AVTOVAZ GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

31 December 2012

Contents **Section page number**

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Independent auditors' report

To the shareholders of JSC AVTOVAZ

We have audited the accompanying consolidated financial statements of JSC AVTOVAZ and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC AVTOVAZ and its subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

30 March 2013

AVTOVAZ GROUP
Consolidated Statement of Financial Position at 31 December 2012
(In millions of Russian Roubles)

	Note	31 December 2012	31 December 2011
ASSETS			
Current assets:			
Cash and cash equivalents	10, 40	**8,372**	7,563
Trade receivables	11, 40	**9,223**	4,305
Financial assets	12, 40	**1,383**	7,001
Inventories	13	**25,479**	24,345
Other current assets	14	**4,963**	5,783
		49,420	48,997
Long-term assets:			
Property, plant and equipment	15	**71,183**	61,673
Financial assets	17, 40	**66**	125
Investments in associates	18	**267**	2,992
Interest in a joint venture	19	**3,264**	-
Intangible assets	16	**12,533**	11,487
Deferred tax assets	36	**372**	322
Other long-term assets	20	**2,508**	2,981
		90,193	79,580
Assets of disposal group classified as held for sale	35	**2,165**	-
Total assets		**141,778**	128,577
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	40	**23,468**	19,551
Other payables and accrued expenses	21, 40	**4,832**	6,642
Income tax liability		**27**	43
Taxes other than income tax	24	**1,546**	2,172
Provisions	22	**1,103**	1,071
Loans and borrowings	23, 40	**8,237**	7,296
Advances from customers		**537**	1,270
		39,750	38,045
Long-term liabilities:			
Loans and borrowings	23, 40	**20,989**	46,373
Taxes other than income tax	24, 40	**1,172**	1,169
Provisions	22	**859**	861
Deferred tax liabilities	36	**8,399**	1,189
Advances received	9	**2,462**	2,426
		33,881	52,018
Liabilities directly associated with disposal group classified as held for sale	35	**641**	-
Total liabilities		**74,272**	90,063
Equity attributable to equity holders of the Company			
Share capital	25	**39,172**	37,001
Share premium		**15,300**	-
Shares paid		**-**	17,471
Currency translation adjustment		**106**	275
Retained earnings/(accumulated losses)		**12,413**	(16,680)
		66,991	38,067
Non-controlling interests		**515**	447
Total equity		**67,506**	38,514
Total liabilities and equity		**141,778**	128,577

I. A. Komarov
President, JSC AVTOVAZ

30 March 2013

S. A. Kochetkova
Chief Accountant, JSC AVTOVAZ

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

	Note	Year ended 31 December 2012	2011
Sales	26	**190,061**	175,073
Cost of sales	27	**(168,250)**	(152,104)
Gross profit		**21,811**	22,969
Administrative expenses	28	**(13,798)**	(13,701)
Distribution costs	29	**(9,114)**	(9,102)
Research expenses	30	**(1,705)**	(1,175)
Share of associates' profit	18	**450**	1,200
Share of profit from joint venture	19	**678**	-
Government grant on discounting of an interest-free loan		**35,859**	11,332
Other operating income	31	**5,513**	4,823
Other operating expenses	32	**(1,868)**	(3,475)
Operating profit		**37,826**	12,871
Finance income	33	**946**	1,074
Finance costs	34	**(2,379)**	(5,568)
Gain from forgiveness of tax debt		**-**	86
Profit before taxation		**36,393**	8,463
Income tax expense	36	**(7,213)**	(1,786)
Profit for the year		**29,180**	6,677
Currency translation adjustment		**(169)**	(40)
Total other comprehensive loss for the year, net of taxes		**(169)**	(40)
Total comprehensive income for the year, net of taxes		**29,011**	6,637
Profit attributable to:			
Equity holders of the Company		**29,110**	6,793
Non-controlling interests		**70**	(116)
		29,180	6,677
Total comprehensive income attributable to:			
Equity holders of the Company		**28,941**	6,753
Non-controlling interests		**70**	(116)
Total comprehensive income for the year, net of taxes		**29,011**	6,637
Earnings per share, basic/diluted (in RR):			
-for profit for the year attributable to ordinary/preference equity holders of the Company	37	**12.74**	3.25

(In millions of Russian Roubles)

	Note	Year ended 31 December □&□	2011
Cash flows from operating activities:			
Profit before taxation		**36,393**	8,463
Adjustments for:			
Depreciation and amortization	15, 16	**8,786**	8,835
Charge to provision for impairment of trade receivables	28	**149**	64
(Reversal of)/charge to provision for impairment of other current assets	28	**(376)**	134
Charge to/(reversal of) provision for impairment of current financial assets	31, 32	**409**	(309)
Provision for impairment of long-term financial assets	32	**211**	237
Provision for impairment of other long-term assets	32	**-**	856
Reversal of provision for impairment of assets of subsidiary – real estate developer	31	**(114)**	(776)
Interest expense	34	**2,379**	4,448
Loss on extinguishment of debt	34	**-**	747
Provision for impairment of property, plant and equipment	15, 32	**48**	117
Gain from forgiveness of tax debt		**-**	(86)
Gain on bargain purchase	31	**-**	(353)
Gain on disposal of property, plant and equipment	31	**(250)**	(156)
Share of associates' profit	18	**(450)**	(1,200)
Share of profit from joint venture	19	**(678)**	-
Government grant on discounting of interest-free loan		**(35,859)**	(11,332)
Gain on disposal of subsidiaries and associates	31	**(3,700)**	(1,509)
Unrealised foreign exchange effect on non-operating balances		**(62)**	132
Operating cash flows before working capital changes		**6,886**	8,312
Change in trade receivables		**(5,636)**	(642)
Change in current financial and other assets		**388**	(551)
Change in inventories		**(2,122)**	(399)
Change in trade payables and other payables and accrued expenses		**3,033**	(3,966)
Change in tax liabilities other than income tax		**(466)**	120
Change in advances from customers		**(651)**	(161)
Cash generated from operations		**1,432**	2,713
Income tax paid		**(301)**	(215)
Interest received		**760**	1,107
Interest paid		**(839)**	(657)
Net cash generated from operating activities		**1,052**	2,948
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets		**(19,311)**	(11,471)
Proceeds from the sale of property, plant and equipment		**582**	453
Acquisition of a subsidiary, net of cash acquired		**(419)**	(1,479)
Proceeds from the sale of financial assets		**5,538**	6,425
Proceeds from the sale of subsidiaries less cash disposed of		**1,122**	91
Purchase of financial assets		**(1,129)**	(6,772)
Dividends received		**479**	280
Net cash used in investing activities		**(13,138)**	(12,473)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**21,149**	2,501
Repayment of loans and borrowings		**(8,151)**	(3,744)
Shares paid		**-**	4,859
Acquisition of non-controlling interest		**(17)**	(764)
Long-term advances received		**36**	1,600
Dividends paid to non-controlling interest		**(14)**	(74)
Net cash generated from financing activities		**13,003**	4,378
Effect of exchange rate changes		**(82)**	21
Net increase/(decrease) in cash and cash equivalents		**835**	(5,126)
Cash and cash equivalents at the beginning of the year	10	**7,563**	12,689
Cash and cash equivalents at the end of the year	10	**8,398**	7,563

(In millions of Russian Roubles)

	Equity attributable to equity holders of the Company							
	Share capital	Share premium	Shares paid	Currency translation adjustment	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
Balance at 31 December 2010	**37,001**	**-**	**-**	**315**	**(22,801)**	**14,515**	**729**	**15,244**
Profit for the period	-	-	-	-	6,793	6,793	(116)	6,677
Other comprehensive loss	-	-	-	(40)	-	(40)	-	(40)
Total comprehensive income/(loss)	**-**	**-**	**-**	**(40)**	**6,793**	**6,753**	**(116)**	**6,637**
Dividends	-	-	-	-	-	-	(74)	(74)
Acquisition of non-controlling interests	-	-	-	-	(672)	(672)	(92)	(764)
Shares paid (Note 25)	-	-	17,471	-	-	17,471	-	17,471
Balance at 31 December 2011	**37,001**	**-**	**17,471**	**275**	**(16,680)**	**38,067**	**447**	**38,514**
Profit for the period	-	-	-	-	29,110	29,110	70	29,180
Other comprehensive loss	-	-	-	(169)	-	(169)	-	(169)
Total comprehensive income/(loss)	**-**	**-**	**-**	**(169)**	**29,110**	**28,941**	**70**	**29,011**
Dividends	-	-	-	-	-	-	(2)	(2)
Acquisition of non-controlling interests	-	-	-	-	(17)	(17)	-	(17)
Shares registered (Note 25)	2,171	15,300	(17,471)	-	-	-	-	-
Balance at 31 December 2012	**39,172**	**15,300**	**-**	**106**	**12,413**	**66,991**	**515**	**67,506**

1. JSC AVTOVAZ and subsidiaries
JSC AVTOVAZ and its subsidiaries' (the "Group") principal activities include the manufacture and sale of passenger automobiles. The Group's manufacturing facilities are primarily based in the Samara Oblast of the Russian Federation. The Group has a sales and service network spanning the Commonwealth of Independent States ("CIS") 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. The registered office of JSC AVTOVAZ is at Yuzhnoye Shosse, 36, Togliatti, 445024, the Russian Federation.

These consolidated financial statements were authorized for issue by the President on 30 March 2013.

2. Basis of preparation of the consolidated financial statements
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

JSC AVTOVAZ and its subsidiaries resident in the Russian Federation, which account for over 98% of assets and liabilities of the Group, maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Similarly, adjustments to conform with IFRS, where necessary, are recorded in the financial statements of companies not resident in the Russian Federation.

The consolidated financial statements have been prepared under the historical cost convention except for corporate and municipal bonds and shares, equity investments and bank promissory notes, which are accounted at fair value (see Note 3.3). Restructured taxes are recognised at their fair value at the date of restructuring (which is determined using the prevailing market rate of interest for a similar instrument). In subsequent periods, restructured taxes are stated at amortized cost. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Notes 4 and 5.

3. Summary of significant accounting policies
3.1 Adopted accounting standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year except the following. The Group has adopted the following new and amended IFRS as of 1 January 2012:
IAS 12 *Income Taxes* (Amendment) – *Deferred Taxes: Recovery of Underlying Assets*;
IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (Amendment) – *Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*;
IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*.

The Group early adopted the following new standards as of 1 January 2012:
IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*;
IFRS 11 *Joint Arrangements*;
IFRS 12 *Disclosure of Interests in Other Entities*;
IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011).

The adoption of the standards or interpretations is described below:
IAS 12 *Income Taxes* (Amendment) – *Deferred Taxes: Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (Amendment) – *Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*
The Group early adopt IFRS 10 that replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* and addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 required management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the analyses performed by management, there were no changes in the accounting of currently held investments of the Group with the adoption of IFRS 10.

IFRS 11 *Joint Arrangements*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 is to be applied retrospectively for joint arrangements held at the date of initial application. The application of this new standard had no impact on the financial position of the Group as of 1 January 2012 because the Group did not have joint arrangements as of that date. Had the Group continued to follow IAS 31 *Interests in Joint Ventures* in its accounting policies, it would have to assess the fair value of the retained interest in ZAO GM-AVTOVAZ when the associate became a joint venture (see Note 19).

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group made disclosures required under this IFRS (see Note 18 and 19).

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)
IAS 28 *Investments in Associates* has been renamed to *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. In accordance with new IAS 28 if an investment in an associate becomes an investment in a joint venture, the entity continues to apply the equity method and does not remeasure the retained interest (see Note 19).

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 *Employee Benefits* (Revised)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 *Government Loans* – Amendments to IFRS 1
These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

IFRS 10 *Consolidated Financial Statements* – Amendments to IFRS 10

The International Accounting Standards Board (IASB) has issued an amendment to IFRS 10 *Consolidated Financial Statements* to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. The amendment applies for annual periods beginning on or after 1 January 2014.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 *Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 *Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 *Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 *Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

3. Summary of significant accounting policies (continued)

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, are recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group makes a bargain purchase, which is a business combination in which the amount of the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS exceeds the consideration transferred, the resulting gain on bargain purchase is recognised in profit or loss on the acquisition date.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

3. Summary of significant accounting policies (continued)
3.2. Basis of consolidation (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of associates' profit' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

Interest in a joint venture

During 2012 the former investment in an associate became an investment in a joint venture (see Note 18 and Note 19). This joint venture is an entity, where the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method and did not remeasure the retained interest on step acquisition. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made, where necessary, to bring the accounting policies in line with those of the Group.

The Group's share in the joint venture's gains and losses from transactions between the Group and its joint venture are eliminated on consolidation.

3.3 Financial assets

Classification of financial assets

The Group classifies its financial assets into the following measurement categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale.

Financial assets at fair value through profit or loss are financial assets held for trading and include corporate and municipal bonds and shares. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. All other financial assets are included in the available-for-sale category.

Available-for-sale financial assets are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the accumulative gain or loss is removed from equity to profit or loss.

Initial recognition of financial instruments

All financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortized cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available-for-sale.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. Summary of significant accounting policies (continued)
3.3 Financial assets (continued)
Financial assets carried at amortized cost
If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.
The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. “Significant” is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss - is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Derecognition of financial assets
The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3.4 Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.
Sales are shown net of value added tax (VAT) and discounts, and after eliminating sales within the Group.

The Group does not accrue interest on advance payments received from customers for future deliveries of goods or services, including deliveries over a long-term. Revenue under such advances is recognised when specific recognition criteria for sales of goods and services described below are met. Such revenue is measured based on the allocation of the nominal amounts of advance payments corresponding to the goods or services delivered.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenues on sales of automobiles, spare parts, miscellaneous production and car technical services are recognised when goods are dispatched or services rendered to customers, as this is normally the date that the risks and rewards of ownership are transferred to the customers.

Sale of services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(In millions of Russian Roubles)

3. Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

Other

Premiums of consolidated subsidiary insurance companies are recognised at the date of origination as accrued insurance premiums (contributions) on insurance or coinsurance agreements and agreements for reinsurance.

3.5 Trade receivables

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

3.6 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.7 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The costs of finished goods and work in progress comprise material, direct labour and the appropriate indirect manufacturing costs (based on normal operating capacity). Obsolete and slow-moving inventories are written down, taking into account their expected use, to their future realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.8 Cash and cash equivalents

Cash comprises cash on hand, demand deposits held with banks, bank promissory notes and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Bank overdrafts are included in loans and borrowings within current liabilities in the consolidated statement of financial position.

3.9 Property, plant and equipment

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

Depreciation of the restated amounts of property, plant and equipment is calculated using the straight-line method to allocate their cost, less their residual values, over their estimated useful lives:

	Number of years
Buildings	40 to 80
Manufacturing equipment and machinery, including	2 to 20
specific tools	2 to 17
Office and other equipment	5 to 13

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss as incurred.

Assets under construction owned by the Group are not depreciated.

3. Summary of significant accounting policies (continued)

3.10 Intangible assets

Research and development expenditure

Research costs are expensed as incurred. Development costs for the new range of vehicles are capitalised at cost when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. If the criteria for recognition as assets are not met, the expenses are recognised in the consolidated statement of comprehensive income in a year in which they are incurred. Development costs not yet available for use are tested for impairment annually.

Development costs with a finite useful life that have been capitalised are amortized from the commencement of the commercial production of the new vehicles. The period of amortization is during five years in line with expected production volume.

Other intangible assets

Other intangible assets included computer software and a right to use licenses for production, assembling and sale of licensed cars and engines. Acquired software and the right to use the licenses are capitalized on the basis of the costs incurred to acquire and bring them to use.

The right to use the license for production, assembling and sale of licensed cars is amortized from the date of start of production during 12 years in line with expected production volume.

The computer software is amortized using straight-line method over the period of up to 5 years.

3.11 Impairment of assets

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

3.12 Deferred income taxes

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint venture where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint venture deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

3. Summary of significant accounting policies (continued)

3.13 Loans, borrowings and restructured taxes

Loans and borrowings are recognised initially at cost which is the fair value of the proceeds received, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Restructured taxes are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument) at the date of restructuring. In subsequent periods, restructured taxes are stated at amortized cost.

Interest expense, which is currently due, is recorded within 'other payables and accrued expenses' except for interest on restructured tax liabilities, which is recorded within the respective financial liabilities.

3.14 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

3.15 Foreign currency transactions and translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Russian Roubles, which is the Company's functional and presentation currency.

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

Foreign currency denominated amounts in the consolidated statement of financial position have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2012 of RR 30.3727 = US$ 1 (31 December 2011: RR 32.1961 = US$ 1), RR 40.2286 = Euro 1 (31 December 2011: RR 41.6714 = Euro 1) and RR 0.351516 = JPY 1 (31 December 2011: RR 0.414978 = JPY 1).

3.16 Product warranty costs

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

3.17 Employee benefits

Social costs

The Group incurs costs on social activities, principally within the City of Togliatti. The Group provides medical services, maintains recreation departments, summer camps for children and community facilities. These amounts represent an implicit cost of employing the Group's personnel, principally production workers and, accordingly, have been charged to cost of sales in profit or loss.

Pension costs

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

3.18 Interest income and borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

3. Summary of significant accounting policies (continued)

3.19 Earnings per share

Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. Earnings per share is determined by dividing the net profit attributable to ordinary and preference shareholders by the weighted average number of participating shares outstanding during the reporting period.

The shares outstanding for all periods presented are adjusted for events that have changed the number of shares outstanding without a corresponding change in resources (e.g. share split or share consolidation).

In accordance with the IAS 33 for those instruments that are not convertible into a class of ordinary shares, profit or loss for the period is allocated to the different classes of shares in accordance with their rights to participate in undistributed earnings. To calculate basic and diluted earnings per share:

(a) profit or loss attributable to equity holders of the parent entity is adjusted (a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares;

(b) the remaining profit or loss is allocated to ordinary shares and preference shares to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature; and

(c) the total amount of profit or loss allocated to each class of shares is divided by the number of outstanding shares to which the earnings are allocated to determine the earnings per share for each class of shares.

3.20 Operating leases

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

3.21 Shareholders' equity

Share capital

Ordinary shares and non-redeemable preferred shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Treasury shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are sold or reissued. Any difference between cost and nominal value on the purchase of treasury shares is included in equity attributable to the Company's equity holders. Any gains or losses arising on the disposal of treasury shares are recognised in equity attributable to the Company's equity holders.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

3.22 Provisions

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

3.23 Comparative information

In order to achieve consistency of presentation with the current reporting period, changes have been made to the comparative figures related to certain captions in the consolidated statement of financial position.

In 2011computer software was included in other long-term assets and in 2012 in intangible assets. As a result of reclassification in 2012 comparative figures were changed and other long-term assets for 2011 decreased by RR 262.

4. Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. Critical accounting estimates (continued)

4.1 Fair values

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

4.2 Remaining useful life of property, plant and equipment

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.

If the estimated remaining useful life of buildings had been 5% higher or lower than management's estimates, then the carrying value of buildings would have been RR 2,422 higher or RR 2,677 lower respectively. If the estimated remaining useful life of equipment had been 5% higher or lower than management's estimates, then the carrying value of equipment would have been RR 5,213 higher or RR 5,762 lower respectively.

4.3 Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that non-financial assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

In 2008 and 2009 the Group recognised an impairment loss of RR 10,712 and RR 15,256 respectively.

The Group assessed whether there were any indicators that non-financial assets may be impaired at the end of the reporting period ended 31 December 2012. As a result, no indicators of further impairment or impairment reversal were identified.

4.4 Warranties

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

Differences between actual warranty claims and the estimated claims will impact the recognised expense and provisions in future periods. Refunds from suppliers, that decrease the Group's warranty costs, are recognised to the extent these are considered to be certain.

If actual results are not consistent with the assumptions and estimates used, the Group may be exposed to additional adjustments that could materially, either positively or negatively, impact the Group's profit. Adjustments to the Group's profit have not been historically material.

5. Significant accounting judgements

5.1 Taxation

The Group is subject to taxes. Significant judgement is required in determining the provision for taxes. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on management's estimates of whether additional taxes will be due.

5.2 Recognition of deferred tax assets

Deferred tax assets are assessed each period for recoverability and adjusted, as necessary, based on whether it is probable the Group will generate sufficient profits in future periods to utilise the assets. Various factors are considered in assessing the probability of future utilisation including past operating results, operational plans, expiration of tax losses carry-forwards and tax planning strategies. If the actual results differ from these estimates or if these estimates are adjusted in future periods, the result of operations may be impacted in those periods.

Deferred tax asset in respect of tax losses of RR 1,480 carried forward (31 December 2011: RR 2,320) has not been recognised as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses.

(In millions of Russian Roubles)

6. Principal subsidiaries, associates and joint venture

The principal subsidiaries of the Group and the share held by the Group are as follows:

Entity	Country of incorporation	Activity	**31 December 2012 % share**	31 December 2011 % share
OOO Obyedinennaya Avtomobilnaya Gruppa	Russia	Manufacture and sale of passenger automobiles	**100**	100
OAO Lada-Service	Russia	Subsidiaries management	**100**	100
ZAO Lada-Image	Russia	Spare parts distribution	**100**	100
Lada International Ltd.	Cyprus	Subsidiaries management	**99.9**	99.9
OAO Piter-Lada	Russia	Car distribution and service	**89.4**	89.4
OAO AvtoVAZtrans	Russia	Transport	**-**	100
173 Technical Service Centres	Russia, CIS, EU Countries	Car distribution and service	**50.1-100**	50.1-100

The principal associates of the Group and the share held by the Group are as follows:

Entity	Country of incorporation	Activity	**31 December 2012 % share**	31 December 2011 % share
Ferro VAZ GmbH	Germany	Export and import of machinery, equipment and spare parts	**50**	50
ZAO GM-AVTOVAZ	Russia	Vehicle production	**-**	41.6

The principal joint venture of the Group and the share held by the Group is as follows:

Entity	Country of incorporation	Activity	**31 December 2012 % share**	31 December 2011 % share
ZAO GM-AVTOVAZ	Russia	Vehicle production	**50**	-

7. Business combinations

On 27 October 2011, for the purpose of expanding its production capacity, the Group obtained a 100% control over OOO Obyedinennaya Avtomobilnaya Gruppa (OAG), a domestic manufacturer of passenger vehicles.

The fair value of the identifiable assets and liabilities of acquired subsidiary as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property, plant and equipment	2,938
Cash and cash equivalents	221
Trade receivables	466
Inventories	1,615
Other assets	665
	5,905
Liabilities	
Trade payables	1,494
Other payables	183
Deferred tax liability	91
Loans and borrowings	2,084
	3,852
Total identifiable net assets at fair value	**2,053**
Gain on bargain purchase	353
Purchase consideration transferred by cash	**1,700**

The net assets recognised as at 31 December 2011 in prior year financial statements were based on a provisional assessment of fair value while the Group sought an independent valuation for property, plant and equipment owned by OAG. The valuation had not been completed by the date the 2011 financial statements were approved for issue by management. In October 2012 the valuation was completed and at the acquisition date fair value of the property, plant and equipment did not change from the provisional value.

(In millions of Russian Roubles)

8. Disposal of subsidiaries

During 2012 the Group disposed of certain subsidiaries. The total consideration received on disposals was RR 4,057, including cash of RR 1,030 and offset loans payable with the carrying amount of RR 3,027 (Note 9.1).

The following amounts represent the major classes of assets and liabilities of subsidiaries at the dates of disposal:

	At the dates of disposal
Assets:	
Financial assets	18
Property, plant and equipment	1,133
Other non-current assets	250
Total long-term assets	**1,401**
Cash	149
Financial assets	71
Inventories	251
Trade receivables	570
Other current assets	129
Total current assets	**1,170**
Total assets	**2,571**
Liabilities:	
Long-term liabilities	**570**
Accounts payable	689
Borrowings	444
Other payables	503
Total current liabilities	**1,636**
Total liabilities	**2,206**
Net assets at the dates of disposal	**365**

9. Balances and transactions with related parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In 2011 and 2012 the Group entered into transactions with the following related parties: shareholders, subsidiaries of major shareholders, associates, associates of major shareholders, joint venture and key management.

In addition, transactions with companies directly or indirectly controlled by the Russian Government are considered to be transactions with related parties, as one of the major shareholders of the Company, the Russian Technologies State Corporation is owned by the Russian Government.

9.1 Balances and transactions with companies directly or indirectly controlled by the Russian Government

As at 31 December 2012 and 31 December 2011 the Group had balances with the companies controlled by the Russian Government, which are detailed below.

Consolidated statement of financial position caption	**31 December 2012**	31 December 2011
Cash and cash equivalents	**1,411**	1,239
Trade receivables before provision charge	**733**	296
Provision for impairment of trade receivables	**(210)**	(215)
Other current assets	**834**	925
Provision for impairment of other current assets	**(720)**	(717)
Other long-term assets before provision charge	**1,126**	2,441
Provision for impairment of other long-term assets	**(847)**	(855)
Current financial assets before provision charge	**764**	4,681
Provision for impairment of current financial assets	**(759)**	(639)
Financial assets - long-term	**215**	-
Provision for impairment of financial assets - long-term	**(215)**	-
Trade payables	**2,000**	957
Other payables	**978**	252
Loans and borrowings	**13,432**	4,174
Collateral issued by the Group	**7,318**	4,285
Loans received from the Russian Technologies State Corporation	**5,137**	42,182

(In millions of Russian Roubles)

9. Balances and transactions with related parties (continued)

9.1 Balances and transactions with companies directly or indirectly controlled by the Russian Government (continued)

In 2012 and 2011 the Group entered into transactions with the companies controlled by the Russian Government, which are detailed below.

	2012	2011
Sales	**1,145**	427
Purchases of services, equipment, goods and inventory	**25,541**	17,610
Interest income	**171**	377
Interest expenses	**596**	157

In the course of its ordinary business, the Group enters into transactions with the companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Tariff Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on the market interest rates. Taxes are accrued and paid in accordance with the applicable tax law.

For details of loans received from the Russian Technologies State Corporation see Note 23.

The Russian Technologies State Corporation extinguished a loan of RR 4,117 nominal value (carrying value RR 3,027) that had been previously provided to the Company in exchange for the following assets:

- 100% of OOO ZIP;
- 100% of OOO AVTOGRAD-VODOKANAL;
- 100% shares of ZAO AvtoVAZtrans.

This transaction resulted in a gain of RR 2,052, which was recorded in Other operating income.

9.2 Balances and transactions with other related parties

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 31 December 2012 and 31 December 2011, except for companies directly or indirectly controlled by the Russian Government, are detailed below.

Consolidated statement of financial position caption	Relationship	**31 December 2012**	31 December 2011
Trade receivables before provision charge	Associates	**-**	978
Trade receivables before provision charge	Joint venture	**861**	-
Trade receivables before provision charge	Associate of a major shareholder	**134**	-
Current financial assets before provision charge	Subsidiary of a major shareholder	**282**	-
Provision for impairment of current financial assets	Subsidiary of a major shareholder	**(282)**	-
Other current assets before provision charge	Shareholder	**173**	-
Trade receivables before provision charge	Subsidiary of a major shareholder	**90**	-
Other long-term assets before provision charge	Subsidiary of a major shareholder	**-**	1,352
Trade payables	Shareholder	**236**	-
Trade payables	Associates	**405**	246
Trade payables	Joint venture	**20**	-
Trade payables	Associate of a major shareholder	**272**	480
Trade payables	Subsidiary of a major shareholder	**33**	28
Other payables	Shareholder	**13**	-
Loans and borrowings	Shareholder	**2,961**	-
Advances received	Associate of a major shareholder	**2,462**	2,426

As at 31 December 2012 the Group received a long-term interest-free advance payment of RR 2,462 from Nissan Manufacturing RUS LLC (hereinafter – "Nissan"). According to the terms of the advance payment, proceeds from this advance can be used only to finance purchase of equipment. This advance payment will be settled by future deliveries of vehicles. Alternatively, the Group has an option to settle this advance by cash. If the Group is not in compliance with certain terms and provisions agreed with Nissan, the advance shall be repaid within 30 days. In exchange for the advance JSC AVTOVAZ agrees to make available to Nissan the reserved capacity on a new production line.

(In millions of Russian Roubles)

9. Balances and transactions with related parties (continued)

9.2 Balances and transactions with other related parties (continued)

The income and expense items with related parties for the year ended 31 December 2012 and 31 December 2011 were as follows:

	Relationship	**2012**	2011
Sales	Associates	**6,431**	7,857
Sales	Joint venture	**2,063**	-
Sales	Associate of a major shareholder	**268**	-
Sales	Subsidiary of a major shareholder	**260**	-
Purchases of goods and inventory	Associates	**2,504**	1,613
Purchases of equipment	Associates	**81**	-
Purchases of equipment	Associate of a major shareholder	**24**	514
Purchases of services	Associate of a major shareholder	**11**	27
Purchases of inventory	Associate of a major shareholder	**237**	-
Purchases of equipment	Subsidiary of a major shareholder	**1,562**	540
Purchases of intangible assets	Subsidiary of a major shareholder	**14**	457
Purchases of services	Subsidiary of a major shareholder	**571**	468
Purchases of goods and inventory	Joint venture	**226**	-
Reversal of provision for impairment of assets	Associates	**-**	55
Interest income	Associate bank	**-**	325
Interest expenses	Associate bank	**-**	8
Interest expenses	Shareholder	**71**	-
Purchases of equipment	Shareholder	**142**	-
Other services	Shareholder	**3,460**	454
Administrative expenses	Short-term employee benefits - compensation of the Key Management	**380**	150

10. Cash and cash equivalents

Cash and cash equivalents were as follows:

	31 December 2012	31 December 2011
Short-term deposits and bank promissory notes	**6,211**	3,650
Rouble-denominated cash on hand and balances with banks	**2,161**	3,913
	8,372	7,563

As at 31 December 2012 cash deposits of RR 563 held by the Group (31 December 2011: RR 424) bear interest of 0.01% - 1.7% (2011: 0.5% - 1.5%); cash deposits of RR 5,637 (31 December 2011: RR 3,226) bear interest of 4.5% - 10.0% (2011: 4.5% - 8.1%); bank promissory notes of RR 11 (31 December 2011: nil) bear interest of 6.0- 6.6%. The Group's balances with bank are not interest bearing.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consisted of the following:

	31 December 2012	31 December 2011
Short-term deposits and bank promissory notes	**6,211**	3,650
Rouble-denominated cash on hand and balances with banks	**2,161**	3,913
Rouble-denominated cash on hand and balances with banks of disposal group classified as held for sale	**26**	-
	8,398	7,563

(In millions of Russian Roubles)

11. Trade receivables

As at 31 December the ageing analysis of trade receivables was as follows:

			Past due but not impaired		
31 December	Trade receivables	Neither past due nor impaired	< 3 months	3 to 6 months	6 to 12 months
2011	4,305	4,149	55	5	96
2012	**9,223**	**9,179**	**40**	**1**	**3**

Movements in provision for impairment of trade receivables were as follows:

Balance at 31 December 2010	**1,570**
Charge	202
Unused amounts reversed	(138)
Utilized	(15)
Reclassification from provision for impairment of other long-term assets	13
Reclassification to provision for impairment of other current assets	(192)
Balance at 31 December 2011	**1,440**
Charge	248
Unused amounts reversed	(99)
Utilized	(407)
Disposal of subsidiary	(57)
Balance at 31 December 2012	**1,125**

12. Financial assets – current

Current financial assets consisted of the following:

	31 December 2012	31 December 2011
Available-for-sale financial assets (bank promissory notes with original maturities of more than three months)	**850**	-
Rouble-denominated loans less provision	**13**	1,237
Financial assets at fair value through profit or loss	**-**	21
Deposit accounts	**520**	5,743
	1,383	7,001

Average effective interest rate for short-term loans issued by the Group for the year ended 31 December 2012 was nil (2011: 8.13%).

In 2012 deposit accounts carried interest rates of 7.07% - 10.8% (2011: 7% - 9.6%).

Changes in the provision for impairment of current financial assets were as follows:

Balance at 31 December 2010	**3,391**
Charge	102
Unused amounts reversed	(411)
Utilized	(336)
Reclassification from provision for impairment of other current assets	56
Balance at 31 December 2011	**2,802**
Charge	589
Unused amounts reversed	(180)
Utilized	(194)
Balance at 31 December 2012	**3,017**

(In millions of Russian Roubles)

13. Inventories

Inventories consisted of the following:

	31 December 2012	31 December 2011
Raw materials	**13,684**	12,641
Finished goods	**8,177**	7,814
Work in progress	**3,618**	3,890
	25,479	24,345

Inventories are recorded net of obsolescence provision of RR 461 as at 31 December 2012 (31 December 2011: RR 1,474). The carrying amount of inventories recorded at net realisable value as at 31 December 2012 was RR 776 (2011: RR 280).

During 2012 the cost of write-down of inventories recognised as an expense was RR 35 (2011: RR 45).

The reversal of write-down of inventories recognised as an income for the year ended 31 December 2012 was RR 349 (for the year ended 31 December 2011: RR 365).

14. Other current assets

Other current assets consisted of the following:

	31 December 2012	31 December 2011
Value added tax	**2,768**	2,228
Construction in progress in relation to real estate for resale	**217**	1,088
Receivables from the government under the car scrappage programme	**-**	84
Prepaid expenses and other receivables less provision	**1,978**	2,383
	4,963	5,783

Movements in provision for impairment of other current assets were as follows:

Balance at 31 December 2010	**3,857**
Charge	352
Unused amounts reversed	(994)
Utilized	(443)
Reclassification from provision for impairment of other long-term assets	449
Reclassification from provision for impairment of trade receivables	192
Reclassification to provision for impairment of current financial assets	(56)
Balance at 31 December 2011	**3,357**
Charge	89
Unused amounts reversed	(579)
Utilized	(303)
Disposal of subsidiary	(172)
Balance at 31 December 2012	**2,392**

(In millions of Russian Roubles)

15. Property, plant and equipment

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

	Buildings and land	Manufacturing equipment, machinery, specific tools	Office and other equipment	Assets under construction	Total
Cost					
Balance at 31 December 2010	75,100	132,014	7,728	7,689	222,531
Additions	-	-	-	14,649	14,649
Acquisition of a subsidiary (Note 7)	972	1,961	5	-	2,938
Disposals	(2,144)	(3,441)	(1,761)	(215)	(7,561)
Transfers	1,216	2,861	107	(4,184)	-
Balance at 31 December 2011	**75,144**	**133,395**	**6,079**	**17,939**	**232,557**
Accumulated depreciation and impairment					
Balance at 31 December 2010	(52,367)	(106,460)	(7,078)	(3,174)	(169,079)
Depreciation charge	(1,490)	(6,744)	(294)	-	(8,528)
Disposals	1,809	3,214	1,674	143	6,840
Reversal of impairment provision	-	-	-	7	7
Impairment charge	-	-	(15)	(109)	(124)
Balance at 31 December 2011	**(52,048)**	**(109,990)**	**(5,713)**	**(3,133)**	**(170,884)**
Net book amount					
Balance at 31 December 2010	**22,733**	**25,554**	**650**	**4,515**	**53,452**
Balance at 31 December 2011	**23,096**	**23,405**	**366**	**14,806**	**61,673**
Cost					
Balance at 31 December 2011	75,144	133,395	6,079	17,939	232,557
Additions	248	-	-	19,900	20,148
Disposals	(2,337)	(7,231)	(596)	(726)	(10,890)
Transfers	2,824	14,125	533	(17,482)	-
Assets of disposal group classified as held for sale	(1,345)	(6,368)	(78)	(216)	(8,007)
Balance at 31 December 2012	**74,534**	**133,921**	**5,938**	**19,415**	**233,808**
Accumulated depreciation and impairment					
Balance at 31 December 2011	(52,048)	(109,990)	(5,713)	(3,133)	(170,884)
Depreciation charge	(1,498)	(6,453)	(262)	-	(8,213)
Disposals	1,663	6,522	576	664	9,425
Reversal of impairment provision	-	-	-	59	59
Impairment charge	-	-	(23)	(84)	(107)
Assets of disposal group classified as held for sale	1,014	5,799	67	215	7,095
Balance at 31 December 2012	**(50,869)**	**(104,122)**	**(5,355)**	**(2,279)**	**(162,625)**
Net book amount					
Balance at 31 December 2011	**23,096**	**23,405**	**366**	**14,806**	**61,673**
Balance at 31 December 2012	**23,665**	**29,799**	**583**	**17,136**	**71,183**

Assets Under Construction (“AUC”) include the cost of property, plant and equipment which have not yet been put into production. The balance of accumulated depreciation and impairment of AUC represents an impairment provision against construction projects started but not expected to be completed as well as a provision against the construction of properties to be used by the local community.

Management annually reviews assets under construction and impairs those projects that are unlikely to be completed. Additionally, management reviews previous impairments and releases amounts if there is evidence that construction is to be completed.

The increase in impairment provision for AUC relates to projects identified during 2012 that are unlikely to be completed. Respective expenses of RR 84 were recorded in profit or loss for the year ended 31 December 2012 (2011: RR 109) and relate to the automotive segment.

(In millions of Russian Roubles)

15. Property, plant and equipment (continued)

The assets transferred to the Company upon privatization do not include the land on which the Company's factory and buildings, comprising the Group's principal manufacturing facilities, are situated. Until 11 December 2001 the land on which the Group's manufacturing facilities are situated was provided to the Company by local authorities for unlimited use. As a result of changes in existing legislation, on 11 December 2001 rental agreements were made with local authorities in relation to this land for the period of 49 years. Lease payments for land related to the Group's production facilities could be changed subject to agreement by the parties. The future aggregate minimum lease payments under non-cancellable operating leases of land as of 31 December 2011 are disclosed in Note 38.1.

In 2012 the Company purchased the land for RR 248 on which the Company's factory and buildings, comprising the Group's principal manufacturing facilities, are situated.

Properties used by the local community (such as health resorts and sports facilities) are included in property, plant and equipment at a carrying value of RR 859 and RR 880 as of 31 December 2012 and 31 December 2011, respectively. These properties are fully provided for.

The amount of borrowing costs capitalised during 2012 was RR 888 (2011: RR 434). The rate used to determine the amount of borrowing costs eligible for capitalization in 2012 was 7.13% (2011: 8.13%).

The aggregate amount of cash flows that represent increases in operating capacity was RR 19,311 (2011: RR 11,471).

As at 31 December 2012 and 31 December 2011, the gross carrying value of fully depreciated property, plant and equipment was RR 51,798 and RR 54,794, respectively.

Plant and equipment held by the Group under finance leases included:

	31 December 2012	31 December 2011
Cost – finance leases capitalised	**1,548**	1,571
Accumulated depreciation	**(1,545)**	(1,406)
Net book amount	**3**	165

16. Intangible assets

Intangible assets consisted of the following:

	Right to use licenses	Development costs	Other intangible assets	Total
Cost				
Balance at 31 December 2010	9,158	5,421	166	14,745
Additions	-	1,389	303	1,692
Write-off	-	(649)	(150)	(799)
Balance at 31 December 2011	**9,158**	**6,161**	**319**	**15,638**
Amortization and impairment				
Balance at 31 December 2010	-	(4,226)	(33)	(4,259)
Additions to accumulated amortization	-	(307)	(174)	(481)
Write-off	-	439	150	589
Balance at 31 December 2011	**-**	**(4,094)**	**(57)**	**(4,151)**
Carrying amount at 31 December 2011	**9,158**	**2,067**	**262**	**11,487**
Cost				
Balance at 31 December 2011	9,158	6,161	319	15,638
Additions	-	633	1,056	1,689
Write-off	-	(4,276)	(70)	(4,346)
Balance at 31 December 2012	**9,158**	**2,518**	**1,305**	**12,981**
Amortization and impairment				
Balance at 31 December 2011	-	(4,094)	(57)	(4,151)
Additions to accumulated amortization	(29)	(327)	(217)	(573)
Write-off	-	4,206	70	4,276
Balance at 31 December 2012	**(29)**	**(215)**	**(204)**	**(448)**
Carrying amount at 31 December 2012	**9,129**	**2,303**	**1,101**	**12,533**

(In millions of Russian Roubles)

16. Intangible assets (continued)

Intangible assets include the right to use licenses for production, assembling and sale of licensed cars and engines, which was bought in 2008 under license agreements with Renault s.a.s. The Group amortizes the right to use the license for production, assembling and sale of licensed cars of RR 4,163 from the date of start of production during 12 years in line with expected production volume. The Group will amortize the right to use the license for production, assembling and sale of licensed engines of RR 4,995 from the period of the commencement of production.

17. Financial assets – long-term

Long-term financial assets consisted of the following:

	31 December 2012	31 December 2011
Loans issued	**46**	50
Financial assets held to maturity	**-**	49
Available-for-sale financial assets	**20**	26
	66	125

As at 31 December 2012 available-for-sale financial assets include RR 20 (31 December 2011: RR 26) of investments in shares of other companies. The investees have not published recent financial information about their operations, their shares are not quoted. Management could not reliably estimate fair value of financial assets. Therefore, the investments are carried at actual acquisition cost.

In 2012 interest income on financial assets held to maturity was RR 4 (2011: RR 84).

Movements in provision for impairment of long-term financial assets were as follows:

Balance at 31 December 2010	**-**
Charge	237
Balance at 31 December 2011	**237**
Charge	211
Utilized	(5)
Balance at 31 December 2012	**443**

18. Investments in associates

Balance at 31 December 2010	**3,572**
Share of associates' profit	1,200
Disposals	(1,500)
Dividends received	(280)
Balance at 31 December 2011	**2,992**
Share of profit	450
Transfer from investment in associate into interest in a joint venture (see Note 19)	(3,040)
Disposals	(110)
Dividends received	(25)
Balance at 31 December 2012	**267**

Investments in associates consisted of the following:

	31 December 2012	31 December 2011
ZAO GM-AVTOVAZ	**-**	2,663
Other	**267**	329
	267	2,992

(In millions of Russian Roubles)

18. Investments in associates (continued)

The following amounts represent the Group's share in assets and liabilities, sales and financial results of associates, which have been consolidated using the equity method:

	31 December 2012	31 December 2011
Assets:		
Long-term assets	**82**	860
Current assets	**402**	3,568
Liabilities:		
Long-term liabilities	**(1)**	(82)
Current liabilities	**(216)**	(1,354)
Net assets	**267**	2,992
Investments in associates	**267**	2,992
Revenue	**2,036**	14,433
Expenses	**(1,586)**	(13,233)
Profit after income tax	**450**	1,200
Total comprehensive income	**450**	1,200

19. Interest in a joint venture

Interest in a joint venture consisted of investment in a joint venture ZAO GM-AVTOVAZ located in Togliatti, the Samara Oblast of the Russian Federation. ZAO GM-AVTOVAZ produces the Chevrolet NIVA vehicles form the assembly kits supplied by the Group. As at 31 December 2011 the shareholders of ZAO GM-AVTOVAZ were JSC AVTOVAZ (41.6%), GM Auslandsprojekte GMBH (41.6%) and EBRD (16.8%). In 2012 the general shareholders meeting of ZAO GM-AVTOVAZ decided to reduce the company's charter capital by means of repurchase and further cancellation of its issued shares owned by EBRD. As a result of this buy back transaction, JSC AVTOVAZ and GM Auslandsprojekte GMBH increased their ownership in ZAO GM-AVTOVAZ to 50% and the former associate became a joint venture.

Balance at 31 December 2011	**-**
Transfer into interest in a joint venture from investment in associate	**3,040**
Share of profit from joint venture	**678**
Dividends received	**(454)**
Balance at 31 December 2012	**3,264**

The following amounts represent assets and liabilities, sales and financial results of the joint venture, which have been consolidated using the equity method:

	31 December 2012
Assets:	
Long-term assets	**1,552**
Current assets	**7,656**
Liabilities:	
Long-term liabilities	**(176)**
Current liabilities	**(2,504)**
Net assets	**6,528**
Share of the Group in joint venture	**3,264**
Revenue	**22,974**
Depreciation and amortisation	**(78)**
Interest income	**260**
Income tax expense	**(498)**
Profit after income tax	**1,356**
Total comprehensive income	**1,356**
Share of the Group of profit from joint venture	**678**

(In millions of Russian Roubles)

20. Other long-term assets

Other long-term assets consisted of the following:

	31 December 2012	31 December 2011
Prepayments for long-term assets	**1,593**	700
Long-term rent of property	**767**	786
Long-term receivables	**148**	129
Prepayments for technical assistance	**-**	1,352
Other	**-**	14
	2,508	2,981

Movements in provision for impairment of other long-term assets were as follows:

Balance at 31 December 2010	**463**
Charge	863
Unused amounts reversed	(7)
Reclassification to provision for impairment of trade receivables	(13)
Reclassification to provision for impairment of other current assets	(449)
Balance at 31 December 2011	**857**
Utilized	(10)
Balance at 31 December 2012	**847**

21. Other payables and accrued expenses

Other payables and accrued expenses consisted of the following:

	31 December 2012	31 December 2011
Salaries payable and vacation accrual	**2,724**	3,295
Settlements on promissory note transactions	**961**	961
Accrued interest	**159**	155
Advances received by the subsidiary - real estate developer	**147**	1,056
Government grants	**9**	10
Dividends payable	**6**	174
Unearned insurance premiums and reserves for claims	**-**	81
Other	**826**	910
	4,832	6,642

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

22. Provisions

Movements in warranty provision were as follows:

Balance at 31 December 2010	**1,837**
Charge	1,461
Utilized	(1,376)
Acquisition of a subsidiary (Note 7)	10
Balance at 31 December 2011	**1,932**
Short-term portion	1,071
Long-term portion	861
	1,932
Charge	1,455
Utilized	(1,425)
Balance at 31 December 2012	**1,962**
Short-term portion	1,103
Long-term portion	859
	1,962

(In millions of Russian Roubles)

23. Loans and borrowings

Short-term loans and borrowings consisted of the following:

	Effective interest rate	31 December 2012	31 December 2011
Rouble-denominated interest-free loans	-	**-**	2,930
Rouble-denominated bank loans	9.46	**3,880**	2,235
Euro-denominated bank loans	5.78	**3,481**	1,379
Yen-denominated bank loans	3.07	**325**	-
Other loans	5.66	**551**	752
		8,237	7,296

Long-term loans and borrowings consisted of the following:

	Effective interest rate	31 December 2012	31 December 2011
Rouble-denominated interest-free loans	-	**5,137**	39,252
Rouble-denominated bank loans	9.85	**7,404**	2,159
Euro-denominated bank loans	5.18	**4,009**	3,742
Rouble-denominated interest-free bearer promissory notes	-	**1,425**	1,151
Yen-denominated bank loans	3.07	**122**	-
Other loans	5.61	**2,892**	69
		20,989	46,373

In June 2012 the Company signed amendments to the loan agreements with the Russian Technologies State Corporation for total nominal value of RR 51,282 and prolonged the repayment period of these loans up to 2032. These changes in loan terms were considered by the Company as substantial modification of the terms of existing financial liability and accounted for as extinguishment of the original financial liability and recognition of a new financial liability. This new financial liability was discounted using the prevailing market rate of interest for a similar instrument of 12.6%. Gain from discounting was recorded in the statement of comprehensive income for the year ended 31 December 2012 in the amount of discounting less related costs which the grant is intended to compensate.

In June 2012 the Company and Renault s.a.s. signed a loan agreement with a maturity period till 2023, using annual interest rate of 5.7%. The amount of Euro 52,070 thousand (or RR 2,095 at the exchange rate as of 31 December 2012) has been received under terms of this agreement.

In September 2012 the Company and Renault s.a.s. signed a loan agreement with a maturity period till 2023, using annual interest rate of 5.4%. The amount of Euro 21,525 thousand (or RR 866 at the exchange rate as of 31 December 2012) has been received under terms of this agreement.

The Russian Technologies State Corporation extinguished loans of nominal value of RR 4,117 (carrying value RR 3,027) that had been previously provided to the Company in exchange for the assets of disposed subsidiaries.

Rouble-denominated interest-free bearer promissory notes have a maturity period between 2017 and 2030. These notes were initially recorded at a fair value calculated using effective interest rates ranging between 22.5% and 24.5%. Their gross nominal value is RR 9,129 (31 December 2011: RR 9,129).

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

Long-term loans and borrowings are repayable as follows:

	31 December 2012	31 December 2011
Current portion of loans and borrowings	**2,423**	1,233
1 to 2 years	**4,655**	25,868
2 to 3 years	**4,693**	1,650
3 to 4 years	**933**	1,047
4 to 5 years	**1,114**	511
> 5 years	**9,594**	17,297
Total long-term loans and borrowings	**23,412**	47,606
Less current portion of loans and borrowings	**(2,423)**	(1,233)
Long-term portion of loans and borrowings	**20,989**	46,373

As at 31 December 2012 the Group had available RR 1,262 (31 December 2011: RR 2,812) of undrawn committed borrowing facilities.

(In millions of Russian Roubles)

23. Loans and borrowings (continued)

As at 31 December 2012 and 31 December 2011 the Group's loans and borrowings of RR 7,758 and RR 3,927, respectively, including short-term loans and borrowings, were guaranteed by different types of pledges presented below:

	31 December 2012	31 December 2011
Buildings	**1,410**	2,378
Equipment	**3,852**	1,554
Inventories	**279**	803
Securities	**-**	53
Accounts receivable	**-**	3
Other	**17**	159

24. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable were as follows:

	31 December 2012	31 December 2011
Value added tax	**321**	771
Property and other taxes	**623**	693
Social taxes	**601**	673
Penalties and interest on property and other taxes	**1**	35
	1,546	2,172

Long-term taxes payable

Non-current taxes payable comprise various taxes payable to the Russian government which were previously past due and which have been restructured.

The present value of this debt and its maturity profile are as follows:

	31 December 2012	31 December 2011
Current portion of restructured taxes	**-**	-
1 to 2 years	**194**	-
2 to 3 years	**251**	193
3 to 4 years	**413**	250
4 to 5 years	**314**	412
> 5 years	**-**	314
Total restructured taxes	**1,172**	1,169
Less current portion of restructured taxes	**-**	-
Long-term portion of restructured taxes	**1,172**	1,169

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

25. Share capital

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

	31 December 2012			31 December 2011		
	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	**1,822,463,131**	**9,112**	**29,937**	1,388,289,720	6,941	27,766
Total outstanding share capital	**2,284,227,431**	**11,421**	**39,172**	1,850,054,020	9,250	37,001

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

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

(In millions of Russian Roubles)

25. Share capital (continued)

Preference shareholders are entitled to 10% of the Company's net profit for the year, so dividend in respect of one class A preference share equals to 10% of the Company's net profit for the last financial year divided by the number of issued preference shares of the Company. A resolution regarding the payment and the amount of dividends is taken by the General Shareholders' Meeting upon recommendations of the Board of Directors in view of financial results for the year.

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

In June 2012 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2011 (2011: a decision not to pay dividends in respect of 2010). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

During 2011 434,173,411 ordinary shares at par value of 5 Russian roubles were placed among existing shareholders at the price of 40.24 Russian roubles per share. As at 31 December 2011 these shares were paid. All registration procedures were completed in February 2012.

26. Sales

The components of sales revenue were as follows:

	2012	2011
Finished vehicles and assembly kits of own production	**163,189**	155,618
Automotive components of own production	**16,403**	10,163
Dealership sales of other producers' vehicles	**1,309**	1,375
Other sales	**9,160**	7,917
	190,061	175,073

	2012	2011
Domestic sales	**171,300**	161,046
Sales in EU countries	**1,221**	1,689
Other sales	**17,540**	12,338
	190,061	175,073

Export sales amounted to RR 18,761 (2011: RR 14,027). Geographical information is presented based on the location of customers.

27. Cost of sales

The components of cost of sales were as follows:

	2012	2011
Materials and components, goods for resale	**125,845**	111,473
Labour costs	**24,439**	22,903
Depreciation and amortization	**8,283**	8,423
Social expenses	**1,298**	1,110
Changes in inventories of finished goods and work in progress	**(91)**	733
Production overheads and other expenses	**8,476**	7,462
	168,250	152,104

(In millions of Russian Roubles)

28. Administrative expenses

The components of administrative expenses were as follows:

	2012	2011
Labour costs	**7,031**	6,295
Third parties' services	**1,832**	1,785
Local and regional taxes	**1,733**	1,816
Materials	**802**	784
Transportation	**582**	765
Depreciation	**424**	379
Provision for impairment of trade receivables (Note 11)	**149**	64
Bank services	**139**	177
Repair expenses	**96**	228
(Reversal of)/charge to provision for impairment of other current assets (Note 14)	**(376)**	134
Other	**1,386**	1,274
	13,798	13,701

29. Distribution costs

The components of distribution costs were as follows:

	2012	2011
Transportation	**4,299**	4,321
Labour costs	**1,740**	1,648
Advertising	**1,219**	1,193
Materials	**840**	855
Depreciation	**79**	33
Other	**937**	1,052
	9,114	9,102

30. Research expenses

The components of research expenses were as follows:

	2012	2011
Third parties' services	**756**	475
Labour costs	**340**	227
Materials	**132**	198
Depreciation	**80**	43
Other	**397**	232
	1,705	1,175

31. Other operating income

The components of other operating income were as follows:

	2012	2011
Gain on disposal of subsidiaries and associates	**3,700**	1,509
Government subsidy	**256**	725
Gain on disposal of property, plant and equipment	**250**	156
Rental income	**221**	138
Reversal of provision for impairment of assets of subsidiary – real estate developer (Note 14)	**114**	776
Foreign exchange gain	**76**	-
Gain on bargain purchase	**-**	353
Reversal of provision for impairment of current financial assets (Note 12)	**-**	309
Other operating income	**896**	857
	5,513	4,823

(In millions of Russian Roubles)

32. Other operating expenses

The components of other operating expenses were as follows:

	2012	2011
Provision for impairment of current financial assets (Note 12)	**409**	-
Provision for impairment of long-term financial assets (Note 17)	**211**	237
Provision for impairment of property, plant and equipment (Note 15)	**48**	117
Provision for impairment of other long-term assets (Note 20)	**-**	856
One-off payment to employees	**-**	830
Foreign exchange loss	**-**	144
Other operating expenses	**1,200**	1,291
	1,868	3,475

33. Finance income

The components of finance income were as follows:

	2012	2011
Interest income	**801**	1,074
Foreign exchange gain	**145**	-
	946	1,074

34. Finance costs

The components of finance costs were as follows:

	2012	2011
Interest expense	**2,379**	4,448
Loss on extinguishment of debt	**-**	747
Finance lease expenses	**-**	204
Foreign exchange loss	**-**	169
	2,379	5,568

35. Assets of disposal group classified as held for sale

In 2012 management of the Group decided to sell 100% of OOO VMZ, a subsidiary of the Group. The subsidiary produces die moulds for the Company. Disposal of OOO VMZ is planned for 2013 and it is in line with management's program on separation of non-core activities. The subsidiary's activities related to Other segments.

The following amounts represent the major classes of assets and liabilities of OOO VMZ as at 31 December 2012:

	31 December 2012
Assets:	
Long-term assets	1,144
Cash and cash equivalents	26
Current assets	995
Total assets	**2,165**
Liabilities:	
Current liabilities	(641)
Total liabilities	**(641)**

(In millions of Russian Roubles)

36. Income tax expense

	2012	2011
Income tax expense – current	**285**	225
Deferred tax expense	**6,928**	1,561
	7,213	1,786

The tax expense of the Group is reconciled as follows:

	2012	2011
Profit before taxation	**36,393**	8,463
Theoretical tax expenses at statutory rate of 20%	**7,279**	1,693
Unrecognised tax losses carried forward	**(168)**	(94)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	**(82)**	(71)
Non-deductible expenses	**184**	258
	7,213	1,786

During 2012 most of the Group's entities were subject to tax rate of 20% on taxable profits.

Deferred tax assets and liabilities:

	31 December 2010	**Movement for 2011**	**Business combinations**	**31 December 2011**	**Movement for 2012**	**31 December 2012**
Tax effects of temporary differences:						
Provision for impairment of receivables	182	(31)	-	151	(19)	132
General and overhead expenses allocation on inventories	(548)	120	-	(428)	196	(232)
Effect of inflation, different depreciation rates and provision for impairment of property, plant and equipment	(2,338)	241	(85)	(2,182)	(670)	(2,852)
Difference in depreciation and provision for impairment of intangible assets	(10)	(739)	-	(749)	(593)	(1,342)
Accounts payable and provisions	1,179	77	-	1,256	(190)	1,066
Discounting of loans and borrowings	(2,983)	(1,254)	-	(4,237)	(6,533)	(10,770)
Other temporary differences	479	180	(6)	653	(388)	265
	(4,039)	(1,406)	(91)	(5,536)	(8,197)	(13,733)
Tax losses carried forward	5,382	(249)	-	5,133	1,101	6,234
Unrecognised tax losses carried forward	(558)	94	-	(464)	168	(296)
Deferred tax assets/(liabilities), net	785	(1,561)	(91)	(867)	(6,928)	(7,795)

Reflected in the statement of financial position:

	31 December 2010	31 December 2011	31 December 2012
Deferred tax assets	981	322	372
Deferred tax liabilities	(196)	(1,189)	(8,399)
Deferred tax assets of disposal group classified as held for sale	-	-	232
Deferred tax assets/(liabilities), net	785	(867)	(7,795)

(In millions of Russian Roubles)

36. Income tax expense (continued)

As at 31 December 2012 cumulative tax loss in the amount of RR 29,690 (31 December 2011: RR 23,345), for which deferred tax asset was recognised, is available for offset against future taxable profit during successive 6-10 years.

The deductible temporary differences associated with investments in subsidiaries amount to RR 5,143 and RR 8,356 as of 31 December 2012 and 31 December 2011, respectively. A deferred tax asset in respect of deductible temporary difference related to the Group's investments in subsidiaries was not recognized as it is not probable that taxable profit will be available in the foreseeable future against which the temporary difference can be utilized.

37. Earnings per share

The earnings per share were calculated by dividing profit or loss attributable to all equity holders by the weighted average number of all shares outstanding during the period.

	31 December 2012	31 December 2011
Weighted average number of ordinary and preference shares outstanding (thousands)	**2,284,227**	2,088,153
Profit attributable to ordinary/preference equity holders of the Company	**29,110**	6,793
Profit attributable to ordinary/preference equity holders of the Company	**29,110**	6,793
Earnings per share (in Roubles): -basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	**12.74**	3.25

There are no dilution factors, therefore basic earnings per share equals diluted earnings per share.

38. Contingencies, commitments and guarantees

38.1 Contractual commitments and guarantees

As at 31 December 2012 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 2,223 (31 December 2011: RR 8,219). In addition, the Group issued financial guarantees to third parties in the amount of RR 940 (31 December 2011: RR 89). There are no other commitments and guarantees in favour of third parties or related companies that are not disclosed in these consolidated financial statements.

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

	31 December 2012	31 December 2011
Not later than 1 year	**75**	233
Later than 1 year and not later than 5 years	**300**	931
Later than 5 years	**2,479**	7,913
	2,854	9,077

The amount of lease payments recognised as an expense for the year ended 31 December 2012 was RR 75 (2011: RR 233).

38.2 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 it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be accrued. 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 at 31 December 2012 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions 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 burden 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.

38. Contingencies, commitments and guarantees (continued)

38.2 Taxation (continued)

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RR 3 billion in 2012. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

38.3 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.

38.4 Legal proceedings

During 2012, 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.

38.5 Operating environment in Russia

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

39. 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 produced by the Company and OAG acquired in October 2011;
- 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 activities of insurance companies and other subsidiaries that are engaged in non-core activities.

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)

39. 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	
Year ended 31 December	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue										
Sales to external customers	140,403	123,068	28,591	39,211	21,067	12,794	-	-	190,061	175,073
Inter-segment sales	53,594	53,283	897	949	11,924	6,358	(66,415)	(60,590)	-	-
Total revenue	193,997	176,351	29,488	40,160	32,991	19,152	(66,415)	(60,590)	190,061	175,073
Results										
Depreciation and amortisation	(6,457)	(6,226)	(133)	(164)	(898)	(205)	-	-	(7,488)	(6,595)
Impairment of assets	240	741	(146)	(57)	131	(73)	-	-	225	611
Interest expense	(542)	(372)	(195)	(161)	(152)	(307)	-	-	(889)	(840)
Income tax expense	(106)	(346)	(118)	(190)	(129)	(86)	-	-	(353)	(622)
Statutory profit/(loss) for the year	(616)	2,982	192	406	(743)	4	-	-	(1,167)	3,392

	2012	2011
IFRS adjustments, net of deferred tax		
Discounting of loan received from Russian Technologies State Corporation, net of interest expense	27,646	5,616
Adjustment related to disposal of subsidiaries and associate companies	2,427	(495)
Gain on bargain purchase	-	353
Adjustments attributable to intangible assets	139	(28)
Provision for one-off payment to employees	664	(664)
Adjustments attributable to property, plant and equipment	(650)	(1,453)
Provision for impairment of assets	(530)	(380)
Adjustment attributable to associates	409	1,092
Adjustment attributable to joint venture	617	-
Dividends received from associate companies	(23)	(255)
Dividends received from joint venture	(413)	-
Others	61	(501)
IFRS profit for the year	**29,180**	**6,677**

Inter-segment revenues are eliminated on consolidation.

	Automotive		Dealership network		Other segments		Eliminations		Total	
	31 December		**31 December**		**31 December**		**31 December**		**31 December**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Segment assets	151,494	138,948	11,629	12,144	17,308	16,321	(28,030)	(26,659)	152,401	140,754
IFRS adjustments										
Adjustments attributable to property, plant and equipment									(5,290)	(6,663)
Adjustments attributable to intangible assets									146	(50)
Charge to provision for impairment of assets									(1,900)	(1,632)
Adjustment related to deferred tax assets									(3,492)	(4,796)
Others									(87)	964
IFRS total assets									**141,778**	**128,577**

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

(In millions of Russian Roubles)

40. Financial risk management objectives and policies

The Group's principal financial liabilities comprise bank loans, bonds, finance leases, trade payables and loans received. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposits, which arise directly from its operations.

It is, and has been throughout 2012 and 2011 the Group's policy that no trading in derivatives shall be undertaken. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk.

Foreign currency risk

The Group carries out sales both within and outside the Russian Federation (see Note 26). As a result the Group has currency exposures. Such exposure arises from sales in currencies other than Group's functional currency. Approximately 1% of sales is denominated in currencies other than Roubles, whilst almost 100% of costs is denominated in the functional currency. In addition, the Group has over RR 10,922 of loans and borrowings received denominated in currencies other than Group's functional currency. Risk management is carried out by JSC AVTOVAZ Finance Department, which identifies, evaluates and manages foreign exchange risks by analysing the net position in each foreign currency. The Group is not exposed to equity securities price risk. The Group has not entered into any hedging arrangements in respect of its foreign currency exposure.

The following table demonstrates the sensitivity to a change in the US dollar, Euro and Japanese Yen exchange rate of the Group's profit before tax.

	Increase/decrease in exchange rate, %	Effect on profit before tax
2012		
Euro/RR	9.49	(1,214)
USD/RR	10.72	(84)
JPY/RR	14.76	(73)
Euro/RR	-9.49	1,214
USD/RR	-10.72	84
JPY/RR	-14.76	73
2011		
Euro/RR	11.77	(862)
USD/RR	12.50	1
JPY/RR	18.54	(115)
Euro/RR	-11.77	862
USD/RR	-12.50	(1)
JPY/RR	-18.54	115

Credit risk

As at 31 December 2012 the Group has RR 8,372 (31 December 2011: RR 7,563) in cash and cash equivalents, RR 1,383 of current financial assets (31 December 2011: RR 7,001) and RR 66 (31 December 2011: RR 125) of long-term financial assets subject to potential credit risk. Credit risk in relation to these financial assets arises from default of the counterparty with maximum exposure equal to the carrying amount.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount. There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group monitors its risk to a shortage of funds using recurring planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from its operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bonds and finance leases.

(In millions of Russian Roubles)

40. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarizes the maturity of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments.

	Less than three months	3 to 12 months	1 to 5 years	> 5 years	Total
Year ended 31 December 2012					
Loans and borrowings	**2,849**	**6,701**	**14,761**	**62,797**	**87,108**
Trade and other payables	**28,300**	**-**	**-**	**-**	**28,300**
Year ended 31 December 2011					
Loans and borrowings	1,643	5,954	32,390	35,428	75,415
Trade and other payables	26,193	-	-	-	26,193

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. The majority of interest rates on borrowings are fixed. Existing interest rates can be changed subject to agreement by the third parties. Financial assets are either non-interest bearing or bear interest at fixed rates; the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of financial instruments:

	Carrying amount		Fair values	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
FINANCIAL ASSETS:				
Cash and cash equivalents	**8,372**	7,563	**8,372**	7,563
Financial assets – current	**1,383**	7,001	**1,383**	7,001
Financial assets – long-term	**46**	99	**46**	99
Trade receivables	**9,223**	4,305	**9,223**	4,305
FINANCIAL LIABILITIES:				
Short-term loans and borrowings	**8,237**	7,296	**8,237**	7,296
Long-term loans and borrowings	**20,989**	46,373	**22,451**	48,212
Trade payables	**23,468**	19,551	**23,468**	19,551
Long-term taxes other than income tax	**1,172**	1,169	**1,353**	1,363

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and short-term deposits, financial assets, trade receivables and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2012, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

Fair value of quoted securities recorded within financial assets at fair value through profit or loss is based on price quotations at the reporting date.

The fair value of unquoted instruments, loans from banks, long-term promissory notes issued, obligations under finance leases as well as other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Discount rate used for assessment of fair value of long-term borrowings was 12.6% (2011: 9.2%). To assess the fair value of long-term taxes liabilities they were discounted at 8.25% rate (2011: 8%).

Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.

(In millions of Russian Roubles)

40. Financial risk management objectives and policies (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2012 and 2011 the Group held the following financial instruments measured at fair value.

Assets measured at fair value	31 December 2012	Level 1	Level 2	Level 3
Available-for-sale current financial assets - Bank promissory notes (Note 12)	850	-	850	-

Assets measured at fair value	31 December 2011	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss (Note 12)	21	21	-	-

During the year ended 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during 2012 and 2011.

41. Events after the reporting period

Following the liquidity crisis in Cyprus in the beginning of 2013, Cyprus government and the Eurogroup (together with the International Monetary Fund) reached an agreement on 25 March 2013 on a package of measures intended to restore the viability of the financial sector. The Cypriot authorities will introduce a set of measures, including the closure of one of the leading banks, mandatory conversion of certain deposits into shares in another bank, temporary restrictions on cash withdrawals, compulsory renewal of maturing deposits and restrictions on capital movements.

The Group had RR 641 with those banks as at 31 December 2012. There is a risk that a part of these funds will not be recoverable. Management is not able to estimate the amount of potential losses at the date of approval of these financial statements. Also, the Group may be partly affected by the temporary restrictions described above.