AVTOVAZ GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2010

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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 condensed consolidated financial statements of JSC AVTOVAZ and its subsidiaries ("the Group"), comprising the interim consolidated statement of financial position as at 30 June 2010 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 statements 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.

Ernst & Young LLC

30 September 2010

(In millions of Russian Roubles)

	Note	30 June 2010 Unaudited	31 December 2009 Audited
ASSETS			
Current assets:			
Cash and cash equivalents	4	**11,259**	9,864
Trade receivables	5	**4,786**	2,363
Financial assets	6	**933**	929
Inventories	7	**18,361**	22,696
Other current assets	8	**4,525**	2,881
		39,864	38,733
Long-term assets:			
Property, plant and equipment	9	**56,941**	60,065
Financial assets	11	**7,469**	2,382
Investments in associates	12	**3,277**	2,972
Development costs	10	**10,390**	10,341
Deferred tax assets		**560**	1,244
Other long-term assets	13	**985**	1,057
		79,622	78,061
Assets of disposal group classified as held for sale		**3,793**	4,406
Total assets		**123,279**	121,200
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables		**13,640**	13,936
Other payables and accrued expenses	14	**7,240**	7,092
Income tax liability		**334**	397
Taxes other than income tax	16	**3,556**	1,871
Provisions		**1,139**	988
Loans and borrowings	15	**13,081**	65,690
Advances from customers		**1,991**	1,317
Lease payables		**343**	416
		41,324	91,707
Long-term liabilities:			
Loans and borrowings	15	**64,038**	14,242
Taxes other than income tax		**1,149**	1,149
Provisions		**591**	711
Deferred tax liabilities		**447**	467
Lease payables		**102**	315
		66,327	16,884
Liabilities directly associated with disposal group classified as held for sale		**1,011**	741
Total liabilities		**108,662**	109,332
Equity attributable to equity holders of the Company			
Share capital	17	**37,001**	37,001
Currency translation adjustment		**198**	506
Accumulated losses		**(23,293)**	(26,327)
		13,906	11,180
Non-controlling interests		**711**	688
Total equity		**14,617**	11,868
Total liabilities and equity		**123,279**	121,200

O.V.Lobanov
Executive Vice-President, Chief Financial Officer
JSC AVTOVAZ
30 September 2010

S.A.Kochetkova
Chief Accountant, JSC AVTOVAZ

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

	Note	Six months ended 30 June Unaudited 2010	2009
Sales	18	**61,984**	44,859
Cost of sales	19	**(55,848)**	(44,240)
Gross profit		**6,136**	619
Administrative expenses	22	**(5,376)**	(6,051)
Distribution costs	21	**(2,876)**	(2,134)
Idle time costs	20	**(387)**	(5,722)
Research expenses		**(191)**	(389)
Share of associates' profit/(loss)	12	**407**	(648)
Other operating income	23	**10,864**	2,292
Other operating expenses	24	**(938)**	(5,078)
Operating profit/(loss)		**7,639**	(17,111)
Finance income		**1,526**	205
Finance costs		**(5,425)**	(3,904)
Net gain from restructuring/forgiveness of tax debt		**-**	417
Profit/(loss) before taxation		**3,740**	(20,393)
Income tax (expense)/ benefit	25	**(752)**	2,479
Profit/(loss) from continuing operations		**2,988**	(17,914)
Discontinued operations			
Profit/(loss) after tax from discontinued operations	26	**69**	(1,729)
Profit/(loss) for the period		**3,057**	(19,643)
Currency translation adjustment		**(308)**	280
Total other comprehensive (loss)/income for the period, net of taxes		**(308)**	280
Total comprehensive income/(loss) for the period, net of taxes		**2,749**	(19,363)
Profit/(loss) attributable to:			
Equity holders of the Company		**3,034**	(19,480)
Non-controlling interests		**23**	(163)
		3,057	(19,643)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**2,726**	(19,200)
Non-controlling interests		**23**	(163)
Total comprehensive income/(loss) for the period, net of taxes		**2,749**	(19,363)
Weighted average number of shares outstanding during the period (thousands)		**1,850,054**	1,850,054
Profit/(loss) per share, basic/diluted (in RR):			
-for profit/(loss) for the period attributable to ordinary/preference equity holders of the Company		**1.64**	(10.53)
-for profit/(loss) for the period from continuing operations attributable to ordinary/preference equity holders of the Company		**1.60**	(9.59)

(In millions of Russian Roubles)

	Note	Six months ended 30 June Unaudited 2010	2009
Cash flows from operating activities:			
Profit/(loss) before taxation from continuing operations		**3,740**	(20,393)
Profit/(loss) before taxation from discontinued operations		**78**	(1,706)
Profit/(loss) before taxation		**3,818**	(22,099)
Adjustments for:			
Depreciation and amortization	9, 10	**4,583**	5,044
Write off of capitalised development costs	10	**191**	-
(Reversal)/accrual of provision for impairment of receivables from continuing operations	22	**(111)**	487
Provision for impairment of receivables from discontinued operations		**-**	614
Provision for impairment of other current assets from continuing operations	22	**244**	493
(Reversal)/accrual of provision for impairment of financial assets from continuing operations	23, 24	**(195)**	2,583
Provision for impairment of financial assets from discontinued operations		**-**	182
Provision for impairment of assets of subsidiary - real estate developer	24	**85**	1,580
Interest expense		**5,136**	3,468
(Reversal)/accrual of provision for impairment of property, plant and equipment		**(113)**	28
Net gain from restructuring/forgiveness of tax debt		**-**	(417)
Loss on disposal of property, plant and equipment	24	**296**	252
Share of associates' (income)/loss	12	**(407)**	648
Government grant on discounting of interest-free loan	15, 23	**(8,392)**	(1,872)
Loss on disposal of long-term financial assets		**1**	7
Unrealised foreign exchange effect on non-operating balances		**(1,087)**	149
Operating cash flows before working capital changes		**4,049**	(8,853)
Change in trade receivables		**(2,312)**	(1,526)
Change in current financial and other assets		**(1,144)**	6,856
Change in inventories		**4,335**	8,562
Change in trade payables and other payables and accrued expenses		**204**	(14,508)
Change in tax liabilities other than income tax		**1,685**	(303)
Change in advances from customers		**674**	449
Cash from / (used in) operations		**7,491**	(9,323)
Income tax paid		**(151)**	(145)
Interest paid		**(2,698)**	(3,590)
Net cash from / (used in) operating activities		**4,642**	(13,058)
Cash flows from investing activities:			
Purchase of property, plant and equipment and capitalised development costs		**(1,922)**	(2,995)
Proceeds from the sale of property, plant and equipment		**40**	70
Purchase of a subsidiary		**-**	(98)
Purchase of financial assets		**(5,300)**	(21)
Proceeds from the sale of financial assets		**106**	269
Dividends received	12	**102**	2
Net cash used in investing activities		**(6,974)**	(2,773)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**43,040**	19,856
Repayment of loans and borrowings		**(39,307)**	(8,850)
Net cash generated from financing activities		**3,733**	11,006
Effect of exchange rate changes		**(6)**	(10)
Net increase / (decrease) in cash and cash equivalents		**1,395**	(4,835)
Cash and cash equivalents at the beginning of the period		**9,864**	13,749
Cash and cash equivalents at the end of the period		**11,259**	8,914

(In millions of Russian Roubles)

		Attributable to equity holders of the Company					
	Note	Share capital	Currency translation adjustment	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at 31 December 2008		**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 income/ (loss) 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**
Balance at 31 December 2009	17	**37,001**	**506**	**(26,327)**	**11,180**	**688**	**11,868**
Profit for the six months ended 30 June 2010		-	-	3,034	3,034	23	3,057
Other comprehensive loss		-	(308)	-	(308)	-	(308)
Total comprehensive (loss)/income for the six months ended 30 June 2010 (Unaudited)		**-**	**(308)**	**3,034**	**2,726**	**23**	**2,749**
Balance at 30 June 2010 (Unaudited)	17	**37,001**	**198**	**(23,293)**	**13,906**	**711**	**14,617**

(In millions of Russian Roubles)

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 region of the Russian Federation. 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 2010 the Group employed 100,618 employees (31 December 2009: 103,852 employees). The registered office of JSC AVTOVAZ is in Yuzhnoye Shosse, 36, Togliatti, 445024, the Russian Federation.

These interim condensed consolidated financial statements were authorised for issue by the Executive Vice-President, Chief Financial Officer on 30 September 2010.

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 2009.

2.2 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 2009, except for the adoption of new standards and interpretations as of 1 January 2010, noted below:

IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor performance of the Group.

IFRIC 17 Distribution of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

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 2010 and 31 December 2009 are detailed below.

Consolidated statement of financial position caption	Relationship	**Unaudited 30 June 2010**	31 December 2009
Cash and cash equivalents	Associate bank	**1,850**	344
Trade receivables before provision accrual	Associates	**666**	529
Provision for impairment of receivables	Associates	**-**	(2)
Financial assets before provision accrual	Associates	**523**	574
Provision for impairment of financial assets	Associates	**(373)**	(424)
Other current assets before provision accrual	Associates	**62**	92
Provision for impairment of other current assets	Associates	**(39)**	(45)
Financial assets – long-term	Associate bank	**2,000**	1,700
Trade payables	Associates	**1,154**	667
Loans and borrowings	Shareholder	**56,301**	29,151
Loans and borrowings	Associate bank	**-**	626
Collateral issued by the Company against loans obtained from associate bank	Associate bank	**57**	1,116

(In millions of Russian Roubles)

3. Balances and transactions with related parties (continued)

3.2 Transactions with related parties

The income and expense items with related parties for the six months ended 30 June 2010 and 30 June 2009 were as follows:

Consolidated statement of comprehensive income caption	Relationship	**Unaudited** Six months ended 30 June 2010	Six months ended 30 June 2009
Sales	Associates	**3,018**	3,137
Purchases	Associates	**1,337**	1,827
Interest income	Associates	**77**	120
Interest expenses	Associates	**2**	-
Administrative expenses	Short-term employee benefits - compensation of the Key Management – the Board of Directors	**60**	53

Terms and conditions of transactions with related parties

The sales and purchases from related parties are made at normal market prices and are shown net of VAT.

Loans received from the Russian Technologies State Corporation are interest-free. See Note 15 for details.

During the six months ended 30 June 2010 the Company paid RR 23 to Non-State Pension Fund of JSC AVTOVAZ (for the six months ended 30 June 2009: RR 220).

4. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Unaudited 30 June 2010	31 December 2009
Short-term bank promissory notes and deposits	**6,011**	7,740
Rouble-denominated cash on hand and balances with banks	**5,248**	2,124
	11,259	9,864

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 2009	2,363	1,964	277	35	87
30 June 2010	**4,786**	**4,049**	**418**	**214**	**105**

As at 30 June 2010 provision for impairment of trade receivables was RR 1,686 (31 December 2009: RR 1,807). For the six months ended 30 June 2010 reversal of provision for impairment of trade receivables was RR 111 (accrual of provision for impairment for the six months ended 30 June 2009: RR 487), see Note 22.

6. Financial assets – current

Current financial assets consisted of the following:

	Unaudited 30 June 2010	31 December 2009
Rouble-denominated loans less provision	**505**	465
Financial assets at fair value through profit or loss	**61**	107
Available-for-sale financial assets:		
Bank promissory notes (with original maturities of more than three months)	**250**	261
Promissory notes of third parties	**-**	11
Deposit accounts	**117**	85
	933	929

(In millions of Russian Roubles)

6. Financial assets – current (continued)

As at 30 June 2010 provision for impairment of current financial assets was RR 2,528 (31 December 2009: RR 3,307). During six months ended 30 June 2010 current financial assets in the amount of RR 584 including the respective provision for impairment were reclassified to other current assets.

For the six months ended 30 June 2010 reversal of provision for impairment of current financial assets was RR 195 (accrual of provision for impairment for the six months ended 30 June 2009: RR 2,454), see Notes 23, 24.

7. Inventories

Inventories consisted of the following:

	Unaudited 30 June 2010	31 December 2009
Raw materials	**8,764**	8,874
Work in progress	**3,095**	2,800
Finished goods	**6,502**	11,022
	18,361	22,696

Inventories are recorded net of obsolescence provision of RR 1,247 at 30 June 2010 (31 December 2009: RR 2,060). The carrying amount of finished goods recorded at net realisable value as at 30 June 2010 was RR 171 (31 December 2009: RR 9,559).

The reversal of write-down of inventories recognised as an income for the six months ended 30 June 2010 was RR 813 (as an expense for the six months ended 30 June 2009: RR 170).

8. Other current assets

Other current assets consisted of the following:

	Unaudited 30 June 2010	31 December 2009
Prepaid expenses and other receivables less provision	**2,069**	1,594
Value added tax	**1,376**	1,234
Receivables from the government under the car scrappage programme	**914**	-
Construction in progress in relation to real estate for resale	**166**	53
	4,525	2,881

As at 30 June 2010 provision for impairment of other current assets was RR 4,283 (31 December 2009: RR 3,680). During six months ended 30 June 2010 current financial assets in the amount of RR 584 including the respective provision for impairment were reclassified to other current assets.

For the six months ended 30 June 2010 accrual of provision for impairment of other current assets was RR 275 (for the six months ended 30 June 2009: RR 1,652), including provision for impairment of assets of subsidiary - real estate developer in the amount of RR 31 (for the six months ended 30 June 2009: 1,159), see Notes 22, 24.

9. Property, plant and equipment

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

	Unaudited
Balance at 31 December 2008	**82,661**
Additions	2,386
Disposals	(322)
Depreciation and impairment	(4,942)
Balance at 30 June 2009	**79,783**
Balance at 31 December 2009	**60,065**
Additions	1,551
Disposals	(336)
Depreciation and impairment	(4,339)
Balance at 30 June 2010	**56,941**

(In millions of Russian Roubles)

10. Development costs

	Capitalised cost for products under development	Capitalised development cost for products currently in use	Total
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**
Cost			
Balance at 31 December 2009	9,502	4,616	14,118
Additions	371	-	371
Write-off	(191)	-	(191)
Balance at 30 June 2010	**9,682**	**4,616**	**14,298**
Amortization			
Balance at 31 December 2009	-	(3,777)	(3,777)
Amortization	-	(131)	(131)
Balance at 30 June 2010	**-**	**(3,908)**	**(3,908)**
Carrying amount at 30 June 2010	**9,682**	**708**	**10,390**

11. Financial assets – long-term

Long-term financial assets consisted of the following:

	Unaudited 30 June 2010	31 December 2009
Financial assets held to maturity	**6,022**	1,126
Loans issued	**1,093**	895
Available-for-sale financial assets	**354**	361
	7,469	2,382

As at 30 June 2010 financial assets held to maturity include RR 5,000 of bank promissory notes with interest rate of 5.75% maturing in November 2011 (31 December 2009: nil) and pledged as a collateral for a loan received.

12. Investments in associates

	Unaudited
Balance at 31 December 2008	**1,613**
Additions	1,605
Share of profit	45
Provision for impairment of the investment	(693)
Disposals	(15)
Dividends received	(2)
Balance at 30 June 2009	**2,553**
Balance at 31 December 2009	**2,972**
Share of profit	407
Dividends received	(102)
Balance at 30 June 2010	**3,277**

(In millions of Russian Roubles)

12. Investments in associates (continued)

Investments in associates consisted of the following:

	Unaudited 30 June 2010	31 December 2009
ZAO GM-AVTOVAZ	**1,745**	1,501
ZAO CB NOVIKOMBANK	**1,111**	1,093
Other	**421**	378
	3,277	2,972

13. Other long-term assets

Other long-term assets included the following:

	Unaudited 30 June 2010	31 December 2009
Long-term rent of property	**816**	826
Software	**115**	141
Long-term receivables	**44**	70
Intangible assets, other than development costs	**10**	11
Prepayments for long-term assets	**-**	9
	985	1,057

14. Other payables and accrued expenses

Other payables and accrued expenses included the following:

	Unaudited 30 June 2010	31 December 2009
Salaries payable and vacation accrual	**2,050**	2,019
Advances received by the subsidiary-real estate developer	**1,248**	1,263
Settlements on promissory note transactions	**961**	961
Government grants	**900**	599
Unearned insurance premiums and reserves for claims	**682**	765
Dividends payable	**188**	182
Accrued interest	**140**	355
Other	**1,071**	948
	7,240	7,092

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

15. Loans and borrowings

	Unaudited 30 June 2010	31 December 2009
Short-term loans and borrowings	**13,081**	65,690
Long-term loans and borrowings	**64,038**	14,242
	77,119	79,932

In December 2009 a contract was signed with the Russian Technologies State Corporation on granting JSC AVTOVAZ an interest-free loan in the amount of RR 12,000 for a period of 18 months from the date of the loan receipt. As at 31 December 2009 the Company received RR 7,000 of the loan and received the remaining amount under the contract in January - February 2010. The loan received in 2010 was recorded at fair value determined as future cash flows discounted at the current market rate of 13.95%. The benefit of the below-market rate of interest was accounted for in accordance with IAS 20 and treated as government grant as the loan was received from a Russian state corporation. Fair value of the government grant in the amount of RR 865 was recognised immediately as income, see Note 23.

(In millions of Russian Roubles)

15. Loans and borrowings (continued)

In April-May 2010 a contract was signed with the Russian Technologies State Corporation on granting the Company an interest-free loan in the amount of RR 28,000 for a period of 18 months from the date of the loan receipt. The loan was recorded at fair value determined as future cash flows discounted at the current market rate of 9.4%. The benefit of the below-market rate of interest was accounted for in accordance with IAS 20 and treated as government grant as the loan was received from the Russian state corporation. Fair value of the government grant in the amount of RR 3,457 was recognised immediately as income, see Note 23.

In addition, the Group signed an amendment to the loan agreement with the Russian Technologies State Corporation which prolongs the period of repayment of loan in the amount of RR 25,000 from 12 to 37 months from the date of issue. This change in the loan terms was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The new loan was recorded at fair value determined as future cash flows discounted at the current market rate of 9.4%. The difference between the carrying amount of the extinguished financial liability and the fair value of the new financial liability as of the date of the extinguishment was accounted for in accordance with IAS 20 and treated as government grant as the loan was received from a Russian state corporation. Fair value of the government grant in the amount of RR 4,070 was recognised immediately as income, see Note 23.

Cash received from the Russian Technologies State Corporation was used to repay current bank debt payable within six months ended 30 June 2010.

In May - June 2010 the Company received long-term loans of RR 5,000 at the rate of 8.25% with maturity date in November 2011 and RR 5,000 with last repayment date in November 2011 at the rate equal to the refinancing rate of the Central Bank of Russia plus 2%.

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

16. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable comprise the following:

	Unaudited 30 June 2010	31 December 2009
Value added tax	**2,062**	422
Property and other taxes	**692**	674
Social taxes	**463**	375
Current portion of restructured taxes	**289**	351
Penalties and interest on property and other taxes	**50**	49
	3,556	1,871

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 2010			31 December 2009		
	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 2010 the Annual Shareholders Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2009.

(In millions of Russian Roubles)

18. Sales

The components of sales revenue were as follows:

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Finished vehicles and assembly kits of own production	**52,605**	36,886
Dealership sales of other producers' vehicles	**534**	662
Automotive components of own production	**2,861**	2,468
Other sales	**5,984**	4,843
	61,984	44,859
Domestic sales	**56,618**	39,684
Sales in EU countries	**687**	1,195
Other sales	**4,679**	3,980
	61,984	44,859

19. Cost of sales

The components of cost of sales were as follows:

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Materials and components, goods for resale	**34,038**	23,716
Labour costs	**7,742**	6,116
Production overheads and other expenses	**5,170**	3,389
Depreciation and amortization	**4,235**	3,586
Social expenses	**438**	625
Changes in inventories of finished goods and work in progress	**4,225**	6,808
	55,848	44,240

20. Idle time costs

The components of idle time costs were as follows:

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Labour costs	**266**	4,126
Depreciation	**100**	1,275
Other costs	**21**	321
	387	5,722

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

21. Distribution costs

Distribution costs were as follows:

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Transportation	**1,117**	870
Labour costs	**610**	546
Advertising	**355**	77
Materials	**262**	211
Depreciation	**27**	32
Other	**505**	398
	2,876	2,134

(In millions of Russian Roubles)

22. Administrative expenses

The components of administrative expenses were as follows:

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Labour costs	**2,637**	2,490
Local and regional taxes	**902**	929
Third parties services	**541**	493
Transportation	**289**	253
Materials	**281**	274
Provision for impairment of other current assets (Note 8)	**244**	493
Depreciation	**221**	151
Bank services	**100**	109
Rent	**63**	85
(Reversal)/accrual of provision for impairment of trade receivables (Note 5)	**(111)**	487
Others	**209**	287
	5,376	6,051

23. Other operating income

The components of other operating income were as follows:

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Government grant on discounting of interest-free loan (Note 15)	**8,392**	1,872
Government grant	**1,048**	-
Foreign exchange gain	**298**	-
Reversal of provision for impairment of current financial assets (Note 6)	**195**	-
Reversal of provision for impairment of property, plant and equipment	**113**	-
Gain on refund of loan interest from the Federal Budget	**51**	189
Other operating income	**767**	231
	10,864	2,292

During the first half of 2010 the Group continued to receive government grants from the budget of the Samara region that was used to cover part of the Group personnel expenses. Gain from such government grants amounted to RR 1,048 in the six months ended 30 June 2010.

24. Other operating expenses

The components of other operating expenses were as follows:

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Loss on disposal of property, plant and equipment	**296**	252
Claims	**74**	99
Provision for impairment of long-term assets of subsidiary - real estate developer (Note 13)	**54**	421
Provision for impairment of current assets of subsidiary - real estate developer (Note 8)	**31**	1,159
Provision for impairment of current financial assets (Note 6)	**-**	2,454
Provision for impairment of long-term financial assets	**-**	129
Other operating expenses	**483**	564
	938	5,078

(In millions of Russian Roubles)

25. Income tax expense/(benefit)

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Income tax expense/(benefit) – current	**88**	(2)
Deferred tax expense/(benefit)	**664**	(2,477)
	752	(2,479)

26. Discontinued operations

In October 2009 the Company's stake in subsidiary Delta Motor Group Oy was diluted to 5%. The subsidiary's activities related to the dealership network segment. Consideration received for the disposal of investment in the subsidiary is zero.

In December 2009 the management of the Group decided to sell 100% shares in the subsidiary bank Commercial Bank LADA-CREDIT for cash.

Operating results of discontinued operations are presented below.

	Unaudited	
	Six months ended 30 June 2010	Six months ended 30 June 2009
Sales	**355**	8,218
Cost of sales	**(31)**	(7,532)
Gross profit	**324**	686
Administrative expenses	**(100)**	(2,180)
Distribution costs	**-**	(175)
Other operating (expenses)/income, net	**(146)**	20
Operating profit/(loss)	**78**	(1,649)
Finance costs	**-**	(57)
Profit/(loss) before taxation from discontinued operations	**78**	(1,706)
Income tax expense	**(9)**	(23)
Profit/(loss) from discontinued operations	**69**	(1,729)

27. Contingencies, commitments and guarantees

27.1 Contractual commitments and guarantees

As at 30 June 2010 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 965 (31 December 2009: RR 614). In addition, the Group issued financial guarantees to third parties in the amount of RR 41 (31 December 2009: RR 200). 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:

	Nominal amount		Discounted present values	
	Unaudited		**Unaudited**	
	30 June 2010	31 December 2009	**30 June 2010**	31 December 2009
Not later than 1 year	**237**	259	**220**	259
Later than 1 year and not later than 5 years	**948**	1,037	**682**	777
Later than 5 years	**8,534**	9,335	**1,876**	1,853
	9,719	10,631	**2,778**	2,889

The amount of lease payments recognised as an expense for the six months ended 30 June 2010 was RR 119 (for the six months ended 30 June 2009: RR 130).

27. Contingencies, commitments and guarantees (continued)

27.2 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 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 2010 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.

27.3 Environmental matters

The enforcement of environmental regulation in the 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 believes that there are no significant liabilities for environmental damage.

27.4 Legal proceedings

During the six months ended 30 June 2010 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.

28. Segment information

For management purposes, the Group is organized 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 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.

(In millions of Russian Roubles)

28. Segment information (continued)

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	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenue										
Sales to external customers	40,025	26,456	15,169	12,666	6,790	5,737	-	-	61,984	44,859
Inter-segment sales	18,737	13,760	405	653	2,215	1,479	(21,357)	(15,892)	-	-
Total revenue	58,762	40,216	15,574	13,319	9,005	7,216	(21,357)	(15,892)	61,984	44,859
Results										
Depreciation and amortization	(3,470)	(3,976)	(90)	(114)	(185)	(186)	-	-	(3,745)	(4,276)
Impairment of assets	1,405	(2,744)	-	(3)	(11)	(2)	-	-	1,394	(2,749)
Interest expense	(2,271)	(3,241)	(196)	(237)	(105)	(87)	-	-	(2,572)	(3,565)
Income tax (expense)/ benefit	637	2,741	38	6	(27)	(32)	-	-	648	2,715
Statutory loss for the period	(612)	(14,103)	(408)	(475)	(88)	(114)	-	-	(1,108)	(14,692)
IFRS adjustments										
Government grant on discounting of interest-free loan, net of interest expense									5,850	1,872
Adjustment attributable to valuation of subsidiaries' assets									979	(4,069)
Additional expense for fixed assets recognised in accordance with IFRS									(1,035)	(1,059)
Adjustment attributable to deferred tax									(1,400)	(236)
Adjustments attributable to development expenses									(128)	(67)
Profit/(loss) from discontinued operations									69	(1,729)
Overhead expenses allocated to inventories									101	639
Dividends received from associate company									(102)	(2)
Others									(169)	(300)
IFRS profit/(loss) for the period									**3,057**	**(19,643)**

(In millions of Russian Roubles)

28. Segment information (continued)

Inter-segment revenues are eliminated on consolidation.

	Automotive		Dealership network		Other segments		Eliminations		Total	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Segment assets	123,845	119,635	13,229	13,043	14,123	13,168	(13,807)	(12,470)	137,390	133,376
IFRS adjustments										
Remeasurement of fixed assets in accordance with IFRS									19,380	19,689
Impairment of non-financial assets									(26,366)	(26,525)
Capitalization of development costs									(207)	(450)
Impairment of other assets									(5,340)	(7,610)
Adjustment related to deferred tax assets									(4,459)	(2,532)
Assets of disposal group									3,793	4,406
Others									(912)	846
IFRS total assets									**123,279**	**121,200**

Impairment of other assets of the Group includes additional impairment of inventory of RR 1,609 (31 December 2009: RR 1,099), impairment of investments of RR 911 (31 December 2009: reduction in impairment of investments RR 262), impairment of assets of subsidiary – real estate developer of RR 1,764 (31 December 2009: RR 1,941), reduction in impairment of trade and other receivables of RR 274 (31 December 2009: impairment of trade and other receivables RR 2,144) and impairment of current financial assets of RR 1,330 (31 December 2009: RR 2,688).

Major part of non-current assets other than financial instruments of the Group is located in the Russian Federation.

29. Going concern

Management has prepared these interim condensed consolidated financial statements on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities, when they fall due, for the foreseeable future. In making this judgement management has considered the impact of the recent financial crisis, government support, the Group's access to financial resources, its current financial results and future plans. These factors have influenced the Group’s position and performance as detailed below.

Impact of the financial crisis

In 2009 the global financial crisis resulted in significant deterioration of the Group’s business activity:

- For 2009 the Group’s revenue fell by 45% to RR 92,043 in comparison with 2008;
- For 2009 the Group incurred losses in the amount of RR 49,214;
- As of 31 December 2009 the Group had loans and borrowings due in 2010 of RR 40,690, excluding loan payable to the Russian Technologies State Corporation of RR 25,000; and
- As of 31 December 2009 the Group’s current liabilities exceeded its current assets by RR 52,974.

Government support

The Russian government is implementing the following support measures:

- The scrappage programme launched in March 2010 offers buyers 50,000 roubles to trade in their old cars for new ones on a state-approved list of selected domestically manufactured models. The Group has been the main beneficiary of the programme. The government has recently expressed its intentions to extend the programme into 2011.
- Direct support. In 2009 and 2010 the Group received interest-free loans from the Russian Technologies State Corporation amounting to RR 65,000; and
- Import duties. The government increased import duties on foreign cars to encourage investment in local manufacturing plants and boost demand for domestically manufactured cars.

29. Going concern (continued)

Access to financial resources

- To repay loans due within six months ended 30 June 2010 the Group used funds received from the Russian Technologies State Corporation;
- As at 30 June 2010 the Group restructured and repaid a major part of its current bank debt, which was outstanding at 31 December 2009. The Group has no loans past due as at 30 June 2010;
- The Group is currently in the process of signing an agreement with the Russian Technologies State Corporation on obtaining an additional interest-free loan in the amount of RR 10,000; and
- The Group has reached an agreement with Sberbank of Russia and VTB on opening of long-term credit lines for the Group of RR 16,000.

Current financial results

In the first half of 2010 the Group's performance significantly improved as a result of the measures undertaken by the Group's management together with the Russian government and better market conditions:

- In the first half of 2010 the Company sold 236,411 vehicles, an increase of 40% as compared to the first half of 2009;
- The excess of its current liabilities over its current assets reduced from RR 52,974 at 31 December 2009 to RR 1,460 at 30 June 2010; and
- The Group demonstrated positive operating results, which resulted in a return to profit and a positive cash flow.

Future plans

- The Group's cash flow forecast for the period ended 30 June 2011 indicates that the cash flows from the Group's operating activities are expected to be sufficient to cover operational costs and a part of the investment program. Financial resources for the remaining capital expenditures are to be attracted through arrangements with the Russian government and Renault s.a.s.

Because of the factors identified above, management believes that the Group will be able to realise its assets and meet its obligations in the normal course of business as they become due and that the Group will continue as a going concern.

30. Events after the reporting period

On 9 September 2010 the Extraordinary General Shareholders' Meeting of the Company approved a future increase in the Company's share capital through private offering of 434,173,411 additional ordinary registered non-documentary shares at nominal value of 5 (Five) roubles each to Renault s.a.s., the Russian Technologies State Corporation and Troika Dialog Investments Limited. The approved offering price is 40 roubles and 24 kopecks per share. The additional shares are to be placed within 12 months from a date of planned state registration with the Federal Service on Financial Markets of Russia.

In July 2010 the Company sold 100% shares in the subsidiary bank Commercial Bank LADA-CREDIT for cash.