AVTOVAZ GROUP

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

31 December 2013

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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 2013, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC AVTOVAZ and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

26 March 2014

AVTOVAZ GROUP

Consolidated Statement of Financial Position at 31 December 2013

(In millions of Russian Roubles)

	Note	**31 December 2013**	31 December 2012
ASSETS			
Current assets:			
Cash and cash equivalents	9, 39	**3,384**	8,372
Trade receivables	10, 39	**5,848**	9,223
Financial assets	11, 39	**176**	1,383
Inventories	12	**28,233**	25,479
Other current assets	13	**5,326**	4,963
		42,967	49,420
Long-term assets:			
Property, plant and equipment	14	**77,713**	71,183
Financial assets	16, 39	**90**	66
Investments in associates	17	**238**	267
Interest in a joint venture	18	**2,865**	3,264
Intangible assets	15	**13,296**	12,533
Deferred tax assets	34	**566**	372
Other long-term assets	19	**4,519**	2,508
		99,287	90,193
Assets of disposal group classified as held for sale		**-**	2,165
Total assets		**142,254**	141,778
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	39	**16,954**	23,468
Other payables and accrued expenses	20	**4,891**	4,832
Income tax liability		**45**	27
Taxes other than income tax	23	**1,657**	1,546
Provisions	21	**1,130**	1,103
Loans and borrowings	22, 39	**23,247**	8,237
Advances from customers		**1,000**	537
		48,924	39,750
Long-term liabilities:			
Loans and borrowings	22, 39	**23,404**	20,989
Taxes other than income tax	23, 39	**978**	1,172
Provisions	21	**807**	859
Deferred tax liabilities	34	**5,596**	8,399
Advances received	8	**2,785**	2,462
		33,570	33,881
Liabilities directly associated with disposal group classified as held for sale		**-**	641
Total liabilities		**82,494**	74,272
Equity attributable to equity holders of the Company			
Share capital	24	**39,172**	39,172
Share premium		**15,300**	15,300
Currency translation adjustment		**257**	106
Retained earnings		**4,723**	12,413
		59,452	66,991
Non-controlling interests		**308**	515
Total equity		**59,760**	67,506
Total liabilities and equity		**142,254**	141,778

Bo Inge Andersson
President, JSC AVTOVAZ

26 March 2014

S. A. Kochetkova
Chief Accountant, JSC AVTOVAZ

The accompanying notes on pages 9 to 41 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Sales	25	**177,049**	190,061
Cost of sales	26	**(162,939)**	(168,250)
Gross profit		**14,110**	21,811
Administrative expenses	27	**(15,053)**	(13,798)
Distribution costs	28	**(8,283)**	(9,114)
Research expenses	29	**(2,117)**	(1,705)
Share of associates' profit	17	**25**	450
Share of profit from joint venture	18	**1,066**	678
Government grant on discounting of an interest-free loan		**-**	35,859
Other operating income	30	**4,857**	5,513
Other operating expenses	31	**(1,346)**	(1,868)
Operating (loss) / profit		**(6,741)**	37,826
Finance income	32	**410**	946
Finance costs	33	**(4,173)**	(2,379)
(Loss) / profit before taxation		**(10,504)**	36,393
Income tax benefit / (expense)	34	**2,607**	(7,213)
(Loss) / profit for the year		**(7,897)**	29,180
(Loss) / profit attributable to:			
Equity holders of the Company		**(7,690)**	29,110
Non-controlling interests		**(207)**	70
		(7,897)	29,180
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods:			
Currency translation adjustment		**151**	(169)
Total other comprehensive income / (loss) for the year to be reclassified to profit or loss in subsequent periods, net of taxes		**151**	(169)
Total comprehensive (loss) / income for the year, net of taxes		**(7,746)**	29,011
Total comprehensive (loss) / income attributable to:			
Equity holders of the Company		**(7,539)**	28,941
Non-controlling interests		**(207)**	70
Total comprehensive (loss) / income for the year, net of taxes		**(7,746)**	29,011
(Loss) / earnings per share, basic/diluted (in RR):			
-for (loss) / profit for the year attributable to ordinary/preference equity holders of the Company	35	**(3.37)**	12.74

The accompanying notes on pages 9 to 41 are an integral part of these consolidated financial statements.

AVTOVAZ GROUP
Consolidated Statement of Cash Flows for the Year Ended 31 December 2013
(In millions of Russian Roubles)

	Note	Year ended 31 December 2013	2012
Cash flows from operating activities:			
(Loss) / profit before taxation		**(10,504)**	36,393
Adjustments for:			
Depreciation and amortization	14, 15	**9,562**	8,786
Charge to provision for impairment of trade receivables	27	**885**	149
Charge to / (reversal of) provision for impairment of other current assets	27	**286**	(376)
(Reversal of) / charge to provision for impairment of current financial assets	30, 31	**(286)**	409
Charge to provision for impairment of long-term financial assets	31	**-**	211
Charge to provision for impairment of other long-term assets	27	**605**	-
Reversal of provision for impairment of assets of subsidiary – real estate developer	30	**-**	(114)
Interest expense	33	**2,778**	2,379
Charge to provision for impairment of property, plant and equipment	14, 31	**240**	48
Gain on disposal of property, plant and equipment	30	**(42)**	(250)
Share of associates' profit	17	**(25)**	(450)
Share of profit from joint venture	18	**(1,066)**	(678)
Government grant on discounting of interest-free loan		-	(35,859)
Gain on derecognition of financial liability	30	**(2,276)**	-
Gain on disposal of subsidiaries and associates	30	**(585)**	(3,700)
Foreign exchange effect on non-operating balances		**1,363**	(62)
Operating cash flows before working capital changes		**935**	6,886
Change in trade receivables		**2,247**	(5,636)
Change in current financial and other assets		**(1,811)**	388
Change in inventories		**(3,302)**	(2,122)
Change in trade payables and other payables and accrued expenses		**(1,962)**	3,033
Change in tax liabilities other than income tax		**(26)**	(466)
Change in advances from customers		**532**	(651)
Cash (used in) / generated from operations		**(3,387)**	1,432
Income tax paid		**(140)**	(301)
Interest received		**535**	760
Interest paid		**(2,361)**	(839)
Net cash (used in) / generated from operating activities		**(5,353)**	1,052
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets		**(20,405)**	(19,311)
Proceeds from the sale of property, plant and equipment		**567**	582
Acquisition of a subsidiary, net of cash acquired		-	(419)
Proceeds from the sale of financial assets		**1,753**	5,538
Proceeds from the sale of subsidiaries less cash disposed of		**131**	1,122
Purchase of financial assets		**(198)**	(1,129)
Dividends received		**1,501**	479
Net cash used in investing activities		**(16,651)**	(13,138)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**24,429**	21,149
Repayment of loans and borrowings		**(8,180)**	(8,151)
Acquisition of non-controlling interest		**-**	(17)
Long-term advances received		**709**	36
Dividends paid to non-controlling interest		**-**	(14)
Net cash generated from financing activities		**16,958**	13,003
Effect of exchange rate changes		**32**	(82)
Net (decrease) / increase in cash and cash equivalents		**(5,014)**	835
Cash and cash equivalents at the beginning of the year	9	**8,398**	7,563
Cash and cash equivalents at the end of the year	9	**3,384**	8,398

The accompanying notes on pages 9 to 41 are an integral part of these consolidated financial statements.

	Equity attributable to equity holders of the Company							
	Share capital	Share premium	Shares paid	Currency translation adjustment	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
Balance at 31 December 2011	**37,001**	**-**	**17,471**	**275**	**(16,680)**	**38,067**	**447**	**38,514**
Profit for the period	-	-	-	-	29,110	29,110	70	29,180
Other comprehensive loss	-	-	-	(169)	-	(169)	-	(169)
Total comprehensive income/(loss)	**-**	**-**	**-**	**(169)**	**29,110**	**28,941**	**70**	**29,011**
Dividends	-	-	-	-	-	-	(2)	(2)
Acquisition of non-controlling interests	-	-	-	-	(17)	(17)	-	(17)
Shares registered	2,171	15,300	(17,471)	-	-	-	-	-
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**

1. JSC AVTOVAZ and subsidiaries

JSC AVTOVAZ and its subsidiaries' (the "Group") principal activities include the manufacture and sale of passenger automobiles. The Group's manufacturing facilities are primarily based in the Samara Oblast of the Russian Federation. The Group has a sales and service network spanning the Commonwealth of Independent States ("CIS") and some other countries. The parent company, JSC AVTOVAZ ("the Company" or JSC AVTOVAZ), was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. The registered office of JSC AVTOVAZ is at Yuzhnoye Shosse, 36, Togliatti, 445024, the Russian Federation.

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 Russian Technologies State Corporation. 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 2013 48.20% of equity interest in Alliance Rostec Auto B.V. belonged to Renault s.a.s., 36.36% to Russian Technologies State Corporation and 15.44% to Nissan International Holding B.V.

These consolidated financial statements were authorized for issue by the President on 26 March 2014.

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

3. Summary of significant accounting policies

3.1 Adopted accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except the following. The Group has adopted the following new and amended IFRS as of 1 January 2013:

IAS 19 *Employee Benefits* (Revised 2011);
IFRS 13 *Fair Value Measurement*;
IAS 1 *Presentation of Financial Statements* (Amendments);
IAS 36 *Impairment of Assets* (Amendments);
IFRS 1 *Government Loans* (Amendments);
IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments).

The adoption of the standards or interpretations is described below:

IAS 19 *Employee Benefits* (Revised 2011)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard has no impact on the Group's financial position or performance.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 39.

IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

IAS 1 *Clarification of the requirement for comparative information* (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments have no impact on the Group's financial position or performance.

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

IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance.

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

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

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

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

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 *Impairment of Assets*
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

IFRIC Interpretation 21 *Levies* (IFRIC 21)
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. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

3. Summary of significant accounting policies (continued)

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013.

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

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

Business combinations and goodwill

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

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

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

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

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

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

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

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

Investment in an associate

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.2. Basis of consolidation (continued)

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

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

Interest in a joint venture

During 2012 the former investment in an associate became an investment in a joint venture (see Note 17 and Note 18). This joint venture is an entity, where the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method and did not remeasure the retained interest on step acquisition. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made, where necessary, to bring the accounting policies in line with those of the Group.

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

3.3 Financial assets

Classification of financial assets

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

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

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

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

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

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

Initial recognition of financial instruments

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

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

Impairment of financial assets

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

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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

Available-for-sale financial investments

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

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

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

Derecognition of financial assets

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

3.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Sales are shown net of value added tax (VAT) and discounts, and after eliminating sales within the Group.

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

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

Sale of goods

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

Sale of services

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

3. Summary of significant accounting policies (continued)

3.5 Trade receivables

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

3.6 Value added tax

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

3.7 Inventories

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

3.8 Cash and cash equivalents

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

3.9 Property, plant and equipment

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

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

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

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

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

Assets under construction owned by the Group are not depreciated.

3.10 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.

3. Summary of significant accounting policies (continued)

3.10 Intangible assets (continued)

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

Other intangible assets

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

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

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

3.11 Impairment of assets

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

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

3.12 Deferred income taxes

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

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

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

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

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

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

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

3.13 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. Summary of significant accounting policies (continued)

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.

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 2013 of RR 32.7292 = US$ 1 (31 December 2012: RR 30.3727 = US$ 1), RR 44.9699 = Euro 1 (31 December 2012: RR 40.2286 = Euro 1) and RR 0,310568 = JPY 1 (31 December 2012: RR 0.351516 = 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).

3. Summary of significant accounting policies (continued)

3.19 Earnings per share (continued)

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.

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.

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 2,481 higher or RR 2,742 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 5,347 higher or RR 5,910 lower respectively.

4. Critical accounting estimates (continued)

4.3 Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that non-financial assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. As a result of impairment test made as at 31 December 2013, no impairment provision was recognised.

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 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.

Key assumptions used in value in use calculations performed as of 31 December 2013
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% to 2018. The Company's market share projections do not exceed 24% of total Russian automotive market.

Receipt of government subsidies – In accordance with the Russian Government resolutions issued in January 2014, automotive manufacturers may apply for the subsidies in 2014-2016 to compensate labor costs, utility expenses, research and development expenses and other production costs. The receipt of subsidies is subject to the signed agreement with the Ministry of Industry and Trade of the Russian Federation.

Discount rates – Discount rate of 14.5% 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 fail to fulfil the planned increase of sales volume of LADA brand vehicles by 1.1% that would lead to impairment loss.

If the Group fails to fulfil the terms of the resolution on subsidies and does not sign the agreement with the Ministry of Industry and Trade of the Russian Federation the Group will have to record an impairment loss.

With all other assumptions held constant, an increase in the discount rate by 0.9% would lead to impairment loss.

4.4 Warranties

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

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

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

5. Significant accounting judgements

5.1 Taxation

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

5.2 Recognition of deferred tax assets

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

Deferred tax asset in respect of tax losses of RR 1,205 carried forward (31 December 2012: RR 1,480) 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 2013 % share**	31 December 2012 % 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
152 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 2013 % share**	31 December 2012 % 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 2013 % share**	31 December 2012 % share
ZAO GM-AVTOVAZ	Russia	Vehicle production	**50**	50

7. Disposal of assets classified as held for sale

In September 2013 the Group sold 100% of share in the subsidiary OOO VMZ. The total consideration received on disposal was RR 551. The disposed subsidiary relates to Other segments.

The following amounts represent the major classes of assets and liabilities of subsidiary at the date of disposal:

	At the date of disposal
Assets:	
Property, plant and equipment	1,017
Total long-term assets	**1,017**
Cash	49
Inventories	1,211
Trade receivables	290
Other current assets	75
Total current assets	**1,625**
Total assets	**2,642**
Liabilities:	
Long-term liabilities	**-**
Accounts payable	2,072
Other payables	714
Total current liabilities	**2,786**
Total liabilities	**2,786**
Net assets at the date of disposal	**(144)**

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 2012 and 2013 the Group entered into transactions with the following related parties: shareholders, subsidiaries of major shareholders, associates, associates of major shareholders, joint venture and key management.

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

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

As at 31 December 2013 and 31 December 2012 the Group had balances with the companies controlled by the Russian Government, which are detailed below.

Consolidated statement of financial position caption	**31 December 2013**	31 December 2012
Cash and cash equivalents	**1,157**	1,411
Trade receivables before provision charge	**1,465**	733
Provision for impairment of trade receivables	**(823)**	(210)
Other current assets before provision charge	**1,434**	834
Provision for impairment of other current assets	**(2)**	(720)
Other long-term assets before provision charge	**1,334**	1,126
Provision for impairment of other long-term assets	**(605)**	(847)
Current financial assets before provision charge	**-**	764
Provision for impairment of current financial assets	**-**	(759)
Financial assets - long-term before provision charge	**-**	215
Provision for impairment of financial assets - long-term	**-**	(215)
Trade payables	**1,234**	2,000
Other payables	**2,470**	978
Loans and borrowings	**24,596**	13,432
Collateral issued by the Group	**10,285**	7,318
Loans received from the Russian Technologies State Corporation	**5,784**	5,137

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 2013 and 2012 the Group entered into transactions with the companies controlled by the Russian Government, which are detailed below.

Consolidated statement of comprehensive income caption	**2013**	2012
Sales	**1,226**	1,145
Purchases of services, equipment, goods and inventory	**27,279**	25,541
Interest income	**192**	171
Interest expenses	**1,331**	596
Charge of provision for impairment of trade receivables	**814**	-
Charge of provision for impairment of other long-term assets	**605**	-

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

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 2013 and 31 December 2012, except for companies directly or indirectly controlled by the Russian Government, are detailed below.

Consolidated statement of financial position caption	Relationship	**31 December 2013**	31 December 2012
Trade receivables before provision charge	Joint venture	**882**	861
Trade receivables before provision charge	Significant influence via shareholder	**1,855**	224
Other current assets before provision charge	Significant influence via shareholder	**12**	-
Other current assets before provision charge	Shareholder	**-**	173
Other long-term assets before provision charge	Significant influence via shareholder	**637**	-
Current financial assets before provision charge	Subsidiary of a major shareholder	**-**	282
Provision for impairment of current financial assets	Subsidiary of a major shareholder	**-**	(282)
Trade payables	Shareholder	**-**	236
Trade payables	Associates	**318**	405
Trade payables	Joint venture	**34**	20
Trade payables	Significant influence via shareholder	**1,719**	305
Other payables	Shareholder	**-**	13
Other payables	Associates	**13**	-
Other payables	Joint venture	**2**	-
Other payables	Significant influence via shareholder	**125**	-
Loans and borrowings	Shareholder	**-**	2,961
Loans and borrowings	Significant influence via shareholder	**5,528**	-
Advances received short-term	Significant influence via shareholder	**285**	-
Advances received long-term	Significant influence via shareholder	**2,785**	2,462

As at 31 December 2013 the Group had interest-free advance payments of RR 3,070 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.

8. Balances and transactions with related parties (continued)

8.2 Balances and transactions with other related parties (continued)

The income and expense items with related parties for the year ended 31 December 2013 and 31 December 2012 were as follows:

Consolidated statement of comprehensive income caption	Relationship	**2013**	2012
Sales	Associates	**-**	6,431
Sales	Joint venture	**7,939**	2,063
Sales	Associate of a major shareholder	**-**	268
Sales	Subsidiary of a major shareholder	**-**	260
Sales	Significant influence via shareholder	**9,968**	-
Purchases of goods, inventory and services	Associates	**1,404**	2,504
Purchases of equipment	Associates	**13**	81
Purchases of equipment	Significant influence via shareholder	**924**	1,586
Purchases of services	Significant influence via shareholder	**1,263**	582
Purchases of inventory	Significant influence via shareholder	**18,218**	237
Purchases of intangible assets	Significant influence via shareholder	**563**	14
Interest expenses	Significant influence via shareholder	**198**	-
Purchases of goods, inventory and services	Joint venture	**937**	226
Purchases of equipment	Shareholder	**-**	142
Other services	Shareholder	**-**	26
Purchases of goods and inventory	Shareholder	**-**	3,434
Interest expenses	Shareholder	**-**	71
Administrative expenses	Short-term employee benefits - compensation of the Key Management	**325**	380

9. Cash and cash equivalents

Cash and cash equivalents were as follows:

	31 December 2013	31 December 2012
Short-term deposits and bank promissory notes	**1,738**	6,211
Rouble-denominated cash on hand and balances with banks	**1,646**	2,161
	3,384	8,372

As at 31 December 2013 cash deposits of RR 1,726 (31 December 2012: RR 6,200) bear interest of 4% - 8% (2012: 0.01% - 10.0%); bank promissory notes of RR 12 (31 December 2012: RR 11) bear interest of 5.02% (2012: 6.0% - 6.6%). The Group's balances with bank are not interest bearing.

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

	31 December 2013	31 December 2012
Short-term deposits and bank promissory notes	**1,738**	6,211
Rouble-denominated cash on hand and balances with banks	**1,646**	2,161
Rouble-denominated cash on hand and balances with banks of disposal group classified as held for sale	**-**	26
	3,384	8,398

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
2012	9,223	9,179	40	1	3
2013	**5,848**	**5,723**	**102**	**15**	**8**

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

Balance at 31 December 2011	**1,440**
Charge	248
Unused amounts reversed	(99)
Utilized	(407)
Disposal of subsidiary	(57)
Balance at 31 December 2012	**1,125**
Charge	926
Unused amounts reversed	(41)
Utilized	(288)
Disposal of subsidiary	(525)
Balance at 31 December 2013	**1,197**

11. Financial assets – current

Current financial assets consisted of the following:

	31 December 2013	31 December 2012
Available-for-sale financial assets (bank promissory notes with original maturities of more than three months)	**10**	850
Rouble-denominated loans less provision	**14**	13
Deposit accounts	**152**	520
	176	1,383

Average effective interest rate for short-term loans issued by the Group for the year ended 31 December 2013 was nil (2012: nil).

In 2013 deposit accounts carried interest rates of 0.55% - 3.4% (2012: 7.07% - 10.8%).

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

Balance at 31 December 2011	**2,802**
Charge	589
Unused amounts reversed	(180)
Utilized	(194)
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**

12. Inventories

Inventories consisted of the following:

	31 December 2013	31 December 2012
Raw materials	**14,484**	13,684
Work in progress	**3,549**	3,618
Finished goods	**10,200**	8,177
	28,233	25,479

Inventories are recorded net of obsolescence provision of RR 619 as at 31 December 2013 (31 December 2012: RR 461). The carrying amount of inventories recorded at net realisable value as at 31 December 2013 was RR 1,534 (31 December 2012: RR 776).

During 2013 the cost of write-down of inventories recognised as an expense directly in profit or loss was RR 28 (2012: RR 35).

The provision for inventories recognised as an expense for the year ended 31 December 2013 was RR 158 (for the year ended 31 December 2012 the reversal of provision for inventories recognised as an income was RR 349).

13. Other current assets

Other current assets consisted of the following:

	31 December 2013	31 December 2012
Prepaid expenses and other receivables less provision	**2,704**	1,978
Value added tax	**2,622**	2,768
Construction in progress in relation to real estate for resale	**-**	217
	5,326	4,963

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

Balance at 31 December 2011	**3,357**
Charge	89
Unused amounts reversed	(579)
Utilized	(303)
Disposal of subsidiary	(172)
Balance at 31 December 2012	**2,392**
Charge	333
Unused amounts reversed	(47)
Utilized	(936)
Disposal of subsidiary	(1,046)
Balance at 31 December 2013	**696**

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 2011	75,144	133,395	6,079	17,939	232,557
Additions	248	-	-	19,900	20,148
Disposals	(2,337)	(7,231)	(596)	(726)	(10,890)
Transfers	2,824	14,125	533	(17,482)	-
Assets of disposal group classified as held for sale	(1,345)	(6,368)	(78)	(216)	(8,007)
Balance at 31 December 2012	**74,534**	**133,921**	**5,938**	**19,415**	**233,808**
Accumulated depreciation and impairment					
Balance at 31 December 2011	(52,048)	(109,990)	(5,713)	(3,133)	(170,884)
Depreciation charge	(1,498)	(6,453)	(262)	-	(8,213)
Disposals	1,663	6,522	576	664	9,425
Reversal of impairment provision	-	-	-	59	59
Impairment charge	-	-	(23)	(84)	(107)
Assets of disposal group classified as held for sale	1,014	5,799	67	215	7,095
Balance at 31 December 2012	**(50,869)**	**(104,122)**	**(5,355)**	**(2,279)**	**(162,625)**
Net book amount					
Balance at 31 December 2011	**23,096**	**23,405**	**366**	**14,806**	**61,673**
Balance at 31 December 2012	**23,665**	**29,799**	**583**	**17,136**	**71,183**
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**

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

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

The increase in impairment provision for AUC relates to projects identified during 2013 that are unlikely to be completed. Respective expenses of RR 204 were recorded in profit or loss for the year ended 31 December 2013 (2012: RR 84) and relate to the automotive segment.

14. Property, plant and equipment (continued)

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

Social nature properties are included in property, plant and equipment at a carrying value before provision of RR 981 and RR 859 as of 31 December 2013 and 31 December 2012, respectively. These properties are fully provided for.

As at 31 December 2013 assets of the Group were tested for impairment. 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 of 5 years from 2014 to 2018 with further extrapolation of projected cash flow for the last year to 2026, the end of useful life of main assets, tested for impairment. Key assumptions applied to the value-in-use calculations see in Note 4.3. Based on the performed testing no provision for impairment was required.

The amount of borrowing costs capitalised during 2013 was RR 696 (2012: RR 888). The rate used to determine the amount of borrowing costs eligible for capitalization in 2013 was 6.50% (2012: 7.13%).

The aggregate amount of cash flows that represent increases in operating capacity was RR 20,405 (2012: RR 19,311).

As at 31 December 2013 and 31 December 2012, the gross carrying value of fully depreciated property, plant and equipment was RR 53,141 and RR 51,798, respectively.

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

	31 December 2013	31 December 2012
Cost – finance leases capitalised	**1,548**	1,548
Accumulated depreciation	**(1,548)**	(1,545)
Net book amount	**-**	3

15. Intangible assets

Intangible assets consisted of the following:

	Right to use licenses	Development costs	Other intangible assets	Total
Cost				
Balance at 31 December 2011	9,158	6,161	319	15,638
Additions	-	633	1,056	1,689
Write-off	-	(4,276)	(70)	(4,346)
Balance at 31 December 2012	**9,158**	**2,518**	**1,305**	**12,981**
Amortization and impairment				
Balance at 31 December 2011	-	(4,094)	(57)	(4,151)
Additions to accumulated amortization	(29)	(327)	(217)	(573)
Write-off	-	4,206	70	4,276
Balance at 31 December 2012	**(29)**	**(215)**	**(204)**	**(448)**
Carrying amount at 31 December 2012	**9,129**	**2,303**	**1,101**	**12,533**
Cost				
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**
Amortization and impairment				
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**

15. Intangible assets (continued)

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

16. Financial assets – long-term

Long-term financial assets consisted of the following:

	31 December 2013	31 December 2012
Loans issued	**42**	46
Financial assets held to maturity	**33**	-
Available-for-sale financial assets	**15**	20
	90	66

As at 31 December 2013 available-for-sale financial assets include RR 15 (31 December 2012: RR 20) 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 2013 interest income on financial assets held to maturity was RR 2 (2012: RR 4).

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

Balance at 31 December 2011	**237**
Charge	211
Utilized	(5)
Balance at 31 December 2012	**443**
Disposal of subsidiary	(215)
Balance at 31 December 2013	**228**

17. Investments in associates

Balance at 31 December 2011	**2,992**
Share of profit	450
Transfer from investment in associate into interest in a joint venture (see Note 18)	(3,040)
Disposals	(110)
Dividends received	(25)
Balance at 31 December 2012	**267**
Share of profit	25
Disposals	(18)
Dividends received	(36)
Balance at 31 December 2013	**238**

17. Investments in associates (continued)

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

	31 December 2013	31 December 2012
Assets:		
Long-term assets	**94**	82
Current assets	**370**	402
Liabilities:		
Long-term liabilities	**(1)**	(1)
Current liabilities	**(225)**	(216)
Net assets	**238**	267
Investments in associates	**238**	267
Revenue	**1,162**	2,036
Expenses	**(1,137)**	(1,586)
Profit after income tax	**25**	450
Total comprehensive income	**25**	450

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.

As at 31 December 2011 the shareholders of ZAO GM-AVTOVAZ were JSC AVTOVAZ (41.6%), GM Auslandsprojekte GMBH (41.6%) and EBRD (16.8%). In 2012 the general shareholders meeting of ZAO GM-AVTOVAZ decided to reduce the company's charter capital by means of repurchase and further cancellation of its issued shares owned by EBRD. As a result of this buy back transaction, JSC AVTOVAZ and GM Auslandsprojekte GMBH increased their ownership in ZAO GM-AVTOVAZ to 50% and the former associate became a joint venture.

Balance at 31 December 2011	**-**
Transfer into interest in a joint venture from investment in associate (Note 17)	3,040
Share of profit from joint venture	678
Dividends received	(454)
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**

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 2013	31 December 2012
Assets:		
Long-term assets	**2,078**	1,552
Current assets, including cash and cash equivalents of RR 1,586 (2012: RR 790)	**6,168**	7,656
Liabilities:		
Long-term liabilities	**(82)**	(176)
Current liabilities	**(2,433)**	(2,504)
Net assets	**5,731**	6,528
Share of the Group in joint venture	**2,865**	3,264
Revenue	**22,389**	22,974
Depreciation and amortisation	**(56)**	(78)
Interest income	**472**	260
Income tax expense	**(525)**	(498)
Profit after income tax	**2,132**	1,356
Total comprehensive income	**2,132**	1,356
Share of the Group of profit from joint venture	**1,066**	678

19. Other long-term assets

Other long-term assets consisted of the following:

	31 December 2013	31 December 2012
Prepayments for long-term assets	**3,654**	1,593
Long-term rent of property	**747**	767
Long-term receivables	**118**	148
	4,519	2,508

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

Balance at 31 December 2011	**857**
Utilized	(10)
Balance at 31 December 2012	**847**
Charge	605
Utilized	(847)
Balance at 31 December 2013	**605**

20. Other payables and accrued expenses

Other payables and accrued expenses consisted of the following:

	31 December 2013	31 December 2012
Salaries payable and vacation accrual	**3,710**	2,724
Accrued interest	**192**	159
Government grants	**172**	9
Dividends payable	**9**	6
Settlements on promissory note transactions	**-**	961
Advances received by the subsidiary - real estate developer	**-**	147
Other	**808**	826
	4,891	4,832

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 2011	**1,932**
Charge	1,455
Utilized	(1,425)
Balance at 31 December 2012	**1,962**
Short-term portion	1,103
Long-term portion	859
	1,962
Charge	1,450
Utilized	(1,475)
Balance at 31 December 2013	**1,937**
Short-term portion	1,130
Long-term portion	807
	1,937

22. Loans and borrowings

Short-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2013**	31 December 2012
Rouble-denominated bank loans	9.71	**15,250**	3,880
Euro-denominated bank loans	5.41	**7,187**	3,481
Yen-denominated bank loans	4.26	**172**	325
Other loans	6.64	**638**	551
		23,247	8,237

Long-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2013**	31 December 2012
Rouble-denominated interest-free loans	-	**5,784**	5,137
Rouble-denominated bank loans	10.89	**9,483**	7,404
Euro-denominated bank loans	2.86	**1,076**	4,009
Rouble-denominated interest-free bearer promissory notes	-	**1,765**	1,425
Yen-denominated bank loans	4.71	**321**	122
Other loans	5.29	**4,975**	2,892
		23,404	20,989

In August 2013 the Company and Vnesheconombank signed an agreement on opening a credit line with the limit of RR 25,225 and annual interest rate of 10.92%. 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 the Company received cash of RR 2,113 under this loan agreement.

In 2013 the Company and Renault s.a.s. signed agreements for borrowings with maturity dates in 2023 and interest rates of 4.7% - 5.1%. As at 31 December 2013 the Company received cash of RR 2,188 under these loan agreements.

In 2013 the Company and OAO VTB Bank signed agreements on opening a credit line with the limit of RR 6,600 and Euro 61 million, maturity dates in 2014 - 2018 and annual interest rates of 8.9% - 10.7%. As at 31 December 2013 the Company received cash of RR 6,145 under these loan agreements.

In 2013 the Company and OAO Sberbank of Russia signed agreements on opening a credit line with the limit of RR 7,700, maturity dates in 2014 - 2018 and annual interest rates of 8.9% - 10.7%. As at 31 December 2013 the Company received cash of RR 2,773 under these loan agreements.

In 2013 the Company signed short-term loan agreements with ZAO AKB Novikombank and OAO Promsvyazbank with interest rates of 9% - 9.21%, under which the Company received cash of RR 2,000.

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 2013 is RR 9,129 (31 December 2012: RR 9,129).

In 2013 the Company signed agreements with financial institutions for the factoring of trade receivables. During the year ended 31 December 2013 the Company received cash from the financial institutions in the amount of RR 15,202 and debtors of the Company remitted cash in the amount of RR 14,150 directly to the financial institutions. As at 31 December 2013 the liability under the factoring agreement is RR 980. 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 2013 the Company was not in compliance with financial covenants set by loan agreements with banks, which include EBITDA to interest expense ratio and cross-default. As at 31 December 2013 the Company had RR 8,732 of bank loans with breached covenants including RR 5,469 of long-term debt which was classified as short-term liabilities.

The Company is currently negotiating changes in terms of loan agreements with credit institutions. After 31 December 2013 an agreement was reached between a bank and the Company that the bank will not claim for accelerated repayment due to non compliance with EBITDA to interest expense ratio as at 31 December 2013 in relation to loan agreements in the total amount of RR 8,317.

22. Loans and borrowings (continued)

Long-term loans and borrowings are repayable as follows:

	31 December 2013	31 December 2012
Current portion of loans and borrowings	**3,055**	2,423
1 to 2 years	**3,307**	4,655
2 to 3 years	**2,764**	4,693
3 to 4 years	**2,282**	933
4 to 5 years	**3,609**	1,114
> 5 years	**11,442**	9,594
Total long-term loans and borrowings	**26,459**	23,412
Less current portion of loans and borrowings	**(3,055)**	(2,423)
Long-term portion of loans and borrowings	**23,404**	20,989

As at 31 December 2013 the Group had available RR 32,743 (31 December 2012: RR 1,262) of undrawn committed borrowing facilities.

As at 31 December 2013 and 31 December 2012 the Group's loans and borrowings of RR 8,556 and RR 7,758, respectively, including short-term loans and borrowings, were guaranteed by different types of pledges presented below:

	31 December 2013	31 December 2012
Buildings	**1,603**	1,410
Equipment	**5,791**	3,852
Inventories	**307**	279
Accounts receivable	**26**	-
Other	**20**	17

23. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable were as follows:

	31 December 2013	31 December 2012
Value added tax	**450**	321
Social taxes	**624**	601
Property and other taxes	**580**	623
Penalties and interest on property and other taxes	**3**	1
	1,657	1,546

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 2013	31 December 2012
Current portion of restructured taxes	**194**	-
1 to 2 years	**251**	194
2 to 3 years	**413**	251
3 to 4 years	**314**	413
4 to 5 years	**-**	314
Total restructured taxes	**1,172**	1,172
Less current portion of restructured taxes	**(194)**	-
Long-term portion of restructured taxes	**978**	1,172

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.

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 2013			31 December 2012		
	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 2013 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2012 (2012: a decision not to pay dividends in respect of 2011). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

25. Sales

The components of sales revenue were as follows:

	2013	2012
Finished vehicles and assembly kits of own production	**153,677**	163,189
Automotive components of own production	**12,746**	16,403
Dealership sales of other producers' vehicles	**1,433**	1,309
Other sales	**9,193**	9,160
	177,049	190,061

	2013	2012
Domestic sales	**154,974**	171,300
Sales in EU countries	**1,650**	1,221
Other sales	**20,425**	17,540
	177,049	190,061

Export sales amounted to RR 22,075 (2012: RR 18,761). Geographical information is presented based on the location of customers.

26. Cost of sales

The components of cost of sales were as follows:

	2013	2012
Materials and components, goods for resale	**120,667**	125,845
Labour costs	**25,883**	24,439
Depreciation and amortization	**8,939**	8,283
Social expenses	**1,318**	1,298
Changes in inventories of finished goods and work in progress (Note 12)	**(1,954)**	(91)
Production overheads and other expenses	**8,086**	8,476
	162,939	168,250

27. Administrative expenses

The components of administrative expenses were as follows:

	2013	2012
Labour costs	**7,039**	7,031
Local and regional taxes	**1,532**	1,733
Third parties' services	**1,470**	1,832
Charge to provision for impairment of trade receivables (Note 10)	**885**	149
Materials	**622**	802
Charge to provision for impairment of other long-term assets (Note 19)	**605**	-
Transportation	**591**	582
Depreciation and amortization	**479**	424
Charge to/(reversal of) provision for impairment of other current assets (Note 13)	**286**	(376)
Bank services	**178**	139
Repair expenses	**100**	96
Other	**1,266**	1,386
	15,053	13,798

28. Distribution costs

The components of distribution costs were as follows:

	2013	2012
Transportation	**3,769**	4,299
Labour costs	**1,786**	1,740
Advertising	**947**	1,219
Materials	**745**	840
Depreciation	**144**	79
Other	**892**	937
	8,283	9,114

29. Research expenses

The components of research expenses were as follows:

	2013	2012
Third parties' services	**1,435**	756
Labour costs	**385**	340
Materials	**105**	132
Depreciation	**66**	80
Other	**126**	397
	2,117	1,705

30. Other operating income

The components of other operating income were as follows:

	2013	2012
Gain on derecognition of financial liability	**2,276**	-
Government subsidy	**697**	256
Gain on disposal of subsidiaries and associates	**585**	3,700
Reversal of provision for impairment of current financial assets (Note 11)	**286**	-
Rental income	**193**	221
Gain on disposal of property, plant and equipment	**42**	250
Reversal of provision for impairment of assets of subsidiary – real estate developer (Note 13)	**-**	114
Foreign exchange gain	**-**	76
Other	**778**	896
	4,857	5,513

31. Other operating expenses

The components of other operating expenses were as follows:

	2013	2012
Charge to provision for impairment of property, plant and equipment (Note 14)	**240**	48
Foreign exchange loss	**179**	-
Charge to provision for impairment of current financial assets (Note 11)	**-**	409
Charge to provision for impairment of long-term financial assets (Note 16)	**-**	211
Other	**927**	1,200
	1,346	1,868

32. Finance income

The components of finance income were as follows:

	2013	2012
Interest income	**410**	801
Foreign exchange gain	**-**	145
	410	946

33. Finance costs

The components of finance costs were as follows:

	2013	2012
Interest expense	**2,778**	2,379
Foreign exchange loss	**1,395**	-
	4,173	2,379

34. Income tax (benefit)/expense

	2013	2012
Income tax expense – current	**158**	285
Deferred tax (benefit)/expense	**(2,765)**	6,928
	(2,607)	7,213

The tax (benefit)/expense of the Group is reconciled as follows:

	2013	2012
(Loss)/profit before taxation	**(10,504)**	36,393
Theoretical tax expenses at statutory rate of 20%	**(2,101)**	7,279
Unrecognised tax losses carried forward	**(55)**	(168)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	**(665)**	(82)
Non-deductible expenses	**214**	184
	(2,607)	7,213

During 2013 most of the Group's entities were subject to tax rate of 20% on taxable profits.

34. Income tax (benefit)/expense (continued)

Deferred tax assets and liabilities:

	31 December 2011	Movement for 2012	31 December 2012	Movement for 2013	31 December 2013
Tax effects of temporary differences:					
Provision for impairment of receivables	151	(19)	132	94	226
General and overhead expenses allocation on inventories	(428)	196	(232)	(246)	(478)
Effect of inflation, different depreciation rates and provision for impairment of property, plant and equipment	(2,182)	(670)	(2,852)	(170)	(3,022)
Difference in depreciation and provision for impairment of intangible assets	(749)	(593)	(1,342)	(781)	(2,123)
Accounts payable and provisions	1,256	(190)	1,066	23	1,089
Discounting of loans and borrowings	(4,237)	(6,533)	(10,770)	198	(10,572)
Other temporary differences	653	(388)	265	944	1,209
	(5,536)	(8,197)	(13,733)	62	(13,671)
Tax losses carried forward	5,133	1,101	6,234	2,648	8,882
Unrecognised tax losses carried forward	(464)	168	(296)	55	(241)
Deferred tax assets/(liabilities), net	(867)	(6,928)	(7,795)	2,765	(5,030)

Reflected in the statement of financial position:

	31 December 2011	31 December 2012	31 December 2013
Deferred tax assets	322	372	566
Deferred tax liabilities	(1,189)	(8,399)	(5,596)
Deferred tax assets of disposal group classified as held for sale	-	232	-
Deferred tax assets/(liabilities), net	(867)	(7,795)	(5,030)

As at 31 December 2013 cumulative tax loss in the amount of RR 43,205 (31 December 2012: RR 29,690), 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 3,627 and RR 5,143 as of 31 December 2013 and 31 December 2012, 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 2013	31 December 2012
Weighted average number of ordinary and preference shares outstanding (thousands)	**2,284,227**	2,284,227
(Loss) / profit attributable to ordinary/preference equity holders of the Company	**(7,690)**	29,110
(Loss) / profit attributable to ordinary/preference equity holders of the Company	**(7,690)**	29,110
(Loss) / earnings per share (in Roubles):		
-basic/diluted, for (loss) / profit for the year attributable to ordinary/preference equity holders of the Company	**(3.37)**	12.74

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

36. Contingencies, commitments and guarantees

36.1 Contractual commitments and guarantees

As at 31 December 2013 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 11,827 (31 December 2012: RR 2,223). In addition, the Group issued financial guarantees to third parties in the amount of RR 1,051 (31 December 2012: RR 940). There are no other commitments and guarantees in favour of third parties or related companies that are not disclosed in these consolidated financial statements.

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

	31 December 2013	31 December 2012
Not later than 1 year	**61**	75
Later than 1 year and not later than 5 years	**244**	300
Later than 5 years	**1,950**	2,479
	2,255	2,854

The amount of lease payments recognised as an expense for the year ended 31 December 2013 was RR 61 (2012: RR 75).

36.2 Taxation

Russian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be accrued. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that at 31 December 2013 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 2 billion in 2013. 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.

36.3 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

36. Contingencies, commitments and guarantees (continued)

36.4 Legal proceedings

During 2013, 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.

36.5 Operating environment in Russia

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

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

37. Going concern

Fall in sales that took place in the Russian automotive market in 2013, as well as delays in launching new models led to deterioration of the Group's performance. In 2013 the Group generated loss of RR 7,897 and its short-term liabilities exceeded its current assets by RR 5,957. In 2013 the Group sold 486,582 vehicles and received revenue of RR 177,049. In 2012 the corresponding figures were 591,292 vehicles and RR 190,061, respectively.

In 2013 the Group continued modernizing its production facilities aimed at the model range upgrade. Total loans and borrowings received amounted to RR 24,429, including RR 14,564 used to finance investing activities.

Due to decrease in profit and increase in credit portfolio, the Group was not in compliance with covenants set in loan agreements with a number of banks in the total amount of RR 8,732. As a result, RR 5,469 of the Group's long-term debt was classified as short-term liabilities.

The Company is currently negotiating changes in terms of loan agreements with credit institutions. After 31 December 2013 an agreement was reached between a bank and the Company that the bank will not claim for accelerated repayment due to non compliance with EBITDA to interest expense ratio as at 31 December 2013 in relation to loan agreements in the total amount of RR 8,317.

The Group has no bank debt overdue as at 31 December 2013. In 2013 the Company signed with several banks contracts for opening credit lines with maturity dates in 2014-2023. As at 31 December 2013 total unused credit facilities amounted to RR 32,743.

In spite of the situation on the Russian car market, management believes that the Group will continue as a going concern in the foreseeable future. To ensure sustainable profitability the Group's management developed a number of urgent measures to improve the Company's economy, including the following actions:

- optimize the model range and configuration of cars produced;
- control and manage stocks of finished goods;
- work with suppliers to decrease purchasing prices;
- increase creditor days for suppliers;
- limit debtor days for customers to 30 days;
- cut overhead expenses; and
- optimize expenses for personnel by cutting a number of managers, specialists and office workers by 2.5 thousand people, which will allow reducing general production costs.

In accordance with the Russian government's resolutions as part of the government program "Development of industry and increasing its competitiveness", in 2014 the Group expects to obtain subsidies for research and development, to support jobs, and to compensate for expenses for energy supplies and a part of car production and warranty expenses.

In 2014 the Company is planning to launch new LADA models including LADA Granta hatchback and LADA Priora facelift. In 2014 besides the already produced Nissan Almera, the Company is planning to launch three new models of Renault and Datsun brands.

The Group's cash flow forecast for 2014 indicates that the cash flows generated from operating activities are expected to be positive and may be partially used to cover the investment program.

38. 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.

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

	Automotive		Dealership network		Other segments		Eliminations		Total	
Year ended 31 December	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue										
Sales to external customers	136,677	140,403	23,611	28,591	16,761	21,067	-	-	177,049	190,061
Inter-segment sales	25,470	33,213	644	805	7,765	11,403	(33,879)	(45,421)	-	-
Intra-segments sales	27,001	20,381	93	92	317	521	(27,411)	(20,994)		
Total revenue	189,148	193,997	24,348	29,488	24,843	32,991	(61,290)	(66,415)	177,049	190,061
Results										
Depreciation and amortisation	(8,270)	(6,457)	(134)	(133)	(680)	(898)	-	-	(9,084)	(7,488)
Impairment of assets	(3,015)	240	(413)	(146)	(141)	131	-	-	(3,569)	225
Interest expense	(1,911)	(542)	(207)	(195)	(61)	(152)	-	-	(2,179)	(889)
Income tax expense	1,249	(106)	16	(118)	(50)	(129)	-	-	1,215	(353)
Statutory (loss)/profit for the year	(7,590)	(616)	(563)	192	(508)	(743)	-	-	(8,661)	(1,167)

	2013	2012
IFRS adjustments		
Discounting of loan received from Russian Technologies State Corporation, net of interest expense	(543)	34,558
Adjustment related to disposal of subsidiaries and associate companies	(3,285)	2,209
Gain derecognition of financial liability	2,276	-
Provision for one-off payment to employees	-	830
Adjustments attributable to property, plant and equipment	(252)	(883)
Provision for impairment of assets	715	(559)
Adjustment attributable to associates	25	450
Adjustment attributable to joint venture	1,066	678
Dividends received from associate companies	(36)	(25)
Dividends received from joint venture	(1,465)	(454)
Adjustment attributable to deferred tax	1,552	(6,863)
Others	711	406
IFRS (loss)/profit for the year	**(7,897)**	**29,180**

38. Segment information (continued)
Inter-segment revenues are eliminated on consolidation.

	Automotive		Dealership network		Other segments		Eliminations		Total	
	31 December		31 December		31 December		31 December		31 December	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Segment assets	158,106	151,494	6,924	11,629	8,525	17,308	(16,608)	(28,030)	156,947	152,401
IFRS adjustments										
Adjustments attributable to property, plant and equipment									(5,539)	(5, 290)
Adjustments attributable to intangible assets									241	146
Charge to provision for impairment of assets									(852)	(1,900)
Adjustment related to deferred tax assets									(4,437)	(3,492)
Adjustment on value of consideration received for OOO VMZ									(4,433)	-
Others									327	(87)
IFRS total assets									**142,254**	**141,778**

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

39. 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 2013 and 2012 the Group's policy that no trading in derivatives shall be undertaken. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk.

Foreign currency risk
The Group carries out sales both within and outside the Russian Federation (see Note 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 14,000 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
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
2012		
Euro/RR	9.49	(1,214)
USD/RR	10.72	(84)
JPY/RR	14.76	(73)
Euro/RR	-9.49	1,214
USD/RR	-10.72	84
JPY/RR	-14.76	73

Credit risk
As at 31 December 2013 the Group has RR 3,384 (31 December 2012: RR 8,372) in cash and cash equivalents, RR 176 (31 December 2012: RR 1,383) of current financial assets and RR 90 (31 December 2012: RR 66) 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.

39. Financial risk management objectives and policies (continued)

Credit risk (continued)

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 2013 and 31 December 2012 based on contractual undiscounted payments.

	Less than three months	3 to 12 months	1 to 5 years	> 5 years	Total
Year ended 31 December 2013					
Loans and borrowings	**12,323**	**12,924**	**16,484**	**64,026**	**105,757**
Trade and other payables	**21,845**	**-**	**-**	**-**	**21,845**
Year ended 31 December 2012					
Loans and borrowings	2,849	6,701	14,761	62,797	87,108
Trade and other payables	28,300	-	-	-	28,300

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 2013	31 December 2012	**31 December 2013**	31 December 2012	**31 December 2013**	31 December 2012
FINANCIAL ASSETS:						
Cash and cash equivalents	**3,384**	8,372	**3,384**	8,372	**-**	-
Financial assets – current	**166**	533	**166**	533	**-**	-
Available-for-sale current financial assets - Bank promissory notes (Note 11)	**10**	850	-	-	**10**	850
Financial assets – long-term	**75**	46	**75**	46	**-**	-
Trade receivables	**5,848**	9,223	**5,848**	9,223	**-**	-
FINANCIAL LIABILITIES:						
Short-term loans and borrowings	**23,247**	8,237	**23,247**	8,237	**-**	-
Long-term loans and borrowings	**23,404**	20,989	**24,891**	22,451	**-**	-
Trade payables	**16,954**	23,468	**16,954**	23,468	**-**	-
Long-term taxes other than income tax	**978**	1,172	**1,298**	1,353	**-**	-

39. Financial risk management objectives and policies (continued)

Financial instruments and fair value hierarchy (continued)

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 2013, 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 12.6% (2012: 12.6%). To assess the fair value of long-term taxes liabilities they were discounted at 8.25% rate (2012: 8.25%).

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

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during 2013 and 2012.

40. Events after the reporting period

Since 1 January 2014 Russia applies an additional utilization duty on various vehicles produced in Russian Federation in accordance with Federal Law No.278-FZ dated 21 October 2013. Management estimates that utilization duty to be paid by JSC AVTOVAZ for 2014 will amount to approximately RR 13 billion.

In January 2014 the Company's management took a decision to curtail management personnel by 2.5 thousand people. Curtailment is expected to finish in June 2014. Core production workforce will not be reduced. Compensation payments related to personnel layoff will have no material effect on the financial result of the Company.