AVTOVAZ GROUP

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

31 December 2014

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Совершенствуя бизнес,
улучшаем мир

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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 2014, 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.

Совершенствуя бизнес,
улучшаем мир

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 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

27 March 2015

(In millions of Russian Roubles)

	Note	**31 December 2014**	31 December 2013
ASSETS			
Current assets:			
Cash and cash equivalents	9, 38	**8,798**	3,384
Trade receivables	10, 38	**16,548**	5,848
Financial assets	11, 38	**1,954**	176
Inventories	12	**21,161**	28,233
Other current assets	13	**6,568**	5,326
		55,029	42,967
Long-term assets:			
Property, plant and equipment	14	**73,745**	77,713
Financial assets	16, 38	**52**	90
Investments in associates	17	**337**	238
Interest in a joint venture	18	**3,092**	2,865
Intangible assets	15	**14,540**	13,296
Deferred tax assets	34	**553**	566
Other long-term assets	19	**17,545**	4,519
		109,864	99,287
Total assets		**164,893**	142,254
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	38	**40,384**	16,954
Other payables and accrued expenses	20	**5,020**	4,891
Income tax liability		**39**	45
Taxes other than income tax	23	**4,293**	1,657
Provisions	21	**1,111**	1,130
Loans and borrowings	22, 38	**39,248**	23,247
Advances from customers		**1,728**	1,000
		91,823	48,924
Long-term liabilities:			
Loans and borrowings	22, 38	**29,116**	23,404
Taxes other than income tax	23, 38	**727**	978
Provisions	21	**700**	807
Deferred tax liabilities	34	**5,238**	5,596
Advances received	8	**2,368**	2,785
		38,149	33,570
Total liabilities		**129,972**	82,494
Equity attributable to equity holders of the Company			
Share capital	24	**39,172**	39,172
Share premium		**15,300**	15,300
Currency translation adjustment		**468**	257
(Accumulated losses)/retained earnings		**(20,388)**	4,723
		34,552	59,452
Non-controlling interests		**369**	308
Total equity		**34,921**	59,760
Total liabilities and equity		**164,893**	142,254

Bo Inge Andersson
President, JSC AVTOVAZ

27 March 2015

S. A. Kochetkova
Chief Accountant, JSC AVTOVAZ

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

	Note	Year ended 31 December **2014**	2013
Sales	25	**190,734**	177,049
Cost of sales	26	**(178,858)**	(163,687)
Gross profit		**11,876**	13,362
Administrative expenses	27	**(11,440)**	(14,274)
Distribution costs	28	**(7,903)**	(8,314)
Provision for impairment of long-term assets		**(2,463)**	(240)
Research expenses	29	**(827)**	(2,117)
Share of associates' profit	17	**31**	25
Share of profit from joint venture	18	**227**	1,066
Other operating income	30	**2,535**	4,857
Other operating expenses	31	**(6,666)**	(1,106)
Operating loss		**(14,630)**	(6,741)
Finance income		**593**	410
Finance costs	32	**(11,269)**	(4,173)
Loss before taxation		**(25,306)**	(10,504)
Income tax benefit	34	**256**	2,607
Loss for the year		**(25,050)**	(7,897)
(Loss)/profit attributable to:			
Equity holders of the Company		**(25,111)**	(7,690)
Non-controlling interests		**61**	(207)
		(25,050)	(7,897)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation adjustment		**211**	151
Total other comprehensive income for the year to be reclassified to profit or loss in subsequent periods, net of taxes		**211**	151
Total comprehensive loss for the year, net of taxes		**(24,839)**	(7,746)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(24,900)**	(7,539)
Non-controlling interests		**61**	(207)
Total comprehensive loss for the year, net of taxes		**(24,839)**	(7,746)
Loss per share, basic/diluted (in RR):			
- loss for the year attributable to ordinary/preference equity holders of the Company	35	**(10.99)**	(3.37)

The accompanying notes on pages 9 to 43 are an integral part of these consolidated financial statements.

(In millions of Russian Roubles)

	Note	Year ended 31 December 2014	2013
Cash flows from operating activities:			
Loss before taxation		**(25,306)**	(10,504)
Adjustments for:			
Depreciation and amortization	14, 15	**10,770**	9,562
Charge to provision for impairment of trade receivables	27	**65**	885
(Reversal of) / charge to provision for impairment of other current assets	27	**(184)**	286
Reversal of provision for impairment of current financial assets	30	**(80)**	(286)
Charge to provision for impairment of long-term financial assets	31	**42**	-
Charge to provision for impairment of other long-term assets	27	**6**	605
Interest expense	32	**4,871**	2,778
Charge to provision for impairment of long-term assets	4, 14 ,15	**2,463**	240
Loss from return of OOO VMZ	31	**1,314**	-
Impairment of long-term assets	31	**753**	-
Loss / (gain) on disposal of property, plant and equipment	30, 31	**85**	(42)
Share of associates' profit	17	**(31)**	(25)
Share of profit from joint venture	18	**(227)**	(1,066)
Gain on derecognition of financial liability	30	**(213)**	(2,276)
Gain on disposal of subsidiaries and associates	30	**(118)**	(585)
Foreign exchange effect on non-operating balances		**6,296**	1,363
Operating cash flows before working capital changes		**506**	935
Change in trade receivables		**(10,982)**	2,247
Change in current financial and other assets		**(1,200)**	(1,811)
Change in inventories		**7,304**	(3,302)
Change in trade payables and other payables and accrued expenses		**16,318**	(1,962)
Change in tax liabilities other than income tax		**2,005**	(26)
Change in advances		**478**	532
Cash generated from / (used in) operations		**14,429**	(3,387)
Income tax paid		**(95)**	(140)
Interest received		**504**	535
Interest paid		**(4,122)**	(2,361)
Net cash generated from / (used in) operating activities		**10,716**	(5,353)
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets		**(18,984)**	(20,405)
Proceeds from the sale of property, plant and equipment		**456**	567
Proceeds from the sale of financial assets		**245**	1,753
Proceeds from the sale of subsidiaries less cash disposed of		**742**	131
Purchase of financial assets		**(1,920)**	(198)
Dividends received		**51**	1,501
Net cash used in investing activities		**(19,410)**	(16,651)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**36,997**	24,429
Repayment of loans and borrowings		**(22,991)**	(8,180)
Long-term advances received		**-**	709
Net cash generated from financing activities		**14,006**	16,958
Effect of exchange rate changes		**102**	32
Net increase / (decrease) in cash and cash equivalents		**5,414**	(5,014)
Cash and cash equivalents at the beginning of the year	9	**3,384**	8,398
Cash and cash equivalents at the end of the year	9	**8,798**	3,384

(In millions of Russian Roubles)

	Equity attributable to equity holders of the Company						
	Share capital	Share premium	Currency translation adjustment	(Accumu-lated losses)/ retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2012	**39,172**	**15,300**	**106**	**12,413**	**66,991**	**515**	**67,506**
Loss for the period	-	-	-	(7,690)	(7,690)	(207)	(7,897)
Other comprehensive income	-	-	151	-	151	-	151
Total comprehensive income/(loss)	**-**	**-**	**151**	**(7,690)**	**(7,539)**	**(207)**	**(7,746)**
Balance at 31 December 2013	**39,172**	**15,300**	**257**	**4,723**	**59,452**	**308**	**59,760**
(Loss) / income for the period	-	-	-	(25,111)	(25,111)	61	(25,050)
Other comprehensive income	-	-	211	-	211	-	211
Total comprehensive income/(loss)	**-**	**-**	**211**	**(25,111)**	**(24,900)**	**61**	**(24,839)**
Balance at 31 December 2014	**39,172**	**15,300**	**468**	**(20,388)**	**34,552**	**369**	**34,921**

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 cities of Togliatti and Izhevsk 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 in Yuzhnoye Shosse, 36, Togliatti, Samara region, 445024, the Russian Federation.

In December 2012 the major shareholders of the Company singed a partnership agreement. This agreement created an entity named Alliance Rostec Auto B.V. This entity was formed to hold all the interests in the Company owned by Renault s.a.s., Nissan International Holding B.V. and State Corporation Rostechnologii. As a result of transactions with equity shares of the Company among the shareholders that took place in 2013, Alliance Rostec Auto B.V. held 74.51% of total equity shares of the Company. As at 31 December 2014 50% less one share of equity interest in Alliance Rostec Auto B.V. belonged to Renault s.a.s., 32.87% to State Corporation Rostechnologii and 17.13% to Nissan International Holding B.V.

In 2013 JSC AVTOVAZ launched the production of Nissan model and in 2014 - Renault and Datsun models.

These consolidated financial statements were authorized for issue by the president of JSC AVTOVAZ on 27 March 2015.

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 equity investments and bank promissory notes, which are accounted at fair value (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 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32;
Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39;
Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36;
IFRIC 21 *Levies*;
Annual Improvements 2010-2012 Cycle;
Annual Improvements 2011-2013 Cycle.

The adoption of the standards or interpretations is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

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' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. See Note 14 and 15 and for disclosure related to impairment of non-financial assets.

IFRIC 21 *Levies*
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

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.

IFRS 9 *Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 *Share-based Payment*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 *Operating Segments*

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 *Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 *Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

IFRS 10 *Consolidated Financial Statements*

In September 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements, and IAS 28 Investments in Associates and Joint Ventures, entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These narrow scope amendments clarify, that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014.

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.

3. Summary of significant accounting policies (continued)

3.2 Basis of consolidation (continued)

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 amortized 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.

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

The 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 does 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.

Joint operation

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group recognizes its share in assets, liabilities, revenue and expenses in relation to its interest in a joint operation.

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 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.

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

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.

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 amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

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.

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.

3. Summary of significant accounting policies (continued)

3.9 Property, plant and equipment (continued)

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.

3.10 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 and engines is amortized from the date of start of production using a straight-line method during a period from 7 to 12 years.

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. Summary of significant accounting policies (continued)

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.

3.13 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. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant. The loan or assistance is initially recognised and measured at fair value and the government grant is measured as the difference between the initial carrying value of the loan and the proceeds received. The loan is subsequently measured as per the accounting policy in Note 3.13.

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.

3. Summary of significant accounting policies (continued)

3.15 Foreign currency transactions and translation (continued)

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 2014 of RR 56.2584 = US$ 1 (31 December 2013: RR 32.7292 = US$ 1), RR 68.3427 = Euro 1 (31 December 2013: RR 44.9699 = Euro 1) and RR 0.470644 = JPY 1 (31 December 2013: RR 0.310568 = 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 maintains recreation departments 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.

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.

3. Summary of significant accounting policies (continued)
3.21 Shareholders' equity (continued)
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 Comparatives
In order to achieve consistency of presentation with the current reporting period, changes have been made to the comparative figures in the consolidated statement of comprehensive income related to expenses on property tax. As a result of reclassification in 2014 comparative figures for 2013 were changed and cost of sales increased by RR 748, distribution costs increased by RR 31 and administrative expenses decreased by RR 779.

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.

4.1 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 2,595 higher or RR 2,868 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 5,559 higher or RR 6,144 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 discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2014, the Group recognised an impairment loss of RR 2,577 (Note 14, 15).

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of the financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any impairment.

4. Critical accounting estimates (continued)

4.3 Impairment of non-financial assets (continued)

Key assumptions used in value in use calculations performed as of 31 December 2014

The calculation of value-in-use for the cash-generating unit is most sensitive to the following assumptions:

- Market share and sales volumes;
- Receipt of government subsidies; and
- Discount rates.

Market share and sales volumes – This assumption is based on the forecast of increase of sales volume of LADA brand vehicles by 16% from 2015 to 2020. The Company's market share projections do not exceed 20% of total Russian automotive market.

Receipt of government subsidies – In accordance with Government resolutions ## 29, 30, 31, 32 issued in 2014, automotive manufacturers may apply for the subsidies to compensate expenses for personnel, electricity, research and development and other production costs. Receipt of the subsidies is subject to approval of a budget for the purposes set out in the Government resolutions by the Ministry of Industry and Trade of the Russian Federation for each financial year.

Discount rates – Discount rate of 15.3% reflects the current market assessment of the risks specific to the cash-generating unit. The discount rate is estimated based on average percentage of a weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

Sensitivity to changes in assumptions

While assessing value-in-use, management expects that a change in key assumptions may result in a different impairment loss. Implications of the key assumptions for the recoverable amount are discussed below.

With all other assumptions held constant, if the Group fails to fulfil the planned increase in sales volume of LADA brand vehicles by 5%, a further impairment loss will be approximately RR 14,800.

If the Group does not continue to receive subsidies, it would lead to further impairment loss.

With all other assumptions held constant, a decrease in the discount rate by 0.3% would lead to reversal of impairment loss of approximately RR 2,000 and increase in the discount rate by 1.7% would lead to further impairment loss of approximately RR 10,700.

4.4 Changes in accounting estimates

In 2008 the Group and Renault s.a.s. signed license agreements in relation to production, assembling and sale of licensed cars and engines. From 1 January 2014 the Group changed amortization method for the license for production, assembling and sale of cars from the unit-of-production method to the straight-line method because based on the new long-term production plan this method better reflects the expected usage of the license. The change in amortization method resulted in additional amortization charge of RR 215 and was accounted for as changes in accounting estimates in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Note 15).

4.5 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.

(In millions of Russian Roubles)

5. Significant accounting judgements (continued)

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.

As at 31 December 2014 deferred tax asset in respect of tax losses of RR 18,025 carried forward (31 December 2013: RR 1,205) has not been recognised as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses.

5.3 Development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

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 2014 % share**	31 December 2013 % 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	**90**	90
127 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 2014 % share**	31 December 2013 % share
Ferro VAZ GmbH	Germany	Export and import of machinery, equipment and spare parts	**50**	50

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

Entity	Country of incorporation	Activity	**31 December 2014 % share**	31 December 2013 % share
ZAO GM-AVTOVAZ	Russia	Vehicle production	**50**	50

7. Business combination

In September 2013 the Group sold its 100% subsidiary OOO VMZ to its shareholder, the State Corporation Rostechnologii. Under the terms of sale agreement, the settlement for shares of the subsidiary had to be made by set-off of liability of the Group to the State Corporation Rostechnologii for the interest-free loan of nominal value of RR 5,000 (carrying value of the loan at the date of disposal was RR 550). The settlement for shares was postponed to 2014 till fulfilment of certain terms of the sales arrangement.

In 2014 the parties jointly agreed to return OOO VMZ under control of AVTOVAZ Group due to the changes in the future plans in relation to subsidiary. As a result, the Group returned the control over OOO VMZ, which represented a separate transaction and was accounted for under the acquisition method. In September 2014 the Group purchased back the subsidiary and assumed loan payable.

The subsidiary produces moulds and auto components for LADA brand vehicles and relates to Other segments.

(In millions of Russian Roubles)

7. Business combination (continued)

The fair values of the identifiable assets and liabilities of OOO VMZ as at the date of return of control to AVTOVAZ Group were:

	At the date of return of control
Assets:	
Property, plant and equipment	345
Total long-term assets	**345**
Cash	20
Inventories	324
Trade receivables	86
Other current assets	28
Total current assets	**458**
Total assets	**803**
Liabilities:	
Long-term liabilities	**-**
Trade and other payables	1,497
Total current liabilities	**1,497**
Total liabilities	**1,497**
Net liabilities at the date of returning of control	**(694)**
Purchase consideration transferred (carrying value of interest-free loan at the date of return of control)	(620)
Goodwill arising on return of control over OOO VMZ	1,314
Goodwill write-off	**(1,314)**

The Group wrote off goodwill raised on the transaction as it does not meet the criteria for recognition as an intangible asset under IAS 38.

From the date of returning of control to the Group, OOO VMZ contributed RR 366 of revenue and RR 249 to loss before tax from continuing operations of the Group. Net cash acquired with the subsidiary included in cash flows from investing activities was RR 20.

8. 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 2013 and 2014 the Group entered into transactions with the following related parties: associates, a joint venture, companies that exercise significant influence via shareholders 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, State Corporation Rostechnologii is owned by the Russian Government.

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

As at 31 December 2014 and 31 December 2013 the Group had balances with the companies controlled by the Russian Government, which are detailed below.

	31 December 2014	31 December 2013
Cash and cash equivalents	**4,350**	1,157
Trade receivables before provision charge	**565**	1,465
Provision for impairment of trade receivables	**(2)**	(823)
Other current assets before provision charge	**927**	1,434
Provision for impairment of other current assets	**(88)**	(2)
Other long-term assets before provision charge	**352**	1,334
Provision for impairment of other long-term assets	**-**	(605)
Current financial assets before provision charge	**1,941**	-
Trade payables	**2,688**	1,234
Advances received short-term	**19**	-
Other payables	**157**	134
Loans and borrowings	**44 392**	24,596
Collateral issued by the Group	**12,983**	10,285
Loans received from State Corporation Rostechnologii	**6,513**	5,784

(In millions of Russian Roubles)

8. Balances and transactions with related parties (continued)

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

In 2014 and 2013 the Group entered into transactions with the companies controlled by the Russian Government, which are detailed below.

	2014	2013
Sales	**1,140**	1,226
Purchases of services, equipment, goods and inventory	**25,446**	27,279
Interest income	**306**	192
Interest expenses	**3,167**	1,331
Charge of provision for impairment of trade receivables	**2**	814
Charge of provision for impairment of other long-term assets	**-**	605
Charge of provision for impairment of other current assets	**86**	-

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 obtained based on the market interest rates. Taxes are accrued and paid in accordance with the applicable tax law.

8.2 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 2014 and 31 December 2013, except for companies directly or indirectly controlled by the Russian Government, are detailed below.

	Relationship	**31 December 2014**	31 December 2013
Trade receivables before provision charge	Joint venture	**782**	882
Trade receivables before provision charge	Significant influence via shareholder	**10,104**	1,855
Other current assets before provision charge	Significant influence via shareholder	**289**	12
Other current assets before provision charge	Associates	**1**	-
Other long-term assets before provision charge	Significant influence via shareholder	**14,037**	637
Other long-term assets before provision charge	Associates	**5**	-
Trade payables	Associates	**320**	318
Trade payables	Joint venture	**23**	34
Trade payables	Significant influence via shareholder	**8,737**	1,719
Other payables	Associates	**-**	13
Other payables	Joint venture	**2**	2
Other payables	Significant influence via shareholder	**197**	125
Loans and borrowings	Significant influence via shareholder	**7,561**	5,528
Advances received short-term	Significant influence via shareholder	**602**	285
Advances received long-term	Significant influence via shareholder	**2,368**	2,785

As at 31 December 2014 the Company had interest-free advance payments of RR 2,736 from Nissan Manufacturing RUS LLC (hereinafter – "Nissan"). According to the terms of the advance payments, proceeds from this advances can be used only to finance purchase of equipment. In exchange for the advances JSC AVTOVAZ agrees to make available to Nissan the reserved capacity on a new production line. During 2014 the Company offset trade receivables in amount of RR 334 against interest-free advances received from Nissan.

The income and expense items with related parties for the year ended 31 December 2014 and 31 December 2013 were as follows:

	Relationship	**2014**	2013
Dividends	Associates	**51**	-
Sales	Joint venture	**6,664**	7,939
Sales	Significant influence via shareholder	**45,468**	9,968
Purchases of goods, inventory and services	Associates	**1,417**	1,404
Purchases of equipment	Associates	**26**	13
Purchases of equipment	Significant influence via shareholder	**1,711**	924
Purchases of services	Significant influence via shareholder	**2,136**	1,263
Purchases of inventory	Significant influence via shareholder	**31,852**	18,218
Purchases of intangible assets	Significant influence via shareholder	**2,288**	563
Interest expenses	Significant influence via shareholder	**93**	198
Purchases of goods, inventory and services	Joint venture	**754**	937
Administrative expenses	Short-term employee benefits - compensation of the Key Management*	**318**	325
Administrative expenses	Short-term employee benefits - one-time termination payment to previous Key Management	**196**	-

* Employee benefit for 14 key management positions in 2014 vs. 12 in 2013; compensation partly nominated in foreign currency

(In millions of Russian Roubles)

9. Cash and cash equivalents

Cash and cash equivalents were as follows:

	31 December 2014	31 December 2013
Short-term deposits and bank promissory notes	**5,665**	1,738
Rouble-denominated cash on hand and balances with banks	**3,133**	1,646
	8,798	3,384

As at 31 December 2014 cash deposits of RR 5,665 (31 December 2013: RR 1,726) bear interest of 7% - 27.45% (2013: 4% - 8%). As at 31 December 2014 the Group held no bank promissory notes. As at 31 December 2013 held bank promissory notes in the amount of RR 12, which bore interest of 5.02%. The Group's balances with bank are not interest-bearing.

10. 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
2013	5,848	5,723	102	15	8
2014	**16,548**	**16,163**	**171**	**43**	**171**

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

Balance at 31 December 2012	**1,125**
Charge	926
Unused amounts reversed	(41)
Utilized	(288)
Disposal of subsidiary	(525)
Balance at 31 December 2013	**1,197**
Charge	110
Unused amounts reversed	(45)
Utilized	(859)
Disposal of subsidiary	(19)
Balance at 31 December 2014	**384**

11. Financial assets – current

Current financial assets consisted of the following:

	31 December 2014	31 December 2013
Rouble-denominated loans less provision	**1,954**	14
Deposit accounts	**-**	152
Available-for-sale financial assets (bank promissory notes with original maturities of more than three months)	**-**	10
	1,954	176

Average effective interest rate for short-term loans issued by the Group for the period ended 31 December 2014 was 14.8% (2013: nil).

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

Balance at 31 December 2012	**3,017**
Charge	3
Unused amounts reversed	(289)
Utilized	(960)
Disposal of subsidiary	(879)
Balance at 31 December 2013	**892**
Charge	27
Unused amounts reversed	(107)
Utilized	(1)
Balance at 31 December 2014	**811**

(In millions of Russian Roubles)

12. Inventories

Inventories consisted of the following:

	31 December 2014	31 December 2013
Raw materials	**13,749**	14,484
Work in progress	**2,704**	3,549
Finished goods	**4,708**	10,200
	21,161	28,233

Inventories are recorded net of obsolescence provision of RR 1,458 as at 31 December 2014 (31 December 2013: RR 619). The carrying amount of inventories recorded at net realisable value as at 31 December 2014 was RR 193 (31 December 2013: RR 1,534).

During 2014 the cost of write-down of inventories recognised as an expense directly in profit or loss was RR 191 (2013: RR 28).

The provision for inventories recognised as an expense for the year ended 31 December 2014 was RR 839 (2013: RR 158).

13. Other current assets

Other current assets consisted of the following:

	31 December 2014	31 December 2013
Prepaid expenses and other receivables less provision	**4,545**	2,704
Value added tax	**2,023**	2,622
	6,568	5,326

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

Balance at 31 December 2012	**2,392**
Charge	333
Unused amounts reversed	(47)
Utilized	(936)
Disposal of subsidiary	(1,046)
Balance at 31 December 2013	**696**
Charge	134
Unused amounts reversed	(318)
Utilized	(70)
Disposal of subsidiary	(9)
Balance at 31 December 2014	**433**

(In millions of Russian Roubles)

14. 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 2012	74,534	133,921	5,938	19,415	233,808
Additions	-	-	-	16,159	16,159
Disposals	(585)	(4,249)	(499)	(189)	(5,522)
Transfers	6,574	10,156	419	(17,149)	-
Balance at 31 December 2013	**80,523**	**139,828**	**5,858**	**18,236**	**244,445**
Accumulated depreciation and impairment					
Balance at 31 December 2012	(50,869)	(104,122)	(5,355)	(2,279)	(162,625)
Depreciation charge	(1,626)	(6,745)	(292)	-	(8,663)
Disposals	353	3,841	465	137	4,796
Reversal of impairment provision	-	-	-	39	39
Impairment charge	-	(52)	(23)	(204)	(279)
Balance at 31 December 2013	**(52,142)**	**(107,078)**	**(5,205)**	**(2,307)**	**(166,732)**
Net book amount					
Balance at 31 December 2012	**23,665**	**29,799**	**583**	**17,136**	**71,183**
Balance at 31 December 2013	**28,381**	**32,750**	**653**	**15,929**	**77,713**
Cost					
Balance at 31 December 2013	80,523	139,828	5,858	18,236	244,445
Additions	-	-	-	21,868	21,868
Effect of OOO VMZ return	-	-	-	345	345
Joint operations (Note 19)	(3,849)	(9,292)	(210)	(2,391)	(15,742)
Disposals	(217)	(3,205)	(457)	(409)	(4,288)
Transfers	5,088	11,301	157	(16,546)	-
Balance at 31 December 2014	**81,545**	**138,632**	**5,348**	**21,103**	**246,628**
Accumulated depreciation and impairment					
Balance at 31 December 2013	(52,142)	(107,078)	(5,205)	(2,307)	(166,732)
Depreciation charge	(1,225)	(7,238)	(237)	-	(8,700)
Joint operations (Note 19)	24	742	19	-	785
Disposals	133	2,903	430	232	3,698
Reversal of impairment provision	-	-	115	688	803
Impairment charge	(1,307)	(1,194)	-	(236)	(2,737)
Balance at 31 December 2014	**(54,517)**	**(111,865)**	**(4,878)**	**(1,623)**	**(172,883)**
Net book amount					
Balance at 31 December 2013	**28,381**	**32,750**	**653**	**15,929**	**77,713**
Balance at 31 December 2014	**27,028**	**26,767**	**470**	**19,480**	**73,745**

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.

Additional expenses for impairment of AUC of RR 236 were recorded in profit or loss for the year ended 31 December 2014 (2013: RR 204) and relate to the automotive segment.

(In millions of Russian Roubles)

14. Property, plant and equipment (continued)

Social nature properties are included in property, plant and equipment at a carrying value before provision of RR 726 and RR 981 as of 31 December 2014 and 31 December 2013, respectively. These properties are fully provided for.

In 2014 the Group performed impairment test of property, plant and equipment. Major part of the Group's assets belongs to one cash-generating unit engaged in production and sales of LADA brand vehicles. Methods used to determine the value in use include discounted forecasted cash flow of the Group for the period from 2015 to 2020 with further extrapolation of projected cash flow for the last year to 2027, the end of useful life of main assets, tested for impairment. For key assumptions applied to the value-in-use calculations see in Note 4.3.

The amount of borrowing costs capitalised during 2014 was RR 701 (2013: RR 696). The rate used to determine the amount of borrowing costs eligible for capitalization in 2014 was 6.29% (2013: 6.50%).

The aggregate amount of cash flows that represent increases in operating capacity was RR 18,984 (2013: RR 20,405).

As at 31 December 2014 and 31 December 2013, the gross carrying value of fully depreciated property, plant and equipment was RR 55,897 and RR 53,141, respectively.

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

	31 December 2014	31 December 2013
Cost – finance leases capitalised	**2,059**	1,548
Accumulated depreciation	**(1,716)**	(1,548)
Net book amount	**343**	-

15. Intangible assets

Intangible assets consisted of the following:

	Right to use licenses	Development costs	Other intangible assets	Total
<u>Cost</u>				
Balance at 31 December 2012	9,158	2,518	1,305	12,981
Additions	-	1,792	234	2,026
Write-off	-	-	(548)	(548)
Balance at 31 December 2013	**9,158**	**4,310**	**991**	**14,459**
<u>Amortization and impairment</u>				
Balance at 31 December 2012	(29)	(215)	(204)	(448)
Additions to accumulated amortization	(131)	(423)	(345)	(899)
Write-off	-	-	184	184
Balance at 31 December 2013	**(160)**	**(638)**	**(365)**	**(1,163)**
Carrying amount at 31 December 2013	**8,998**	**3,672**	**626**	**13,296**
<u>Cost</u>				
Balance at 31 December 2013	9,158	4,310	991	14,459
Additions	-	3,812	460	4,272
Joint operations (Note 19)	-	(429)	-	(429)
Write-off	-	-	(454)	(454)
Balance at 31 December 2014	**9,158**	**7,693**	**997**	**17,848**
<u>Amortization and impairment</u>				
Balance at 31 December 2013	(160)	(638)	(365)	(1,163)
Additions to accumulated amortization	(1,116)	(541)	(413)	(2,070)
Write-off	-	-	454	454
Impairment	(218)	(174)	(137)	(529)
Balance at 31 December 2014	**(1,494)**	**(1,353)**	**(461)**	**(3,308)**
Carrying amount at 31 December 2014	**7,664**	**6,340**	**536**	**14,540**

In 2008 the Group and Renault s.a.s. signed license agreements in relation to production, assembling and sale of licensed cars and engines. As at 31 December 2014 intangible assets included licenses for production, assembling and sale of cars with net book value of RR 3,502 and engines with net book value of RR 4,162.

(In millions of Russian Roubles)

16. Financial assets – long-term

Long-term financial assets consisted of the following:

	31 December 2014	31 December 2013
Loans issued	**37**	42
Available-for-sale financial assets	**15**	15
Financial assets held to maturity	**-**	33
	52	90

As at 31 December 2014 available-for-sale financial assets include RR 15 (31 December 2013: RR 15) 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 2014 interest income on financial assets held to maturity was RR nil (2013: RR 2).

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

Balance at 31 December 2012	**443**
Disposal of subsidiary	(215)
Balance at 31 December 2013	**228**
Charge	42
Utilized	(228)
Balance at 31 December 2014	**42**

17. Investments in associates

Balance at 31 December 2012	**267**
Share of profit	25
Disposals	(18)
Dividends received	(36)
Balance at 31 December 2013	**238**
Share of profit	31
Currency translation adjustment	119
Dividends received	(51)
Balance at 31 December 2014	**337**

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 2014	31 December 2013
Assets:		
Long-term assets	**309**	94
Current assets	**232**	370
Liabilities:		
Long-term liabilities	**(10)**	(1)
Current liabilities	**(194)**	(225)
Net assets	**337**	238
Investments in associates	**337**	238
Revenue	**871**	1,162
Expenses	**(840)**	(1,137)
Profit after income tax	**31**	25
Total comprehensive income	**31**	25

(In millions of Russian Roubles)

18. 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. JSC AVTOVAZ and GM Auslandsprojekte GMBH equally hold 50% in share capital of ZAO GM-AVTOVAZ.

Balance at 31 December 2012	**3,264**
Share of profit from joint venture	1,066
Dividends received	(1,465)
Balance at 31 December 2013	**2,865**
Share of profit from joint venture	227
Balance at 31 December 2014	**3,092**

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 2014	31 December 2013
Assets:		
Long-term assets	**4,017**	2,078
Current assets, including cash and cash equivalents of RR 2,632 (2013: RR 1,586)	**4,992**	6,168
Liabilities:		
Long-term liabilities	**(59)**	(82)
Current liabilities	**(2,766)**	(2,433)
Net assets	**6,184**	5,731
Share of the Group in joint venture	**3,092**	2,865
Revenue	**19,020**	22,389
Depreciation and amortization	**(186)**	(56)
Interest income	**245**	472
Income tax expense	**(128)**	(525)
Profit after income tax	**454**	2,132
Total comprehensive income	**454**	2,132
Share of the Group of profit from joint venture	**227**	1,066

As at 31 December 2014 GM-AVTOVAZ has capital commitments of RR 6,305 to purchase equipment for New Chevrolet Niva model.

19. Other long-term assets

Other long-term assets consisted of the following:

	31 December 2014	31 December 2013
Long-term receivables	**14,039**	118
Prepayments for long-term assets	**3,497**	3,654
Long-term rent of property	**9**	747
	17,545	4,519

In 2014 JSC AVTOVAZ signed an assembly agreement with Renault s.a.s. In addition, the terms of the assembly agreement with Nissan were changed in the second half of 2014. The agreements with Nissan and Renault s.a.s. contain the characteristics of joint arrangements and were classified as joint operations in accordance with IFRS 11. As a result, fixed assets in the amount of RR 14,957 previously recognized in accordance with IAS 16 and intangible assets in the amount of RR 429 previously recognized in accordance with IAS 38 and related to Nissan and Renault's share of fixed assets and intangible assets held jointly were reclassified to long-term receivables under IFRS 11.

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

Balance at 31 December 2012	**847**
Charge	605
Utilized	(847)
Balance at 31 December 2013	**605**
Charge	6
Utilized	(605)
Balance at 31 December 2014	**6**

(In millions of Russian Roubles)

20. Other payables and accrued expenses

Other payables and accrued expenses consisted of the following:

	31 December 2014	31 December 2013
Salaries payable and vacation accrual	**2,962**	3,710
Accrued interest	**234**	192
Government grants	**197**	172
Reserve of contingent liability	**127**	-
Other	**1,500**	817
	5,020	4,891

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

21. Provisions

Movements in warranty provision were as follows:

Balance at 31 December 2012	**1,962**
Charge	1,450
Utilized	(1,475)
Balance at 31 December 2013	**1,937**
Short-term portion	1,130
Long-term portion	807
	1,937
Charge	1,310
Utilized	(1,436)
Balance at 31 December 2014	**1,811**
Short-term portion	1,111
Long-term portion	700
	1,811

22. Loans and borrowings

Short-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2014**	31 December 2013
Rouble-denominated bank loans	11.58	**29,515**	15,250
Euro-denominated bank loans	5.26	**8,435**	7,187
Yen-denominated bank loans	4.39	**201**	172
Other loans	5.53	**1,097**	638
		39,248	23,247

Long-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2014**	31 December 2013
Rouble-denominated bank loans	11.42	**12,970**	9,483
Rouble-denominated interest-free loans	-	**6,513**	5,784
Rouble-denominated interest-free bearer promissory notes	-	**2,185**	1,765
Yen-denominated bank loans	5.00	**260**	321
Euro-denominated bank loans	2.86	**-**	1,076
Other loans	5.29	**7,188**	4,975
		29,116	23,404

In 2014 the Company and Vnesheconombank signed addendum to the agreement on opening a credit line, which increased the limit from RR 25,225 to RR 45,142 and set the annual interest rate between 10.92% and to 11%. The loan can be used only to finance investment projects of the Company. The loan is repayable by equal quarterly instalments from 2017 to 2023. As at 31 December 2013 payables under this credit line amounted to RR 2,113. During 2014 the Company received cash of RR 7,540 under this loan agreement.

(In millions of Russian Roubles)

22. Loans and borrowings (continued)

In 2014 the Company and Sberbank of Russia signed agreements on opening a credit line with the limit of RR 6,500, maturity dates in 2015 - 2017 and annual interest rates of 12.9% - 13.51%. During 2014 the Company received cash of RR 12,038 under the credit lines in Sberbank of Russia.

In 2014 the Company and VTB Bank signed agreements on opening a credit line with the limit of RR 6,000, maturity dates in 2015 - 2019 and annual interest rates of 9.45% - 11.96%. During 2014 the Company received cash of RR 7,796 under the credit lines in VTB Bank.

In 2014 the Company and Novikombank signed agreements on opening a credit line with the limit of RR 2,200, maturity date in 2015 and annual interest rates of 9.75% - 13%. During 2014 the Company received cash of RR 2,200 under the credit lines in Novikombank.

In 2014 the Company and Promsvyazbank signed an agreement on opening a credit line with the limit of RR 1,000, maturity date in 2016 and annual interest rate of 17.1%. During 2014 the Company received cash of RR 1,000 under this credit line.

Rouble-denominated interest-free bearer promissory notes have a maturity period between 2017 and 2030. These notes were initially recorded at fair value calculated using effective interest rates ranging between 22.5% and 24.5%. Their gross nominal value as at 31 December 2014 is RR 9,129 (31 December 2013: RR 9,129).

In 2013 the Company signed agreements with financial institutions for factoring of trade receivables. During the year ended 31 December 2014 the Company received cash from the financial institutions in the amount of RR 24,535 and debtors of the Company remitted cash in the amount of RR 25,249 directly to the financial institutions. As at 31 December 2014 the liability under the factoring agreements amounted to RR 6. For the year ended 31 December 2014 interest expenses related to these agreements amounted to RR 132. Cash flows raised on factoring of receivables are reported net of cash remitted by debtors directly to the financial institutions in the consolidated statement of cash flows as proceeds from loans and borrowings under financing activities. The amount of cash payments by debtors directly to the financial institutions is included as cash inflow in net change in trade receivables in the consolidated statement of cash flows under operating activities.

As at 31 December 2014 the Company was not in compliance with financial covenants set by loan agreements with banks, which include ratios as follows: ratio of EBITDA to interest and coupon ratio, ratio of EBITDA to short-term debt service, ratio of share capital to loans and borrowings, ratio of current assets to short-term liabilities, breakeven results of the Company for the last 12 months, net assets exceeding charter capital, failure to meet payment obligations in the amount of more than 10% of net assets, and cross-default. As at 31 December 2014, the Company had RR 35,923 of bank loans with breached covenants including RR 22,347 of long-term debt which was classified as short-term liabilities.

As at 31 December 2014 the Company received waivers in the amount of RR 3,550 from Rosbank, Garanti Bank-Moscow and Societe Generale in relation to breached loan covenants, including RR 1,636 of long-term debt. The period of the waivers is less than 12 months after the reporting period therefore, respective balances in amount of RR 1,636 were classified as short-term liabilities.

As of the date of approval of these financial statements the credit institutions have brought no claims to the Company to demand early payment of the debt.

Long-term loans and borrowings are repayable as follows:

	31 December 2014	31 December 2013
Current portion of loans and borrowings	**7,794**	6,680
1 to 2 years	**12,309**	5,107
2 to 3 years	**7,733**	4,364
3 to 4 years	**11,049**	3,179
4 to 5 years	**3,661**	5,269
> 5 years	**16,711**	11,442
Total long-term loans and borrowings	**59,257**	36,041
Less current portion of loans and borrowings	**(7,794)**	(6,680)
Less loans with breached covenants	**(22,347)**	(5,957)
Long-term portion of loans and borrowings	**29,116**	23,404

As at 31 December 2014 the Company had available RR 42,701 (31 December 2013: RR 32,743) of undrawn committed borrowing facilities.

(In millions of Russian Roubles)

22. Loans and borrowings (continued)

As at 31 December 2014 and 31 December 2013 the Group's loans and borrowings of RR 11,346 and RR 8,556, respectively, including short-term loans and borrowings, were guaranteed by different types of pledges presented below:

	31 December 2014	31 December 2013
Buildings	**2,176**	1,603
Equipment	**10,531**	5,791
Inventories	**563**	307
Accounts receivable	**26**	26
Other	**47**	20

Finance lease liabilities - minimum lease payments were as follows:

	31 December 2014	31 December 2013
Not later than one year	**113**	-
1 to 8 years	**664**	-
	777	-
Finance lease servicing	**(253)**	-
Present value of finance lease liabilities	**524**	-

Present value of finance lease liabilities and their maturity periods were as follows:

	31 December 2014	31 December 2013
Not later than one year	**56**	-
1 to 8 years	**468**	-
	524	-

The Group purchases machinery and equipment and computer equipment under finance lease arrangements.

23. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable were as follows:

	31 December 2014	31 December 2013
Value added tax	**606**	450
Social taxes	**885**	624
Property and other taxes	**2,799**	580
Penalties and interest on property and other taxes	**3**	3
	4,293	1,657

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 2014	31 December 2013
Current portion of restructured taxes	**251**	194
1 to 2 years	**413**	251
2 to 3 years	**314**	413
3 to 4 years	**-**	314
Total restructured taxes	**978**	1,172
Less current portion of restructured taxes	**(251)**	(194)
Long-term portion of restructured taxes	**727**	978

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.

(In millions of Russian Roubles)

24. 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 2014			31 December 2013		
	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**	1,822,463,131	9,112	29,937
Total outstanding share capital	**2,284,227,431**	**11,421**	**39,172**	2,284,227,431	11,421	39,172

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.

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 2014 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2013 (2013: a decision not to pay dividends in respect of 2012). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

25. Sales

The components of sales revenue were as follows:

	2014	2013
Vehicles and assembly kits	**172,083**	153,677
Automotive components	**11,205**	12,746
Dealership sales of other producers' vehicles	**1,144**	1,433
Other sales	**6,302**	9,193
	190,734	177,049

	2014	2013
Domestic sales	**173,884**	154,974
Sales in EU countries	**713**	1,650
Other sales	**16,137**	20,425
	190,734	177,049

Export sales amounted to RR 16,850 (2013: RR 22,075). Geographical information is presented based on the location of customers.

26. Cost of sales

Cost of sales comprises expenses incurred in the manufacturing of vehicles, assembly kits and spare parts, mainly the cost of materials and components. The remaining costs principally include labor costs in amount of RR 25,203 (2013: RR 25,883) as well as depreciation and amortization amounted to RR 9,828 (2013: RR 8,873).

Based on Government regulations on utilization fee effective from 2014, the Group incurred costs of utilization fee in the amount of RR 9,580.

(In millions of Russian Roubles)

27. Administrative expenses

The components of administrative expenses were as follows:

	2014	2013
Labour costs	**6,948**	7,039
Third parties' services	**1,362**	1,470
Depreciation and amortization	**795**	479
Transportation	**583**	591
Local and regional taxes	**476**	753
Materials	**377**	622
Bank services	**361**	178
Repair expenses	**76**	100
Charge to provision for impairment of trade receivables (Note 10)	**65**	885
Charge to provision for impairment of other long-term assets (Note 19)	**6**	605
(Reversal of) /charge to provision for impairment of other current assets (Note 13)	**(184)**	286
Other	**575**	1,266
	11,440	14,274

28. Distribution costs

The components of distribution costs were as follows:

	2014	2013
Transportation	**2,850**	3,769
Labour costs	**1,708**	1,786
Advertising	**1,616**	947
Materials	**522**	745
Depreciation	**102**	144
Other	**1,105**	923
	7,903	8,314

29. Research expenses

The components of research expenses were as follows:

	2014	2013
Third parties' services	**380**	1,435
Labour costs	**190**	385
Materials	**87**	105
Depreciation	**45**	66
Other	**125**	126
	827	2,117

30. Other operating income

The components of other operating income were as follows:

	2014	2013
Government subsidy	**936**	697
Claims	**259**	43
Gain on derecognition of financial liability	**213**	2,276
Rental income	**128**	193
Gain on disposal of subsidiaries and associates	**118**	585
Reversal of provision for impairment of current financial assets (Note 11)	**80**	286
Gain on disposal of property, plant and equipment	**-**	42
Other	**801**	735
	2,535	4,857

(In millions of Russian Roubles)

31. Other operating expenses

The components of other operating expenses were as follows:

	2014	2013
Foreign exchange loss	**2,426**	179
Restructuring costs and termination payments to employees	**1,466**	-
Loss from OOO VMZ return	**1,314**	-
Impairment of long-term assets	**753**	-
Loss on disposal of property, plant and equipment	**85**	-
Charge to provision for impairment of long-term financial assets (Note 16)	**42**	-
Other	**580**	927
	6,666	1,106

32. Finance costs

The components of finance costs were as follows:

	2014	2013
Interest expense	**4,871**	2,778
Foreign exchange loss	**6,398**	1,395
	11,269	4,173

33. Government subsidies

In 2014, the Group received the following subsidies from the federal budget:

- compensation of costs for vehicle manufacturers and compensation of costs under the program of vehicle park renewal in the amount of RR 12,385, recorded within cost of sales;
- compensation of interest on investment loans in the amount of RR 936 recorded within other operating expenses.

34. Income tax benefit

	2014	2013
Income tax expense – current	**89**	158
Deferred tax benefit	**(345)**	(2,765)
	(256)	(2,607)

The tax benefit of the Group is reconciled as follows:

	2014	2013
Loss before taxation	**(25,306)**	(10,504)
Theoretical tax expenses at statutory rate of 20%	**(5,061)**	(2,101)
Unrecognised tax losses carried forward	**3,364**	(55)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	**(49)**	(665)
Non-deductible expenses	**1,490**	214
	(256)	(2,607)

During 2014 most of the Group's entities were subject to tax rate of 20% on taxable profits.

(In millions of Russian Roubles)

34. Income tax benefit (continued)

Deferred tax assets and liabilities:

	31 December 2012	Movement for 2013	31 December 2013	Movement for 2014	31 December 2014
Tax effects of temporary differences:					
Provision for impairment of receivables	132	94	226	(168)	58
General and overhead expenses allocation on inventories	(232)	(246)	(478)	385	(93)
Effect of inflation, different depreciation rates and provision for impairment of property, plant and equipment	(2,852)	(170)	(3,022)	189	(2,833)
Difference in depreciation and provision for impairment of intangible assets	(1,342)	(781)	(2,123)	(367)	(2,490)
Accounts payable and provisions	1,066	23	1,089	201	1,290
Discounting of loans and borrowings	(10,770)	198	(10,572)	229	(10,343)
Other temporary differences	265	944	1,209	(1,138)	71
	(13,733)	62	(13,671)	(669)	(14,340)
Tax losses carried forward	6,234	2,648	8,882	4,378	13,260
Unrecognised tax losses carried forward	(296)	55	(241)	(3,364)	(3,605)
Deferred tax assets/(liabilities), net	(7,795)	2,765	(5,030)	345	(4,685)

Reflected in the statement of financial position:

	31 December 2012	31 December 2013	31 December 2014
Deferred tax assets	372	566	553
Deferred tax liabilities	(8,399)	(5,596)	(5,238)
Deferred tax assets of disposal group classified as held for sale	232	-	-
Deferred tax assets/(liabilities), net	(7,795)	(5,030)	(4,685)

As at 31 December 2014 cumulative tax loss in the amount of RR 48,275 (31 December 2013: RR 43,205), for which deferred tax asset was recognised, is available for offset against future taxable profit during successive 5-10 years.

The deductible temporary differences associated with investments in subsidiaries amount to RR 11,447 and RR 3,627 as of 31 December 2014 and 31 December 2013, 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.

35. 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 2014	31 December 2013
Weighted average number of ordinary and preference shares outstanding (thousands)	**2,284,227**	2,284,227
Loss attributable to ordinary/preference equity holders of the Company	**(25,111)**	(7,690)
Loss attributable to ordinary/preference equity holders of the Company	**(25,111)**	(7,690)
Loss per share (in Roubles):		
-basic/diluted, for loss for the year attributable to ordinary/preference equity holders of the Company	**(10.99)**	(3.37)

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

(In millions of Russian Roubles)

36. Contingencies, commitments and guarantees

36.1 Contractual commitments and guarantees

As at 31 December 2014 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 33,658 (31 December 2013: RR 11,827). In addition, the Group issued financial guarantees to third parties in the amount of RR 40 (31 December 2013: RR 1,051).

36.2 Operating lease commitments

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

	31 December 2014	31 December 2013
Not later than 1 year	**165**	61
Later than 1 year and not later than 5 years	**661**	244
Later than 5 years	**5,124**	1,950
	5,950	2,255

The amount of lease payments recognised as an expense for the year ended 31 December 2014 was RR 165 (2013: RR 61).

36.3 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 2014 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.

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 1 billion in 2014. 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 or 2013. 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.

36.4 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.

36. Contingencies, commitments and guarantees (continued)

36.5 Legal proceedings

During 2014, 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.

36.6 Operating environment in Russia

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. This resulted in reduced access to capital, a higher cost of capital, a weakening of the Russian Rouble against foreign currencies, an increased inflation, a decline in the Russian automotive market, an increase in capital expenditure and cost of materials for the direct and indirect import and local parts. Uncertainty regarding further economic growth and reduction of consumer spending negatively affected the Group's financial position, results of operations, and business prospects.

The management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances and offset expected further negative effects by an anti-crisis plan with a series of measures to support sales in and outside Russia, and to reduce cost in all corporate functions.

36.7 Management's plans

The operating performance of the Group as well as its liquidity position was affected by economic conditions and other business factors described in the Note above. In 2014 the Group incurred losses of RR 25,050 (2013: RR 7,897). As at 31 December 2014 net current liabilities of the Group increased to RR 36,794 (31 December 2013: RR 5,957), which mainly resulted from reclassification of the Group's long-term debt with breached covenants to short-term liabilities, as disclosed in Note 22. As at 31 December 2014 the Group had RR 16,901 of loans that need to be refinanced in 2015. The management is aware of this situation, and currently developing agreements with relevant banks to ensure re-financing throughout 2015.

The factors above were mostly driven by the economic slowdown in Russia. To address the above factors management of the Group developed an anti-crisis plan, including the following actions:

Revenue improvements:

- Increase the market share in Russia and extend export sales due to the highest localization level among local car manufacturers. The management sees significant advantages compared to other competitors due to the Russian automotive industry's highest localization level and a cost structure highly based on the Russian ruble, which also increases export potentials;
- Expand the dealer network as dealers' interest shift from foreign brands (due to high prices and lower sales);
- In January-March 2015 the Group increased sales prices by 8-20%. The price increases are below competitors' levels. The management believes that therefore the Group has the chance to increase market shares and thus offset the market volume decline;
- Increase component sales.

Cost reduction:

- Achieve energy consumption savings in the assembly line and the component production;
- Improve the level of materials consumption;
- Reduce white collar headcount by 10-15%;
- Reduce repair and maintenance costs;
- Support suppliers' localization;
- Centralize the purchasing function;
- Reduce the marketing expenses;
- Re-engineer and de-content produced vehicles;
- Drive the restructuring of the supply base;
- Reduce logistics cost;
- Reduce work in progress;
- Reduce overtime expenses.

Other measures:

- Sell non-core assets;
- Sell financial assets;
- Optimize capex spending while maintaining core investment projects;
- Introduce a dealer prepayment scheme (bill to order).

36. Contingencies, commitments and guarantees (continued)

36.7 Management's plans (continued)

The Russian Government is also implementing measures to improve the situation in the automotive industry including support of the Group’s operations as follows:

- Continue to provide subsidies on compensation of expenses on personnel, electricity, research and development and other production costs under Government Resolutions ## 29, 30, 31, 32;
- The scrappage program offers consumers 50,000 Roubles to scrap a car that is at least 10 years old and replace it with a new model assembled in Russia. The Russian Government has announced the extension of the scrappage program into 2015;
- Continue to provide subsidies on compensation of interest on investment loans under Government resolution # 640.

The Group's cash flow forecast for 2015 indicates that the cash flows generated from operating activities are expected to be positive.

The cash flow forecast for 2015 shows that the Group requires significant investments in modernization of the current production line. In 2015 the Group is planning to launch LADA Vesta and LADA XRAY and to increase the production of vehicles under the Nissan, Renault and Datsun brands. The Group is confident that it will have sufficient funds to finance capital expenditure for new projects and tracks production readiness and spending on a daily basis to ensure compliance with plans.

The Group is currently negotiating changes in terms of loan agreements with credit institutions. As of 31 December 2014 the Group obtained waivers stated that the banks will not claim for accelerated repayment of RR 3,550 loans due to covenant violations. The Group is currently negotiating with credit institutions the terms of refinancing of the existing loans and obtaining new loans.

The management expects that those objectives will be achieved and the Group continues as a going concern and has no plans or need to discontinue or significantly reduce its operations.

37. 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;
- 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 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)

37. Segment information (continued)

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

Year ended 31 December	Automotive 2014	Automotive 2013	Dealership network 2014	Dealership network 2013	Other segments 2014	Other segments 2013	Eliminations 2014	Eliminations 2013	Total 2014	Total 2013
Revenue										
Sales to external customers	158,879	136,677	18,849	23,611	14,354	16,761	-	-	192,082	177,049
Inter-segment sales	25,740	25,470	517	644	4,788	7,765	(31,045)	(33,879)	-	-
Intra-segments sales	28,137	27,001	57	93	301	317	(28,495)	(27,411)	-	-
Adjustment to revenue in accordance with IFRS 11	(1,348)	-	-	-	-	-	-	-	(1,348)	-
Total revenue	211 408	189,148	19,423	24,348	19,443	24,843	(59,540)	(61,290)	190,734	177,049
Results										
Depreciation and amortisation	(10,833)	(8,270)	(116)	(134)	(443)	(680)		-	(11,392)	(9,084)
Impairment of assets	(3,751)	(3,015)	(67)	(413)	(283)	(141)		-	(4,101)	(3,569)
Interest expense	(3,949)	(1,911)	(153)	(207)	(41)	(61)		-	(4,143)	(2,179)
Income tax expense	1,074	1,249	(37)	16	324	(50)		-	1,361	1,215
Statutory loss for the year	(25,389)	(7,590)	(66)	(563)	(1,935)	(508)		-	(27,390)	(8,661)

	2014	2013
IFRS adjustments		
Adjustments attributable to loan received from State Corporation Rostechnologii	(640)	(543)
Adjustment related to disposal of subsidiaries and associate companies	44	(3,285)
Gain on derecognition of financial liability	213	2,276
Provision for impairment of long-term assets	(2,577)	-
Adjustments attributable to property, plant and equipment	836	(252)
Provision for impairment of other assets	2,320	715
Adjustment attributable to associates	31	25
Adjustment attributable to joint venture	227	1,066
Dividends received from associate companies	(51)	(36)
Dividends received from joint venture	-	(1,465)
Adjustment attributable to deferred tax	(987)	1,552
Adjustment to revenue in accordance with IFRS 11	(1,348)	-
Adjustment related to return of control over OOO VMZ	3,686	-
Others	586	711
IFRS loss for the year	(25,050)	(7,897)

Inter-segment revenues are eliminated on consolidation.

	Automotive 31 December 2014	Automotive 31 December 2013	Dealership network 31 December 2014	Dealership network 31 December 2013	Other segments 31 December 2014	Other segments 31 December 2013	Eliminations 31 December 2014	Eliminations 31 December 2013	Total 31 December 2014	Total 31 December 2013
Segment assets	188,841	158,106	6,311	6,924	12,345	8,525	(26,999)	(16,608)	180,498	156,947
IFRS adjustments										
Adjustments attributable to property, plant and equipment									(8,499)	(5,539)
Adjustments attributable to intangible assets									(338)	241
Charge to provision for impairment of assets									(1,103)	(852)
Adjustment related to deferred tax assets									(6,101)	(4,437)
Adjustment on value of consideration received for OOO VMZ									-	(4,433)
Others									436	327
IFRS total assets									**164,893**	**142,254**

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

(In millions of Russian Roubles)

38. 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 2014 and 2013 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 (Note 25). As a result the Group has currency exposures. Such exposure arises from sales in currencies other than Group's functional currency. Almost 100% of sales is denominated in the functional currency, whilst approximately 10% of costs is denominated in currencies other than Roubles. In addition, the Group has over RR 14,038 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
2014		
Euro/RR	**29.58**	**(6,719)**
USD/RR	**28.54**	**(25)**
JPY/RR	**31.09**	**(250)**
Euro/RR	**-29.58**	**6,719**
USD/RR	**-28.54**	**25**
JPY/RR	**-31.09**	**250**
2013		
Euro/RR	20	(3,162)
USD/RR	20	(25)
JPY/RR	20	(94)
Euro/RR	-8.63	1,365
USD/RR	-10.21	13
JPY/RR	-14.41	68

Credit risk

As at 31 December 2014 the Group has RR 8,798 (31 December 2013: RR 3,384) in cash and cash equivalents, RR 1,954 (31 December 2013: RR 176) of current financial assets and RR 52 (31 December 2013: RR 90) 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 and bonds.

The table below summarizes the maturity of the Group's financial liabilities at 31 December 2014 and 31 December 2013 based on contractual undiscounted payments.

	Less than three months	3 to 12 months	1 to 5 years	> 5 years	Total
Year ended 31 December 2014					
Loans and borrowings	**1,199**	**2,127**	**13,443**	**67,386**	**84,155**
Trade and other payables	**42,444**	**4,823**	**5,385**	**1,628**	**54,280**
Loans with breached covenants	**1,245**	**15,505**	**25,785**	**-**	**42,535**
Year ended 31 December 2013					
Loans and borrowings	1,795	6,136	13,024	63,243	84,198
Trade and other payables	22,183	1,292	3,461	783	27,719
Loans with breached covenants	807	7,367	9,353	-	17,527

(In millions of Russian Roubles)

38. Financial risk management objectives and policies (continued)

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 and 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.

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

	Carrying amount		Assets and liabilities for which fair values are disclosed (Level 2)		Assets measured at fair value (Level 2)	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013	**31 December 2014**	31 December 2013
FINANCIAL ASSETS:						
Cash and cash equivalents	**8,798**	3,384	**8,798**	3,384	**-**	-
Financial assets – current	**1,954**	166	**1,954**	166	**-**	-
Available-for-sale current financial assets - Bank promissory notes (Note 11)	**-**	10	**-**	-	**-**	10
Financial assets – long-term	**37**	75	**37**	75	**-**	-
Trade receivables	**16,548**	5,848	**16,548**	5,848	**-**	-
FINANCIAL LIABILITIES:						
Short-term loans and borrowings	**39,248**	23,247	**39,248**	23,247	**-**	-
Long-term loans and borrowings	**29,116**	23,404	**32,789**	24,891	**-**	-
Trade payables	**40,384**	16,954	**40,384**	16,954	**-**	-
Long-term taxes other than income tax	**727**	978	**746**	1,298	**-**	-

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 2014, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

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 11% (2013: 12.6%). To assess the fair value of long-term taxes liabilities they were discounted at 8.25% rate (2013: 8.25%).

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

During the year ended 31 December 2014, 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.

38. Financial risk management objectives and policies (continued)

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 2014 and 2013.

39. Events after the reporting period

On 6 February 2015 a pilot production of new LADA Vesta sedan started at Izhevsk plant. The Company is planning to start mass production of LADA Vesta in autumn of 2015.