AVTOVAZ GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

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Report on Review of Interim Condensed Consolidated Financial Statements

To the shareholders of JSC AVTOVAZ

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of JSC AVTOVAZ ("the Group") as at 30 June 2009 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of matter

Without qualifying our review report, we draw attention to Note 27 to interim condensed consolidated financial statements that indicates that the Group incurred a net loss of RR 19,643 million during the six months ended 30 June 2009, and, as of that date, the Group current liabilities, including significant debts due in 2009, exceeded its current assets by RR 52,830 million. These conditions, including the Group's dependence on the refinancing of its current debt, indicate the existence of a material uncertainty which may cast significant doubts about the Group's ability to continue as a going concern. Management's plans to improve the Group's financial position and operating efficiency in context of anti-crisis support provided to the Group by the Government of the Russian Federation are also disclosed in Note 27 to the interim condensed consolidated financial statements.

Ernst & Young LLC

7 October 2009

AVTOVAZ GROUP
Interim Consolidated Statement of Financial Position
at 30 June 2009
(In millions of Russian Roubles)

	Note	30 June 2009 Unaudited	31 December 2008 Audited
ASSETS			
Current assets:			
Cash and cash equivalents	4	**8,914**	13,749
Trade receivables	5	**4,248**	3,750
Financial assets	6	**4,694**	8,742
Other current assets	7	**5,064**	10,055
Inventories	8	**29,767**	38,329
		52,687	74,625
Long-term assets:			
Property, plant and equipment	9	**79,783**	82,661
Financial assets	10	**7,194**	8,563
Investments in associates	11	**2,553**	1,613
Development costs	12	**11,125**	11,090
Other long-term assets	13	**2,427**	4,402
		103,082	108,329
Total assets		**155,769**	182,954
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables		**33,347**	42,200
Other payables and accrued expenses	14	**9,128**	14,519
Income tax liability		**14**	151
Taxes other than income tax	16	**1,911**	2,528
Provisions		**893**	1,162
Loans and borrowings	15	**58,216**	47,408
Advances from customers		**1,707**	1,255
Lease payables		**301**	363
		105,517	109,586
Long-term liabilities:			
Loans and borrowings	15	**1,695**	2,683
Taxes other than income tax		**1,356**	1,392
Provisions		**142**	221
Deferred tax liabilities		**3,820**	6,284
Lease payables		**445**	631
		7,458	11,211
Total liabilities		**112,975**	120,797
Equity attributable to equity holders of the Company			
Share capital	17	**37,001**	37,001
Currency translation adjustment		**1,861**	1,581
Retained earnings		**3,122**	22,602
		41,984	61,184
Minority interest		**810**	973
Total equity		**42,794**	62,157
Total liabilities and equity		**155,769**	182,954

O.V.Lobanov
Executive Vice-President, Chief Financial Officer
JSC AVTOVAZ

7 October 2009

S.A.Kochetkova
Chief Accountant, JSC AVTOVAZ –
Director for Accounting and Taxes

(In millions of Russian Roubles except for earnings per share)

	Note	Six months ended 30 June Unaudited 2009	2008
Sales	18	**53,077**	98,493
Cost of sales		**(51,801)**	(86,146)
Gross profit		**1,276**	12,347
Share of associates' income/(loss), including impairment provision	11	**(648)**	431
Idle time costs	19	**(5,722)**	-
Administrative expenses	20	**(8,231)**	(8,790)
Distribution costs		**(2,309)**	(4,481)
Research expenses		**(389)**	(188)
Other operating income	21	**2,599**	1,107
Other operating expenses	22	**(5,131)**	(797)
Operating loss		**(18,555)**	(371)
Finance income		**-**	511
Finance costs		**(3,961)**	(1,792)
Net gain from restructuring/forgiveness of tax debt	23	**417**	164
Loss before taxation		**(22,099)**	(1,488)
Income tax benefit/(expense)	24	**2,456**	(584)
Loss for the period		**(19,643)**	(2,072)
Currency translation adjustment		**280**	191
Total other comprehensive income for the period, net of taxes		**280**	191
Total comprehensive loss for the period, net of taxes		**(19,363)**	(1,881)
Loss attributable to:			
Equity holders of the Company		**(19,480)**	(2,149)
Minority interest		**(163)**	77
		(19,643)	(2,072)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(19,200)**	(1,958)
Minority interest..		**(163)**	77
Total comprehensive loss for the period, net of taxes		**(19,363)**	(1,881)
Weighted average number of shares outstanding during the period (thousands)		**1,850,054**	1,847,587
Loss per share, basic/diluted (in RR):			
- for loss for the period attributable to ordinary/preference equity holders of the Company		**(10.53)**	(1.16)

AVTOVAZ GROUP
Interim Consolidated Statement of Cash Flow
for the six months ended 30 June 2009
(In millions of Russian Roubles)

	Note	Six months ended 30 June Unaudited 2009	2008
Cash flows from operating activities:			
Loss before taxation		**(22,099)**	(1,488)
Adjustments for:			
Depreciation and amortisation		**5,044**	5,433
Provision for impairment of receivables	20	**1,101**	(35)
Provision for impairment of prepaid expenses and other receivables	20	**493**	84
Net gain from restructuring/forgiveness of tax debt	23	**(417)**	(164)
Recognition of fair value of government grant	21	**(1,872)**	-
Interest expense		**3,468**	1,652
Provision for impairment of current financial assets	22	**2,484**	149
Provision for impairment of long-term financial assets	22	**281**	-
Provision for impairment of of assets of subsidiary - real estate developer	22	**1,580**	-
Loss on impairment of property, plant and equipment		**28**	43
Loss on disposal of property, plant and equipment	22	**252**	106
Loss/(gain) on disposal of long-term financial assets		**7**	(73)
Share of associates' loss/(income), including impairment provision		**648**	(431)
Unrealised foreign exchange effect on non-operating balances		**149**	(280)
Operating cash flows before working capital changes		**(8,853)**	4,996
Change in gross trade receivables		**(1,526)**	623
Change in current financial and other assets, excluding loans and receivables of subsidiary bank		**6,404**	1,821
Change in inventories		**8,562**	(2,443)
Change in trade payables and other payables and accrued expenses		**(14,508)**	1,380
Change in tax liabilities other than income tax		**(303)**	1,130
Change in advances from customers		**449**	1,168
Change in loans and receivables of subsidiary bank		**452**	(55)
Cash (used in)/generated from operations		**(9,323)**	8,620
Income tax paid		**(145)**	(1,003)
Interest paid		**(3,590)**	(1,667)
Net cash (used in)/generated from operating activities		**(13,058)**	5,950
Cash flows from investing activities:			
Purchase of property, plant and equipment and capitalised development costs		**(2,995)**	(2,581)
Proceeds from the sale of property, plant and equipment		**70**	165
Purchase of subsidiary		**(98)**	-
Purchase of financial assets		**(21)**	(802)
Proceeds from the sale of financial assets		**269**	1,803
Dividends received		**2**	1,027
Net cash used in investing activities		**(2,773)**	(388)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**19,856**	13,432
Repayment of loans and borrowings		**(8,850)**	(22,919)
Dividends paid		**-**	(20)
Purchase of treasury shares		**-**	(16)
Sale of treasury shares		**-**	143
Net cash generated from/(used in) financing activities		**11,006**	(9,380)
Effect of exchange rate changes		**(10)**	(8)
Net decrease in cash and cash equivalents		**(4,835)**	(3,826)
Cash and cash equivalents at the beginning of the period	4	**13,749**	19,017
Cash and cash equivalents at the end of the period	4	**8,914**	15,191

(In millions of Russian Roubles)

	Note	Share capital	Treasury shares	Currency translation adjustment	Retained earnings	Total	Minority interest	Total equity
		Attributable to equity holders of the Company						
Balance at 31 December 2007		**64,251**	**(36,801)**	**930**	**56,458**	**84,838**	**1,739**	**86,577**
(Loss)/income for the six months ended 30 June 2008		-	-	-	(2,149)	(2,149)	77	(2,072)
Other comprehensive income		-	-	191	-	191	-	191
Total comprehensive (loss)/income for the six months ended 30 June 2008 (Unaudited)		**-**	**-**	**191**	**(2,149)**	**(1,958)**	**77**	**(1,881)**
Elimination of cross-shareholding		(27,250)	36,800	-	(9,100)	450	(450)	-
Purchase of treasury shares		-	(8)	-	(8)	(16)	-	(16)
Sale of treasury shares		-	9	-	134	143	-	143
Dividends		-	-	-	(536)	(536)	-	(536)
Balance at 30 June 2008 (Unaudited)		**37,001**	**-**	**1,121**	**44,799**	**82,921**	**1,366**	**84,287**
Balance at 31 December 2008	17	**37,001**	**-**	**1,581**	**22,602**	**61,184**	**973**	**62,157**
Loss for the six months ended 30 June 2009		-	-	-	(19,480)	(19,480)	(163)	(19,643)
Other comprehensive income		-	-	280	-	280	-	280
Total comprehensive (loss)/income for the six months ended 30 June 2009 (Unaudited)		**-**	**-**	**280**	**(19,480)**	**(19,200)**	**(163)**	**(19,363)**
Balance at 30 June 2009 (Unaudited)	**17**	**37,001**	**-**	**1,861**	**3,122**	**41,984**	**810**	**42,794**

1. Corporate information

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 2009 the Group employed 124,262 employees (31 December 2008: 130,698 employees). The registered office of JSC AVTOVAZ is in Yuzhnoye Shosse, 36, Togliatti, 445024, Russian Federation.

The Board of Directors took a decision to appoint I.A.Komarov the President of JSC AVTOVAZ on 28 August 2009.

These interim condensed consolidated financial statements were authorised for issue by the Executive Vice-President, Chief Financial Officer on 7 October 2009.

2. Basis of preparation of the interim condensed consolidated financial statements and summary of significant accounting policies

2.1 Basis of preparation of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements should be read in conjunction with AVTOVAZ Group's consolidated financial statements for the year ended 31 December 2008.

2.2 Accounting policies

Adopted accounting standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of new Standards and Interpretations as of 1 January 2009, noted below:

- IFRS 2 Share-based Payment - Vesting Conditions and Cancellations. The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- IFRS 7 Financial Instruments: Disclosures. The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures and the liquidity risk disclosures are not significantly impacted by the amendments.

- IFRS 8 Operating Segments. From 1 January 2009 IFRS 8 replaces IAS 14 Segment reporting. The new standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group.
  Additional disclosures about each of these segments are shown in Note 26, including revised comparative information.

- IAS 1 Revised Presentation of Financial Statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement.

- IAS 23 Borrowing Costs (Revised).The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the Standard this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

- IFRIC 13 Customer Loyalty Programmes. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Group does not have any loyalty programmes and the adoption of these amendments did not have any impact on the financial position or performance of the Group.

2. Basis of preparation of the interim condensed consolidated financial statements and summary of significant accounting policies (continued)

2.3 Accounting policies (continued)

- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement. These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. As the Group did not dispose of any net investment it has had no impact on the financial position or results. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- IAS 1 Presentation of Financial Statements: assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

- IAS 16 Property, Plant and Equipment: replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

- IAS 23 Borrowing Costs: the definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
IFRS 7 Financial Instruments: Disclosures;
IAS 8 Accounting Policies, Change in Accounting Estimates and Error;
IAS 10 Events after the Reporting Period;
IAS 16 Property, Plant and Equipment;
IAS 18 Revenue;
IAS 19 Employee Benefits;
IAS 20 Accounting for Government Grants and Disclosures of Government Assistance;
IAS 27 Consolidated and Separate Financial Statements;
IAS 28 Investment in Associates;
IAS 31 Interest in Joint ventures;
IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation;
IAS 34 Interim Financial Reporting;
IAS 36 Impairment of Assets;
IAS 38 Intangible Assets: Expenditure on advertising and promotional activities;
IAS 39 Financial Instruments: Recognition and Measurement.

(In millions of Russian Roubles)

3. Balances and transactions with related parties

3.1 Balances with related parties

For the purpose of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 30 June 2009 and 31 December 2008 are detailed below.

Consolidated statement of financial position caption	Relationship	Unaudited 30 June 2009	31 December 2008
Cash and cash equivalents	Associates	**1,551**	-
Trade receivables before provision	Associates	**1,179**	374
Provision for impairment of receivables	Associates	**(5)**	(5)
Financial assets - current	Associates	**1,023**	686
Impairment provision for financial assets	Associates	**(428)**	-
Financial assets – long-term	Associates	**1,700**	-
Trade payables	Associates	**644**	715
Trade payables	Shareholders	**7,443**	7,051
Loans and borrowings	Shareholders	**13,348**	-
Loans and borrowings	Associates	**43**	-
Assets receipt as collateral	Associates	**-**	12
Assets pledged as collateral	Associates	**251**	-

3.2 Transactions with related parties

The income and expense items with related parties for the six months ended 30 June 2009 and 30 June 2008 were as follows (net of VAT):

Consolidated statement of comprehensive income caption	Relationship	Unaudited Six months ended 30 June 2009	Six months ended 30 June 2008
Sales	Associates	**3,137**	4,167
Purchases	Associates	**1,827**	3,437
Interest receivable	Associates	**120**	-
Administrative expenses	Short-term employee benefits - compensation of the Key Management – the Board of Directors	**53**	56

The sales to and purchases of inventories from related parties are made at normal market prices.

During the six months ended 30 June 2009 a loan in the amount of RR 15,220 was received from State Corporation Russian Technologies, a shareholder owning 25% interest in the Company, see Notes 15 and 21.

During the six months ended 30 June 2009 the Company paid RR 220 (six months ended 30 June 2008: RR 188) to Non-State Pension Fund of JSC AVTOVAZ.

4. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Unaudited 30 June 2009	31 December 2008
Short-term bank promissory notes and deposits	**1,512**	2,368
Rouble denominated cash on hand and balances with banks	**7,402**	11,381
	8,914	13,749

(In millions of Russian Roubles)

5. Trade receivables

The ageing analysis of trade receivables is as follows:

	Trade receivables	Neither past due nor impaired	Past due but not impaired: < 3 months	3 to 6 months	6 to 12 months
31 December 2008	3,750	3,312	288	117	33
30 June 2009	**4,248**	**3,505**	**391**	**258**	**94**

As at 30 June 2009 provision for impairment of trade receivables amounted to RR 1,696 (31 December 2008: RR 595), see Note 20.

6. Financial assets – current

Current financial assets consist of the following:

	Unaudited 30 June 2009	31 December 2008
Rouble denominated loans and receivables less provision	**3,077**	2,551
Financial assets at fair value through profit or loss	**258**	423
Available-for-sale financial assets:		
Bank promissory notes (with original maturities of more than three months)	**309**	4,296
Promissory notes of third parties	**975**	1,450
Deposit accounts	**75**	22
	4,694	8,742

As at 30 June 2009 provision for impairment of current financial assets amounted to RR 3,278 (31 December 2008: RR 794). For the six months ended 30 June 2009 provision for impairment of current financial assets was RR 2,484 (for the six months ended 30 June 2008: RR 149), see Note 22.

7. Other current assets

Other current assets consist of the following:

	Unaudited 30 June 2009	31 December 2008
Prepaid expenses and other receivables less provision	**2,878**	4,058
Value added tax	**2,039**	5,282
Construction in progress in relation to real estate for resale	**147**	715
	5,064	10,055

As at 30 June 2009 provision for impairment of other current assets was RR 3,176 (31 December 2008: RR 1,524). For the six months ended 30 June 2009 provision for impairment of other current assets was RR 1,652 (for the six months ended 30 June 2008: RR 84), including provision for impairment of assets of subsidiary - real estate developer in the amount of RR 1,159 (for the six months ended 30 June 2008: nil), see Note 20 and 22.

8. Inventories

Inventories consist of the following:

	Unaudited 30 June 2009	31 December 2008
Raw materials	**10,053**	11,807
Work in progress	**3,381**	3,953
Finished goods	**16,333**	22,569
	29,767	38,329

Inventories were recorded at net realisable value net of corresponding provision of RR 2,172 as at 30 June 2009 (31 December 2008: RR 1,076).

The cost of write-down of inventories recognised as an expense for the six months ended 30 June 2009 amounted to RR 170 (for the six months ended 30 June 2008: RR 68).

(In millions of Russian Roubles)

9. Property, plant and equipment

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

	Unaudited
Balance at 31 December 2007	**97,707**
Additions	2,246
Disposals	(271)
Depreciation and impairment	(4,607)
Balance at 30 June 2008	**95,075**
Balance at 31 December 2008	**82,661**
Additions	2,386
Disposals	(322)
Depreciation and impairment	(4,942)
Balance at 30 June 2009	**79,783**

10. Financial assets – long-term

Long-term financial assets consist of the following:

	Unaudited 30 June 2009	31 December 2008
Loans and receivables of subsidiary bank ZAO CB LADA-CREDIT net of provision	**4,701**	6,018
Loans issued	**898**	922
Available-for-sale financial assets	**426**	423
Financial assets held to maturity	**1,169**	1,200
	7,194	8,563

ZAO CB ABD was renamed to ZAO CB LADA-CREDIT in 2009.

As at 30 June 2009 provision for impairment of long-term financial assets was RR 943 (31 December 2008: RR 662), see Note 22.

11. Investments in associates

	Unaudited
Balance at 31 December 2007	**2,411**
Share of income	431
Dividends received	(1,027)
Balance at 30 June 2008	**1,815**
Balance at 31 December 2008	**1,613**
Additions	1,605
Share in income	45
Provision for impairment of the investment	(693)
Disposals	(15)
Dividends received	(2)
Balance at 30 June 2009	**2,553**

Investments in associates consist of the following:

	30 June 2009	31 December 2008
ZAO GM-AVTOVAZ	**1,250**	1,254
ZAO CB NOVIKOMBANK	**930**	-
Other	**373**	359
Total	**2,553**	1,613

(In millions of Russian Roubles)

11. Investments in associates (continued)

During the six months ended 30 June 2009 the Company acquired 20% of shares in ZAO CB NOVIKOMBANK for RR 1,605. The Group assessed its investment in the bank for impairment and as a result, as at 30 June 2009 an impairment loss of RR 693 was recorded in the statement of comprehensive income.

12. Development costs

	Capitalised cost for products under development	Capitalised development cost for products currently in use	Total
Cost			
Balance at 31 December 2007	3,159	2,582	5,741
Additions	349	-	349
Transfers	(1,873)	1,873	-
Balance at 30 June 2008	**1,635**	**4,455**	**6,090**
Amortization			
Balance at 31 December 2007	-	(544)	(544)
Amortization	-	(867)	(867)
Balance at 30 June 2008	**-**	**(1,411)**	**(1,411)**
Carrying amount at 30 June 2008	**1,635**	**3,044**	**4,679**
Cost			
Balance at 31 December 2008	9,798	4,455	14,253
Additions	165	-	165
Transfers	(161)	161	-
Balance at 30 June 2009	**9,802**	**4,616**	**14,418**
Amortization			
Balance at 31 December 2008	-	(3,163)	(3,163)
Amortization	-	(130)	(130)
Balance at 30 June 2009	**-**	**(3,293)**	**(3,293)**
Carrying amount at 30 June 2009	**9,802**	**1,323**	**11,125**

13. Other long-term assets

Other long-term assets include the following:

	Unaudited 30 June 2009	31 December 2008
Prepayments for long-term assets	**1,098**	2,008
Long-term rent of property	**836**	845
Intangible assets, other than development costs	**230**	201
Software	**177**	227
Long-term receivables	**86**	34
Construction in progress in relation to real estate for resale	**-**	1,087
	2,427	4,402

As at 30 June 2009 construction in progress in relation to real estate for resale is shown net of provision for impairment of RR 482 (31 December 2008: RR 61), see Note 22.

(In millions of Russian Roubles)

14. Other payables and accrued expenses

Other payables and accrued expenses include the following:

	Unaudited 30 June 2009	31 December 2008
Salaries payable and vacation accrual	**3,744**	5,499
Advances received by the subsidiary-real estate developer	**1,465**	1,659
Settlements on promissory note transactions	**1,061**	4,000
Unearned insurance premiums and reserves for claims	**943**	1,157
Dividends payable	**190**	190
Accrued interest	**134**	256
Other	**1,591**	1,758
	9,128	14,519

The majority of the above balances are rouble-denominated and not interest bearing.

15. Loans and borrowings

	Unaudited 30 June 2009	31 December 2008
Short-term loans and borrowings	**58,216**	47,408
Long-term loans and borrowings	**1,695**	2,683
	59,911	50,091

Short-term and long-term loans and borrowings comprise loans and borrowings at fixed interest rates.

During the six months ended 30 June 2009 the Company fully redeemed its bonds of series BO-02, BO-03 and BO-04 traded on stock exchange at a nominal value of RR 3,000. As a result of the Company's offer in May 2009, the Company also redeemed its corporate bonds of series 04 in the total amount of RR 432.

In June 2009 a contract was signed with State Corporation Russian Technology on granting JSC AVTOVAZ an interest-free loan in the amount of RR 25,000 for a period of 12 months from the date of loan receipt. As at 30 June 2009 the Company received RR 15,220 of the loan under this contract. The loan was recorded at fair value determined as future cash flows discounted at the current market rate of 14.64%. The benefit of the below-market rate of interest was accounted for in accordance with IAS 20.10A and treated as government grant as the loan was received from the state corporation. The fair value of government grant in the amount of RR 1,872 was recognised immediately, see Note 21.

16. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable comprise the following:

	Unaudited 30 June 2009	31 December 2008
Property and other taxes	**744**	790
Social taxes	**499**	464
Value added tax	**468**	487
Current portion of restructured taxes	**152**	699
Penalties and interest on property and other taxes	**48**	88
	1,911	2,528

(In millions of Russian Roubles)

17. Share capital

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

	30 June 2009			31 December 2008		
	No. of shares	**Legal statutory value**	**Carrying amount**	No. of shares	Legal statutory value	Carrying amount
Class A preference	461,764,300	2,309	9,235	461,764,300	2,309	9,235
Ordinary	1,388,289,720	6,941	27,766	1,388,289,720	6,941	27,766
Total outstanding share capital	**1,850,054,020**	**9,250**	**37,001**	**1,850,054,020**	**9,250**	**37,001**

In June 2009 the Annual Shareholders Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2008 (2008: 0.29 Roubles per preference share and 0.29 Roubles per ordinary share). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

18. Sales

The components of sales revenue were as follows:

	Unaudited	
	Six months ended 30 June 2009	Six months ended 30 June 2008
Finished vehicles and assembly kits of own production	**36,886**	75,154
Dealership sales of other producers' vehicles	**7,268**	12,940
Automotive components of own production	**2,468**	2,934
Other sales	**6,455**	7,465
	53,077	98,493
Domestic sales	**40,157**	72,892
Sales in EU countries	**8,940**	13,731
Other sales	**3,980**	11,870
	53,077	98,493

19. Idle time costs

The components of idle time costs were as follows:

	Unaudited	
	Six months ended 30 June 2009	Six months ended 30 June 2008
Labour costs	**4,126**	-
Depreciation	**1,275**	-
Other costs	**321**	-
	5,722	-

Idle time costs represent costs incurred by the Group when production of vehicles was suspended.

(In millions of Russian Roubles)

20. Administrative expenses

The components of administrative expenses were as follows:

	Unaudited	
	Six months ended 30 June 2009	Six months ended 30 June 2008
Labour costs	**3,442**	5,148
Provision for impairment of trade receivables (Note 5)	**1,101**	(35)
Local and regional taxes	**938**	982
Third parties services	**553**	469
Provision for impairment of prepaid expenses and other receivables (Note 7)	**493**	84
Materials	**275**	332
Depreciation	**254**	276
Transportation	**253**	313
Rent	**219**	245
Bank services	**109**	160
Others	**594**	816
	8,231	8,790

21. Other operating income

The components of other operating income were as follows:

	Unaudited	
	Six months ended 30 June 2009	Six months ended 30 June 2008
Recognition of fair value of government grant (Note 15)	**1,872**	-
Interest receivable	**205**	460
Gains from refund of loan interest from Federal Budget	**189**	316
Gain on disposal of subsidiary	**188**	-
Other operating income	**145**	331
	2,599	1,107

22. Other operating expenses

The components of other operating expenses were as follows:

	Unaudited	
	Six months ended 30 June 2009	Six months ended 30 June 2008
Provision for impairment of current financial assets (Note 6)	**2,484**	149
Provision for impairment of assets of subsidiary - real estate developer (Notes 7 and 13)	**1,580**	-
Provision for impairment of long-term financial assets (Note 10)	**281**	-
Loss on disposal of property, plant and equipment	**252**	106
Other operating expenses	**534**	542
	5,131	797

23. Net gain from restructuring/forgiveness of tax debt

Significant changes in long-term taxes occurred due to the change in terms of restructuring of tax liability due to Federal budget. In accordance with Government Resolution No. 259 dated 30 March 2009 the payment schedule for restructured taxes due to Federal Budget was changed and the final redemption was postponed from 2010 until 2017. The changes to the terms of restructuring were considered to be an exchange of debt instruments with substantially different terms, and were accounted for as an extingushment of the original financial liability and the recognition of a new financial liability, with the recognition of gain on restructuring in the amount of RR 417. Fair value of the new liability was determined using the market interest rate of 13% per annum.

(In millions of Russian Roubles)

24. Income tax (benefit)/expense

	Unaudited	
	Six months ended 30 June 2009	Six months ended 30 June 2008
Income tax expense – current	**8**	1,018
Deferred tax benefit	**(2,464)**	(434)
	(2,456)	584

For the six months ended 30 June 2009 the Company incurred tax loss in the amount of RR 12,644 (for the six months ended 30 June 2008: nil) which can be offset against future taxable profit during the period of 10 years from origination.

25. Contingencies, commitments and guarantees

25.1 Contractual commitments and guarantees

As at 30 June 2009 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 2,191 (31 December 2008: RR 795). In addition, the Group issued financial guarantees to third parties in the amount of RR 12 (31 December 2008: RR 19). There are no other commitments and guarantees in favour of third parties or related companies that are not disclosed in these interim condensed consolidated financial statements.

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

	Unaudited	
	30 June 2009	31 December 2008
Not later than 1 year	**230**	260
Later than 1 year and not later than 5 years	**608**	772
Later than 5 years	**1,006**	1,211
	1,844	2,243

The amount of lease payments recognized as an expense for the six months ended 30 June 2009 was RR 130 (for the six months ended 30 June 2008: RR 131).

25.2 Taxation

Russian tax 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.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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.

Management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions as at 30 June 2009 will be sustained.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

25.3 Environmental matters

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.

25.4 Legal proceedings

During the six months ended 30 June 2009, 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 effect on the result of operations or financial position of the Group.

(In millions of Russian Roubles)

26. Segment information

For management purposes, the Group is organised into business units based on their products and services, and has the following reportable operating segments:

- Automotive - production and sale of vehicles, assembly kits and automotive components of own production done by the Company;
- Dealership network - sales and services provided by technical centres;
- Other segments – information about other business activities and operating segments that are not reportable based on quantitative thresholds was combined and disclosed as "Other segments". Other segments include banking activity of subsidiary bank ZAO CB LADA-CREDIT, insurance activities of insurance companies, utility and electricity supply subsidiaries.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on financial information prepared in accordance with statutory accounting rules, which in a number of respects, as explained in the table below, differs from the consolidated financial statements.

Transactions between the business segments are done on normal commercial terms and conditions.

The following table presents revenue, profit and assets information regarding the Group's operating segments:

	Automotive		**Dealership network**		**Other segments**		**Eliminations**		**Total**	
Six months ended 30 June	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Revenue	40,216	81,418	21,064	39,602	7,751	8,433	(15,954)	(30,960)	53,077	98,493
Segment (loss)/profit for the period	(14,103)	1,486	(934)	458	(129)	219	-	-	(15,166)	2,163
IFRS adjustments										
Recognition of fair value of government grant									1,872	-
Recognition of fair value of restructured taxes									417	164
Impairment of the Group's assets									(4,499)	(601)
Additional expense on fixed assets depreciation recognised in accordance with IAS 29									(706)	(893)
Dividends received from associate company									(2)	(1,027)
Others									(1,559)	(1,878)
IFRS loss for the period									**(19,643)**	**(2,072)**

Inter-segment revenues are eliminated on consolidation.

Impairment of Groups' assets includes impairment of assets of subsidiary – real estate developer of RR 1,580 (for six months ended 30 June 2008: nil), impairment of trade and other receivables of RR 1,594 (for six months ended 30 June 2008: RR 452) and impairment of current financial assets of RR 1,325 (for six months ended 30 June 2008: RR 149).

(In millions of Russian Roubles)

26. Segment information (continued)

	Automotive		Dealership network		Other segments		Eliminations		Total	
	30 June 2009	31 December 2008	30 June 2009	31 December 2008	30 June 2009	31 December 2008	30 June 2009	31 December 2008	30 June 2009	31 December 2008
Segment assets	131,022	148,500	19,415	23,182	22,378	18,359	(14,062)	(9,035)	158,753	181,006
IFRS adjustments:										
Remeasurment of fixed assets in accordance with IAS 29									20,154	21,837
Impairment of fixed assets									(13,311)	(13,828)
Capitalization of development costs									5,520	5,587
Impairment of the Group's assets except for fixed assets									(12,637)	(7,203)
Others									(2,710)	(4,445)
IFRS total assets									**155,769**	**182,954**

Impairment of Groups' assets includes impairment of inventory of RR 3,206 (31 December 2008: RR 3,268), impairment of investments of RR 2,524 (31 December 2008: RR 1,527), impairment of assets of subsidiary – real estate developer of RR 1,807 (31 December 2008: RR 227), impairment of trade and other receivables of RR 2,494 (31 December 2008: RR 900) and impairment of current financial assets of RR 2,606 (31 December 2008: RR 1,281).

27. Going concern

The crisis in the financial sector of the Russian economy has negatively affected automotive market. Limitation of loan-granting to dealers and final customers imposed by banks, customers' doubt to make significant investments during the crisis have become serious impediments for all players – suppliers, automakers and dealers. These negative factors result in decrease in demand for the Group's products. In addition, it has placed increasing pressures on the Group's financial resources and worsened liquidity. Decrease in sales and car production volume resulted in significant losses. For the six months of 2009 the Group incurred a net loss of RR 19,643 and its current liabilities exceeded its current assets by RR 52,830. Net cash outflow from operating activities was RR 13,058. The Group's revenue decreased by RR 45,416 compared to the same period of 2008 and amounted to RR 53,077. For the six months ended 30 June 2009 sales of Lada vehicles amounted to 169 thousand units (for the six months ended 30 June 2008: 378 thousand units). In addition to operating losses, the Group need to refinance RR 47 billion of loans and borrowings before 30 June 2010.

In early 2009 the Group's management prepared an Anti-crisis Program of JSC AVTOVAZ approved by the Board of Directors on 31 March 2009. The Anti-crisis Program contains actions to sustain operating activities and address liquidity needs in 2009 and beyond:

- Stimulate consumer demand (promote autoloan program and extend sales geography);
- Develop spare parts business and other services for car owners and buyers;
- Negotiate decrease in purchase prices for materials and components;
- Perform reengineering of the existing car models to cut costs without compromising in quality;
- Optimize logistics and reduce stock;
- Reduce expenses for repair of equipment and constructions;
- Reduce administrative expenses (reduce salaries);
- Optimization of the number of personnel;
- Dispose of non-core assets and outsource non-commercial activities;
- Change terms of the Collective Agreement as related to payments for idle hours and reduce social burden; and
- Restructure debt-servicing payments.

27. Going concern (continued)

In addition to anti-crisis measures, the management has worked out the following additional actions:

- Obtain compensation from government of the Company's expenditures to pay idle time to employees in January to August 2009 and termination payments to the employees in the form of subsidies from the federal budget;
- Transfer of non-profitable assets from JSC AVTOVAZ balance sheet to the local authorities;
- Recommend the government to form governmental orders for JSC AVTOVAZ vehicles for 2010;
- Recommend the Russian Ministry of Finance to grant JSC AVTOVAZ with tax relief for property tax and land tax for the period of five years;
- Recommend the Russian Ministry of Industry and Trade to develop a program of stimulating recycle of old vehicles and mechanisms of subsiding a part of cost of new Russian-made vehicles;
- Recommend VEB to buy JSC AVTOVAZ bonds;
- Agree on providing state guarantees for JSC AVTOVAZ's loans to be used on finance of the current activities and working capital;
- Grant JSC AVTOVAZ a subsidy from the federal budget to compensate interest on loans received from 1 September 2008 in the amount of 100% of the refinancing rate of the Central Bank of Russia.

On 29 September 2009 the Company's Board of Directors approved changes to the Anti-crisis Program and strategic initiatives of long-term production and investment program till 2014.

A long-term development plan contains strategic goals as follows:

- Avoid bankruptcy and ensure positive return on capital employed;
- Maintain leader's position in the domestic market of passenger vehicles;
- Keep low prices for produced cars and ensure return on sales;
- Update model range;
- Achieve new quality levels;
- Decrease overhead costs;
- Carry out production dimensional scaling and reorganisation; and
- Arrange additional jobs in the industry.

Without the continued support of the Russian government and its related institutions during 2009 and 2010 to assist in facilitating the refinancing of the Group's debt obligations and securing additional borrowings as needed, the financial and market conditions discussed above create a material uncertainty that gives rise to significant doubt about the Group's ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

While there remains uncertainty as to the Group's ability to achieve its short-term objectives of improving product demand, reducing its operating costs and improving profitability, and refinancing its debt obligations, management is confident that those objectives will be achieved and the Group continues as a going concern and has no plans or need to discontinue operations.

28. Post balance sheet events

As part of anti-crisis measures, in September 2009 President of the Company I.A.Komarov and trade union of the Company agreed on the decrease in personnel by 27,600 employees. Future termination payments to the employees will be more than RR 4 billion.

In September 2009 following a court decision the Group's subsidiary Delta Motor Group operates in creditors' protected regime. Delta Motor Group is currently working on their restructuring plan.