russian Roubles)

7. 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 2004 % share**	31 December 2003 % 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
ZAO CB Avtomobilny Bankirsky Dom	Russia	Bank services	**58.4**	58.4
OAO AVVA	Russia	Investments	**86**	86
Delta Motor Group Oy	Finland	Car distribution	**100**	100
ZAO CB AFC	Russia	Financial	**60**	60
ZAO IFC	Russia	Financial	**51**	51
OOO Eleks-Polyus	Russia	Car distribution	**51**	51
ZAO Assol	Russia	Insurance	**62.9**	34
126 Technical Service Centres	Russia	Car service centres	**50.1-100**	50.1-100

All of the above subsidiaries have been consolidated.

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

Entity	Country of Incorporation	Activity	**30 June 2004 % share**	31 December 2003 % 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	**19.9**	19.9
OASO Astro-Volga	Russia	Insurance	**42.7**	43
ZAO VAZinterService	Russia	Car components	**32.4**	64.8
ZAO VAZTRAST	Russia	Leasing, agent's services	**50**	-

ZAO GM-AVTOVAZ is a joint venture between the JSC AVTOVAZ (47,6%), GM (47,6%) and EBRD (4,8%) which began production in September 2002. During 1 half 2004 the joint venture produced 27 thousand vehicles (1 half 2003: 5 thousand vehicles), which generated revenues of RR 5,806 and a net profit of RR 718 of which the Group's share was RR 342 (Note 17).

7.1 Cross shareholding

At 30 June 2004 OAO AVVA, an 86% 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% (31 December 2003: 64%) of the ordinary voting share capital of JSC AVTOVAZ is held by entities within the Group. The shares of JSC AVTOVAZ that are owned by subsidiaries are recognised as treasury shares in these consolidated interim financial statements.

(In millions of Russian Roubles)

8. Balances and transactions with related parties

8.1 Balances with related parties:

Consolidated balance sheet caption	Relationship	30 June 2004	31 December 2003
Trade receivables, gross	Associates and joint ventures	**1,567**	392
Provision for impairment of receivables	Associates and joint ventures	**(6)**	(6)
Trade payables current	Associates and joint ventures	**679**	349

8.2 Transactions with related parties:

Consolidated interim statement of income caption	Relationship	Six months ended 30 June 2004	Six months ended 30 June 2003
Net sales	Associates and joint ventures	**3,261**	2,479
Purchases	Associates and joint ventures	**1,96 5**	2,909

8.3 Directors' and Key Management's compensation:

Compensation of the Board of Directors and the Management Board is disclosed in Note 36.

9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	30 June 2004	31 December 2003
RR denominated cash on hand and balances with banks	**4,121**	2,990
Foreign currency denominated balances with banks	**1,344**	1,310
Short-term bank promissory notes and deposits	**4,795**	2,467
	10,260	6,767

10 Trade receivables

	30 June 2004	31 December 2003
Trade receivables		
Rouble denominated	**7,278**	5,080
Foreign currency denominated	**2,452**	2,487
	9,730	7,567
Less Provision for impairment of receivables		
Rouble denominated	**(305)**	(285)
Foreign currency denominated	**(69)**	(80)
	(374)	(365)
Net receivable		
Rouble denominated	**6,973**	4,795
Foreign currency denominated	**2,383**	2,407
	9,356	7,202

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

Currency	30 June 2004	31 December 2003
Euro	**1,145**	968
US$	**961**	1,201
Other currencies	**277**	238
Total net trade receivables denominated in foreign currencies	**2,383**	2,407

(In millions of Russian Roubles)

11. Financial assets at fair value through profit and loss

	30 June 2004	31 December 2002
Short-term financial assets	**3,153**	4,359
	3,153	4,359

Short-term financial assets include RR 1,536 (31 December 2003: RR 1,847) of commercial loans given by ZAO CB Avtomobilny Bankirsky Dom to its customers for periods less than 12 months after the balance sheet date and other current receivables of ZAO CB Avtomobilny Bankirsky Dom amounting to RR 628 (2003: RR 648).

As at 30 June 2004, the fair value of these assets was not materially different from the carrying value.

12. Other current assets

Other current assets consist of the following:

	30 June 2004	31 December 2003
Value-added tax	**4,565**	4,268
Prepaid expenses, advances and other receivables	**3,006**	2,231
	7,571	6,499

13. Inventories

Inventories consist of the following:

	30 June 2004	31 December 2003
Raw materials	**10,614**	11,425
Work in progress	**4,104**	3,518
Finished products	**3,747**	4,066
	18,465	19,009

Inventories are recorded net of obsolescence provision of RR 529 at 30 June 2004 (31 December 2003: RR 551).

14. Property, plant and equipment

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

(In millions of Russian Roubles)

	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**

	Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2003	71,120	114,333	10,702	19,360	215,515
Additions	-	-	-	4,230	4,230
Disposals	(160)	(1,335)	(507)	(582)	(2,584)
Transfers	416	3,059	74	(3,549)	-
Balance at 30 June 2004	**71,376**	**116,057**	**10,269**	**19,459**	**217,161**
Accumulated Depreciation					
Balance at 31 December 2003	(32,359)	(64,910)	(9,846)	(4,050)	(111,165)
Depreciation expense for the six months ended 30 June 2004	(859)	(2,204)	(211)	-	(3,274)
Disposals	25	512	634	-	1,171
Reversal of impairment loss	-	-	-	239	239
Balance at 30 June 2004	**(33,193)**	**(66,602)**	**(9,423)**	**(3,811)**	**(113,029)**
Net Book Value					
Balance at 31 December 2003	38,761	49,423	856	15,310	104,350
Balance at 30 June 2004	**38,183**	**49,455**	**846**	**15,648**	**104,132**

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 2003 of RR 4,050 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.

(In millions of Russian Roubles)

14. Property, plant and equipment (continued)

At 30 June 2004, management estimates that the impairment loss related to AUC has decreased by RR 239. This relates to buildings previously taken out of use which are now being converted to production. This amount was recorded as a reversal of the impairment provision for AUC in the consolidated interim financial statements at 30 June 2004.

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. Lease payments for land related to Group's production facilities are dependent on land tax rate and can be changed subject to agreement by the third parties. The future aggregate minimum lease payments under non-cancellable operating leases of land are disclosed in note 34.1.

Included in Property, plant and equipment and AUC are properties used by the local community (such as rest houses, kindergartens, sports and medical facilities) at a gross carrying value of RR 4,112 and RR 4,106 as of 30 June 2004 and 31 December 2003, respectively. These properties are fully provided for.

At 30 June 2004 and 31 December 2003, the gross carrying value of fully depreciated property, plant and equipment was RR 47,679 and RR 47,856, respectively.

15. Development costs

	2004	2003
Balance at 31 December		
Cost	**1,699**	714
Accumulated amortisation and impairment	**-**	-
Net book amount	**1,699**	714
Six months ended 30 June		
Opening net book amount	**1,699**	714
Additions	**418**	249
Closing net book amount	**2,117**	963
Balance at 30 June		
Cost	**2,117**	1,699
Accumulated amortisation and impairment	**-**	-
Net book amount	**2,117**	1,699

Development costs relating to a new range of vehicles amounting to RR 418 (1 half 2003: RR 249) were capitalised in the first half of 2004.

16. Available-for-sale financial assets

	Six months ended 30 June 2004
Balance at 31 December 2003	675
Additions	564
Impairment loss	(41)
Disposals	(35)
Balance at 30 June 2004	1,163

Available-for-sale financial assets are 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.

17. Investments in associates and joint ventures

(In millions of Russian Roubles)

	Six months ended 30 June 2004	Six months ended 30 June 2003
Beginning of the period	**866**	754
Additions	**28**	-
Share of income	**373**	20
Disposals	**(5)**	(221)
End of the period	**1,262**	553

The following amounts represent the aggregated amounts of assets and liabilities at the book-value, sales and results of associates, which have been consolidated using the equity method:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Assets:		
Non-current assets	**7,238**	5,615
Current assets	**8,297**	4,761
Liabilities		
Long-term liabilities	**756**	343
Current liabilities	**6,868**	3,552
Net assets	**7,911**	6,481
Income	**9,103**	4,287
Expenses	**8,270**	4,170
Profit after income tax	**833**	117

There are no contingent liabilities relating to the Group's interest in associates, and no contingent liabilities of the venture itself.

18. Trade payables current

	30 June 2004	31 December 2003
Trade payables	**16,722**	17,146
Payables to associated undertakings	**679**	349
	17,401	17,495

Trade payables include RR 116 (31 December 2003: RR 611) of customers' current and settlement accounts and short-term deposits in ZAO CB Avtomobilny Bankirsky Dom.

19. Other payables and accrued expenses

Other payables and accrued expenses includes the following:

	30 June 2004	31 December 2003
Salaries payable, vacation and salary accruals	**2,318**	1,875
Bills of exchange payable	**851**	435
Dividends	**533**	40
Claims	**401**	414
Accrued interest	**212**	300
Payable to customs authorities	**161**	332
Income tax liability	**47**	18
Other	**2,300**	2,329
Total	**6,823**	5,743

20. Provisions

During 1 half of 2004 the following movements of provisions took place:

	Warranties	Termination	Total

		benefits provision	
Balance at 31 December 2002	1,549	350	1,899
Utilised	(590)	(137)	(727)
Additional provisions	528	-	528
Balance at 30 June 2003	**1,487**	**213**	**1,700**

	Warranties	Termination benefits provision	Total
Balance at 31 December 2003	1,498	234	1,732
Utilised	(583)	(116)	(699)
Additional provisions	558	-	558
Balance at 30 June 2004	**1,473**	**118**	**1,591**

All provisions are made up for not more than 1 year.

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. A provision of RR 1,473 (31 December 2003: RR 1,498) is made at 30 June 2004 based on past experience of the level of repair and returns.

Retirement benefits provision
By undertaking to pay retirement benefits the Group encourages voluntary redundancy of employees who reach retirement age.

21. 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 2004**	31 December 2003
RR	15%-16.6%	**10,380**	11,805
US$	8%	**56**	29
Euro	12%	**-**	18
Total loans from financial institutions		**10,436**	11,852

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

Currency	Effective interest rate	**30 June 2004**	31 December 2003
RR	12%-15.5%	**4,971**	2,986
Euro	6%	**132**	45
US$	7%	**7,257**	7,069
CHF	5%	**483**	487
Total loans from financial institutions		**12,843**	10,587

Short-term and long-term debt comprises loans at fixed interest rates.

(In millions of Russian Roubles)

21. Short-term and long-term debt due after one year (continued)

Long-term debt is repayable as follows:

	30 June 2004	31 December 2003
1 to 2 years	**1,793**	2,748
2 to 3 years	**7,519**	7,227
3 to 4 years	**123**	158
4 to 5 years	**3,123**	58
Over 5 years	**285**	396
	12,843	10,587

As at 30 June 2004 long-term debt includes a total of Rouble denominated documentary coupon bearer bonds of RR 3,000 of Series 02 (State Number 4-02-00002-A of 14 October 2003) issued on 18 February 2004. The bonds are issued at par value and mature in 4.5 years. These bonds carry 9 half yearly coupons. The rate of the first coupon, which was determined at the auction, was 11.78% per annum, the second coupon's rate is 11.28%, the rate of the third coupon is 10.78%. The rates of other coupons are determined by the issuer. First coupon payable as of 30 June 2004 comprises RR 129 and recorded within short-term debt. As at 30 June 2004, the fair value of these liabilities was not materially different from the carrying value.

As at 30 June 2004 and 31 December 2003 Group guaranteed loans by collateral of inventories and equipment for RR 7,779 and RR 7,832, respectively.

As at 30 June 2004, the fair value of these liabilities was estimated to be RR 13,936 using current market interest rates ranging between 10% and 12%. As at 31 December 2003, the fair value of these liabilities was estimated to be RR 10,982.

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

22. Taxation

Taxes payable-current

Taxes payable-current are comprised of the following:

	30 June 2004	31 December 2003
Current portion of taxes restructured to long-term	**1,029**	1,021
Property, pensions and other taxes	**867**	986
Penalties and interest on property, pensions and other taxes	**648**	655
Value-added tax	**1,177**	1,226
Social taxes	**541**	401
	4,262	4,289

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 2004 was equal to an effective rate of 17% (31 December 2003: 18%). The principal tax liabilities (interest, penalties) past due at 30 June 2004 and 31 December 2003 were approximately RR 39 and RR 144 respectively.

(In millions of Russian Roubles)

22. Taxation (continued)

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 2004	31 December 2003
Current	**1,029**	1,021
1 to 2 years	**1,024**	708
2 to 3 years	**822**	1,320
3 to 4 years	**263**	272
4 to 5 years	**214**	215
Thereafter	**1,962**	1,890
Total restructured	**5,314**	5,426
Less: portion of taxes payable – current	**(1,029)**	(1,021)
Long-term portion of restructured taxes	**4,285**	4,405

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 2004, fair value of these liabilities was estimated to be RR 5,687 using current market interest rates ranging between 10% and 12%. As at 31 December 2003, fair value of these liabilities was estimated to be RR 5,670.

The Company is in compliance with the terms of restructuring the federal, regional and local tax debts at 30 June 2004.

23. 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 2004			31 December 2003		
	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

23. Share capital (continued)

(In millions of Russian Roubles)

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.

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.

During the six months ended 30 June 2004, a dividend was declared and is being currently paid in respect of 2003 to holders of preference shares of RR 95 per preference share (2003: RR 17) and to holders of ordinary shares of RR 6 per ordinary share (2003: RR 5).

24. Net sales revenue

The components of net sales revenue were as follows:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Finished vehicles	**58,940**	48,859
Automotive components and assembly kits	**13,019**	8,929
Other sales	**3,898**	3,184
	75,857	60,972

25. Cost of sales

The components of cost of sales were as follows:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Materials and components used	**47,465**	36,355
Labour costs	**7,326**	5,878
Production overheads	**3,480**	2,546
Depreciation	**3,274**	3,130
Social expenditure	**1,236**	1,108
Changes in finished goods and work in progress	**(266)**	3,443
Reversal of impairment loss on property, plant and equipment	**(238)**	(247)
	62,277	52,213

(In millions of Russian Roubles)

26. Administrative expenses

Administrative expenses comprise:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Labour	**1,914**	1,523
Other local and regional taxes	**840**	668
Transportation	**260**	246
Materials	**223**	268
Insurance	**123**	98
Bank services	**117**	77
Provision for impairment of receivables	**16**	88
Other	**834**	791
	4,327	3,759

27. Distribution costs

Distribution costs comprise:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Transportation	**1,646**	634
Advertising	**452**	206
Materials	**430**	298
Labour	**218**	140
Other	**145**	385
	2,891	1,663

28. Research and development expenses

Research and development expenses comprise:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Labour costs	108	165
Materials	70	108
Other	143	228
	321	501

29. Other operating expenses

The components of other operating expenses were as follows:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Write-off or loss on disposal of property, plant and equipment	**434**	177
Impairment loss of available-for-sale investments and derivatives	**41**	40
Loss on disposal of investments	**(9)**	47
Provisions and settlements of claims and similar charges	**(90)**	160
Other	**(104)**	120
	272	544

(In millions of Russian Roubles)

30. Finance costs –net

Finance costs charged to the consolidated interim statement of income comprise:

	Six months ended 30 June 2004	Six months ended 30 June 2003
Interest expense	**1,668**	1,809
Foreign exchange loss	**31**	668
Gains on forgiveness of tax interest	**-**	(1,966)
	1,699	511

31. Income tax expense /(credit)

	Six months ended 30 June 2004	Six months ended 30 June 2003
Income tax expense – current	**1,476**	784
Gain on derecognition of income tax liability	**-**	(2,454)
Movement in deferred tax account	**(62)**	(6)
	1,414	(1,676)

The tax charge of the Group is reconciled as follows:

	Six months ended 30 June 2004	Six months ended 30 June 2003
IFRS profit before taxation in the Group's consolidated interim financial statements	**4,443**	1,801
Theoretical tax charge at statutory rate of 24% (2003: 24%)	**1,066**	432
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	**4**	25
Non-deductible expenses, net	**344**	321
Gain on derecognition of income tax liability (Note 31)	**-**	(2,454)
Other		
Income tax credit/(expense)	**1,414**	(1,676)

In general during the six months 2004 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 2004 (24% as at 31 December 2003).

(In millions of Russian Roubles)

31. Income tax expense /(credit) (continued)
Deferred tax liabilities

	31 December 2002	Movement for the six months 2003	30 June 2003	31 December 2003	Movement for the six months 2004	30 June 2004
Tax effects of temporary differences:						
Provisions on trade receivables	167	(1)	166	97	2	**99**
General and overhead expenses allocation on inventories	59	137	196	(58)	(36)	**(94)**
Effect of inflation and different depreciation rates of property, plant and equipment, effect of property, plant and equipment impairment	(9 699)	(208)	(9 907)	(9 629)	159	**(9 470)**
Impairment loss on investments	98	404	502	260	(318)	**(58)**
Accounts payable and provisions (vacation and annual leave accruals)	686	26	712	576	100	**676**
Discounting of long-term debt	(2 316)	(433)	(2 749)	(2 149)	12	**(2 137)**
Other temporary differences	243	81	324	79	143	**222**
Deferred tax liability	(10 762)	6	(10 756)	(10 824)	62	**(10 762)**

As at 30 June 2004 the Group has no subsidiaries which have deferred tax assets.

At 30 June 2004 the Company has available Russian tax losses amounting to RR 379. These will offset future taxable profits by 2013. The maximum offset in each year is limited to 30% of the total taxable profit of the reporting period.

32. Earnings per share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary and preference shares in issue during the period, excluding the average number of ordinary shares purchased by the Company and held as treasury shares (see Note 23).

	Six months ended 30 June 2004	Six months ended 30 June 2003
Weighted average number of preference shares outstanding (thousands)	4,930	4,930
Weighted average number of ordinary shares outstanding (thousands)	27,195	27,195
Adjusted for weighted average number of treasury shares (thousands)	(17,680)	(17,680)
Weighted average number of ordinary and preference shares outstanding (thousands)	14,445	14,445
Net income	2,936	2,823
Earnings per share, (basic/diluted) (in RR)	203	195

There are no dilution factors therefore basic earnings per share equal to diluted earnings per share.

33. Barter transactions

Included in sales are non-cash transactions amounting to RR 147 (six months ended 30 June 2003: RR 614). The transactions represent mainly sale of products in exchange for raw materials and services or cancellation of mutual balances with customers and suppliers within the operating activities.

(In millions of Russian Roubles)

34. Contingencies, commitments and guarantees

34.1 Contractual commitments and guarantees

As at 30 June 2004 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 1,142 (31 December 2003: RR 959).

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 interim financial statements.

The future aggregate minimum lease payments under non-cancellable operating leases of land are as follows:

	30 June 2004	30 June 2003
Not later than 1 year	**242**	227
Later than 1 year and not later than 5 years	**693**	622
Later than 5 years	**791**	711
	1,726	1,560

34.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 June 2004 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated interim financial statements.

34.3 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.

34.4 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.

34.5 Legal proceedings

During the six months ended 30 June 2004, 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.

35. Financial instruments and financial risk factors

35.1 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.

35.2 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 8% (2003: 9%) of total revenue, these sales are denominated in hard currency. Net foreign currency receivables amount to RR 2,383 (31 December 2003: RR 2,407). The Group has debt obligations of RR 7,928 (31 December 2003: RR 7,648) denominated in hard currency.

35.3 Interest rate risk

The majority of interest rates on debt are fixed, these are disclosed in Note 21. Existing interest rates can be changed subject to agreement by the parties. Assets are generally non-interest bearing.

36. 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 22 for the six months ended 30 June 2004 (six month ended 30 June 2003: RR 14).

37. Post balance sheet events

On 17 September 2004, the Group signed an agreement with Raiffeisen Zentralbank Oesterreich AG in order to make available to the Borrower a loan facility in the amount of U.S.$150 and then refinancing the liquidity in the Facility by way of arranging an issue to investors of limited recourse credit linked notes (CLN). The CLNs are issued at a fixed 11,75% interest rate and mature in 1 year. These CLNs carry 2 half yearly coupons. The rate of the both coupons was 5.875% per annum.