AVTOVAZ GROUP

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

31 December 2011

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Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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 2011, 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 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

28 April 2012

Consolidated Statement of Financial Position at 31 December 2011

(In millions of Russian Roubles)

	Note	**31 December 2011**	31 December 2010
ASSETS			
Current assets:			
Cash and cash equivalents	9, 40	**7,563**	12,689
Trade receivables	10, 40	**4,305**	3,487
Financial assets	11, 40	**7,001**	7,420
Inventories	12	**24,345**	22,782
Other current assets	13	**5,783**	5,005
		48,997	51,383
Long-term assets:			
Property, plant and equipment	14	**61,673**	53,452
Financial assets	16, 40	**125**	2,138
Investments in associates	17	**2,992**	3,572
Development costs	15	**11,225**	10,353
Deferred tax assets	36	**322**	981
Other long-term assets	18	**3,243**	2,167
		79,580	72,663
Total assets		**128,577**	124,046
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	19, 40	**19,551**	16,905
Other payables and accrued expenses	20, 40	**6,642**	8,063
Income tax liability		**43**	33
Taxes other than income tax	23	**2,172**	2,122
Provisions	21	**1,071**	1,000
Loans and borrowings	22, 40	**7,296**	41,397
Advances from customers		**1,270**	1,478
Lease payables	40	**-**	299
		38,045	71,297
Long-term liabilities:			
Loans and borrowings	22, 40	**46,373**	34,477
Taxes other than income tax	23, 40	**1,169**	1,169
Provisions	21	**861**	837
Deferred tax liabilities	36	**1,189**	196
Advances received	8	**2,426**	826
		52,018	37,505
Total liabilities		**90,063**	108,802
Equity attributable to equity holders of the Company			
Share capital	24	**37,001**	37,001
Shares paid	24	**17,471**	-
Currency translation adjustment		**275**	315
Accumulated losses		**(16,680)**	(22,801)
		38,067	14,515
Non-controlling interests		**447**	729
Total equity		**38,514**	15,244
Total liabilities and equity		**128,577**	124,046

I. A. Komarov
President, JSC AVTOVAZ

28 April 2012

S. A. Kochetkova
Chief Accountant, JSC AVTOVAZ

AVTOVAZ GROUP
Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2011
(In millions of Russian Roubles except for earnings per share)

	Note	Year ended 31 December 2011	2010
Continuing operations			
Sales	25	**175,073**	137,630
Cost of sales	26	**(152,104)**	(120,805)
Gross profit		**22,969**	16,825
Administrative expenses	27	**(13,701)**	(10,545)
Distribution costs	28	**(9,102)**	(6,155)
Idle time costs	29	**-**	(594)
Research expenses	30	**(1,175)**	(459)
Share of associates' profit	17	**1,200**	975
Other operating income	31	**16,155**	13,099
Other operating expenses	32	**(3,475)**	(3,184)
Operating profit		**12,871**	9,962
Finance income	33	**1,074**	2,087
Finance costs	34	**(5,568)**	(9,667)
Gain from forgiveness of tax debt		**86**	-
Profit before taxation		**8,463**	2,382
Income tax (expense)/benefit	36	**(1,786)**	564
Profit from continuing operations		**6,677**	2,946
Discontinued operations			
Profit after tax from discontinued operations	35	**-**	621
Profit for the year		**6,677**	3,567
Currency translation adjustment		**(40)**	(191)
Total other comprehensive loss for the year, net of taxes		**(40)**	(191)
Total comprehensive income for the year, net of taxes		**6,637**	3,376
Profit attributable to:			
Equity holders of the Company		**6,793**	3,516
Non-controlling interests		**(116)**	51
		6,677	3,567
Total comprehensive income attributable to:			
Equity holders of the Company		**6,753**	3,325
Non-controlling interests		**(116)**	51
Total comprehensive income for the year, net of taxes		**6,637**	3,376
Earnings per share, basic/diluted (in RR):			
-for profit for the year attributable to ordinary/preference equity holders of the Company	37	**3.25**	1.90
-for profit for the year from continuing operations attributable to ordinary/preference equity holders of the Company	37	**3.25**	1.56

(In millions of Russian Roubles)

	Note	Year ended 31 December 2011	2010
Cash flows from operating activities:			
Profit before taxation from continuing operations		**8,463**	2,382
Profit before taxation from discontinued operations	35	**-**	1,264
Profit before taxation		**8,463**	3,646
Adjustments for:			
Depreciation and amortization	14, 15	**8,835**	9,629
Charge to/(reversal) of provision for impairment of trade receivables	27	**64**	(125)
Provision for impairment of other current assets	27	**134**	157
(Reversal) of/charge to provision for impairment of current financial assets	31, 32	**(309)**	668
Provision for impairment of long-term financial assets	32	**237**	-
Provision for impairment of other long-term assets	32	**856**	24
Reversal of provision for impairment of assets of subsidiary – real estate developer	31	**(776)**	-
Interest expense	34	**4,448**	9,209
Loss on extinguishment of debt	34	**747**	-
Provision for impairment of property, plant and equipment	14, 32	**117**	43
Gain from forgiveness of tax debt		**(86)**	-
Gain on disposal of discontinued operations	35	**-**	(618)
Gain on bargain purchase	31	**(353)**	-
(Gain)/loss on disposal of property, plant and equipment	31, 32	**(156)**	263
Share of associates' income	17	**(1,200)**	(975)
Government grant on discounting of interest-free loan	22, 31	**(11,332)**	(9,604)
Gain on disposal of subsidiaries and associates	31	**(1,509)**	(474)
Unrealised foreign exchange effect on non-operating balances		**132**	(744)
Operating cash flows before working capital changes		**8,312**	11,099
Change in trade receivables		**(642)**	(2,287)
Change in current financial and other assets		**(551)**	(5,994)
Change in inventories		**(399)**	(184)
Change in trade payables and other payables and accrued expenses		**(3,966)**	5,197
Change in tax liabilities other than income tax		**120**	215
Change in advances from customers		**(161)**	161
Cash generated from operations		**2,713**	8,207
Income tax paid		**(215)**	(172)
Interest received		**1,107**	1,305
Interest paid		**(657)**	(3,418)
Net cash generated from operating activities		**2,948**	5,922
Cash flows from investing activities:			
Purchase of property, plant and equipment and capitalised development costs		**(11,471)**	(5,692)
Proceeds from the sale of property, plant and equipment		**453**	169
Acquisition of a subsidiary, net of cash acquired		**(1,479)**	-
Proceeds from the sale of financial assets		**6,425**	647
Proceeds from the sale of subsidiaries less cash disposed of		**91**	4,338
Purchase of financial assets		**(6,772)**	(5,300)
Dividends received		**280**	375
Net cash used in investing activities		**(12,473)**	(5,463)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**2,501**	43,441
Repayment of loans and borrowings		**(3,744)**	(43,524)
Shares paid		**4,859**	-
Acquisition of non-controlling interest		**(764)**	-
Long-term advances received		**1,600**	826
Dividends paid to non-controlling interest		**(74)**	-
Net cash generated from financing activities		**4,378**	743
Effect of exchange rate changes		**21**	(38)
Net (decrease)/increase in cash and cash equivalents		**(5,126)**	1,164
Cash and cash equivalents at the beginning of the year	9	**12,689**	11,525
Cash and cash equivalents at the end of the year	9	**7,563**	12,689

(In millions of Russian Roubles)

	Equity attributable to equity holders of the Company						
	Share capital	Shares paid	Currency translation adjustment	Accumu-lated losses	Total	Non-controlling interests	Total equity
Balance at 31 December 2009	**37,001**	**-**	**506**	**(26,327)**	**11,180**	**688**	**11,868**
Profit for the period	-	-	-	3,516	3,516	51	3,567
Other comprehensive loss	-	-	(191)	-	(191)	-	(191)
Total comprehensive income	**-**	**-**	**(191)**	**3,516**	**3,325**	**51**	**3,376**
Acquisition of non-controlling interest	-	-	-	10	10	(10)	-
Balance at 31 December 2010	**37,001**	**-**	**315**	**(22,801)**	**14,515**	**729**	**15,244**
Profit for the period	-	-	-	6,793	6,793	(116)	6,677
Other comprehensive loss	-	-	(40)	-	(40)	-	(40)
Total comprehensive income	**-**	**-**	**(40)**	**6,793**	**6,753**	**(116)**	**6,637**
Dividends	-	-	-	-	-	(74)	(74)
Acquisition of non-controlling interest	-	-	-	(672)	(672)	(92)	(764)
Shares paid (Note 24)	-	17,471	-	-	17,471	-	17,471
Balance at 31 December 2011	**37,001**	**17,471**	**275**	**(16,680)**	**38,067**	**447**	**38,514**

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. As at 31 December 2011 the Group employed 95,889 employees (31 December 2010: 99,393 employees). The registered office of JSC AVTOVAZ is at Yuzhnoye Shosse, 36, Togliatti, 445024, Russian Federation.

These consolidated financial statements were authorized for issue by the President on 28 April 2012.

2. Basis of preparation of the consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

3. Summary of significant accounting policies

3.1 Adopted accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except the following. The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011;
IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010;
IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011;
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*;
Improvements to IFRSs (May 2010).

The adoption of the standards or interpretations is described below:

IAS 24 *Related Party Transactions* (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment resulted in additional disclosure in Note 8.

IAS 32 *Financial Instruments: Presentation* (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group is not subject to minimum funding requirements in the Russian Federation. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

3. Summary of significant accounting policies (continued)
3.1 Adopted accounting standards and interpretations (continued)

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. Details of the share issue in exchange for extinguishment of financial liability of the Group and the related loss on extinguishment are disclosed in Note 22.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

IFRS 7 *Financial instruments - Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies financial position or performance of the Group:

IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)).
IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards).
IAS 27 *Consolidated and Separate Financial Statements.*
IAS 34 *Interim Financial Statements.*

IFRIC 13 *Customer Loyalty Programmes* related to determining the fair value of award credits did not have any impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

In May 2011, the IASB issued a package of standards on consolidation: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, revised IAS 27 *Separate Financial Statements* and revised IAS 28 *Investments in Associates and Joint Ventures*. The package of new and revised standards introduces the new model of control and treatment of joint arrangements and also new disclosure requirements. The package is effective for annual periods beginning on or after 1 January 2013. The Group will adopt the package from 1 January 2013. The Group does not expect the package to have a material impact on its consolidated financial position and results of operations.

Other standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*
The amendment to IAS 1 relates to presentation of other comprehensive income. The Group does not expect new IAS 1 to have a material impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 *Income Taxes – Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value. It also introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

IAS 19 *Employee Benefits* (Amendment)
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 Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment has no impact on the Group's financial position or performance.

IFRS 9 *Financial Instruments: Classification and Measurement*
IFRS 9 as issued reflects the first phase of the IASBs 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 is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*
The recently issued amendments to IAS 32 and IFRS 7 clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The clarifying amendments to IAS 32 are effective for the annual periods beginning on or after 1 January 2014. The new disclosures in IFRS 7 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Both require retrospective application for comparative periods. The Group does not expect the amendments to have a material impact on the Group's consolidated financial position and results of operations.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

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.

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

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 income statement 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 income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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.

3.3 Financial assets

Classification of financial assets

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

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

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

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

3. Summary of significant accounting policies (continued)

3.3. Financial assets (continued)

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

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

Initial recognition of financial instruments

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

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

Available-for-sale financial investments

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at 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.

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

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

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

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

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

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

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

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

3.6 Value added tax
Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the 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.

(In millions of Russian Roubles)

3. Summary of significant accounting policies (continued)

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 cash flow statement. 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 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 Finance leases

Leases of property, plant and equipment in which substantially all the risks and rewards incidental to ownership are transferred to the Group are classified as finance leases. The assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are recognised in the statement of financial position as lease payables.

The interest cost is charged to the statement of comprehensive income over the lease period so as to achieve a constant charge on the debt balance outstanding.

3.11 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 statement of comprehensive income in a year in which they are incurred. Development costs not yet available for use are tested for impairment annually.

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

3. Summary of significant accounting policies (continued)

3.12 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.

3.13 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 and associates 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 and associates 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.

3.14 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 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.

3.15 Government grants

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

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

3. Summary of significant accounting policies (continued)

3.16 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 statement of financial position have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2011 of RR 32.1961 = US$ 1 (31 December 2010: RR 30.4769 = US$ 1) and RR 41.6714 = Euro 1 (31 December 2010: RR 40.3331 = Euro 1).

3.17 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.

3.18 Employee benefits

Social costs

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

Pension costs

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

3.19 Interest income and borrowing costs

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

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

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

3.20 Earnings per share

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.21 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.

3.22 Shareholders' equity

Share capital

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

Treasury shares

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

Dividends

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

3.23 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 2,478 higher or RR 2,739 lower respectively. If the estimated remaining useful life of plant and equipment had been 5% higher or lower than management's estimates, then the carrying value of plant and equipment would have been RR 5,510 higher or RR 6,090 lower respectively.

4.3 Impairment of non-financial assets

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

(In millions of Russian Roubles)

4. Critical accounting estimates (continued)

4.3 Impairment of non-financial assets (continued)

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

The Group assessed whether there were any indicators that non-financial assets may be impaired at the end of the reporting period ended 31 December 2011. As a result, no indicators of further impairment or impairment reversal were identified.

4.4 Warranties

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

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

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

5. Significant accounting judgements

5.1 Taxation

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

5.2 Recognition of deferred tax assets

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

Deferred tax asset in respect of tax losses of RR 2,320 carried forward (31 December 2010: RR 2,790) has not been recognised as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses.

6. Principal subsidiaries and associates

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

Entity	Country of incorporation	Activity	**31 December 2011 % share**	31 December 2010 % share
OOO Obyedinennaya Avtomobilnaya Gruppa	Russia	Manufacture and sale of passenger automobiles	**100**	-
OAO AvtoVAZtrans	Russia	Transport	**100**	100
Lada International Ltd.	Cyprus	Subsidiaries management	**99.9**	99.9
OAO Piter-Lada	Russia	Car distribution and service	**89.4**	89.4
OAO Lada-Service	Russia	Subsidiaries management	**100**	100
ZAO Lada-Image	Russia	Spare parts distribution	**100**	100
OAO Lada-Spetsoborudovaniye	Russia	Car distribution and service	**-**	51
173 Technical Service Centres	Russia, CIS, EU Countries	Car distribution and service	**50.1-100**	50.1-100

(In millions of Russian Roubles)

6. Principal subsidiaries and associates (continued)

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

Entity	Country of incorporation	Activity	**31 December 2011 % share**	31 December 2010 % share
ZAO GM-AVTOVAZ	Russia	Vehicle production	**41.6**	41.6
ZAO CB NOVIKOMBANK	Russia	Bank services	-	20

7. Business combinations and acquisition of non-controlling interests

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

The Group has accounted for the fair values of identifiable assets and liabilities based on values determined provisionally at the date of acquisition. At the date of authorisation of these consolidated financial statements the necessary fair value assessment for property, plant and equipment had not been finalised.

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

Revenue and net loss of OAG since the acquisition date included in the consolidated statement of comprehensive income for the reporting period amounted to RR 1,505 and RR 194 respectively.

The Group considers it impractical to disclose revenue and profit of OAG from 1 January 2011 to the date of acquisition because the subsidiary had not prepared IFRS accounts before the acquisition date.

In July 2011 the Group acquired an additional 49% interest in the voting shares of Inmeco Group ApS that held 100% of OOO ZIP, increasing its ownership interest to 100%. A cash consideration of RR 660 was paid to the non-controlling interest shareholders. The carrying value of the net assets of Inmeco Group ApS at the acquisition date was RR 65 and the carrying value of the additional interest acquired was RR 32. The difference of RR 628 between the consideration and the carrying value of the interest acquired has been recognised in accumulated losses within equity.

(In millions of Russian Roubles)

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 2010 and 2011 the Group entered into transactions with the following related parties: shareholders, subsidiaries of major shareholders, associates 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 (see Note 24) is owned by the Russian Government.

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

At 31 December 2011 and 31 December 2010 the Company had balances with the companies controlled by the Russian Government, which are detailed below.

Consolidated statement of financial position caption	**31 December 2011**	31 December 2010
Cash and cash equivalents	**1,239**	1,575
Trade receivables before provision charge	**296**	312
Provision for impairment of trade receivables	**(215)**	(209)
Advances issued	**1,740**	1,805
Other current assets	**1,626**	910
Provision for impairment of other current assets	**(1,572)**	(717)
Current financial assets before provision charge	**4,681**	5,174
Provision for impairment of current financial assets	**(639)**	(95)
Trade payables	**957**	702
Other payables	**252**	20
Loans and borrowings	**4,174**	1,869
Collateral issued by the Company	**4,285**	113
Loans received from the Russian Technologies Stae Corporation	**42,182**	65,723

In 2011 and 2010 the Company entered into transactions with the companies controlled by the Russian Government, which are detailed below.

Consolidated statement of comprehensive income caption	**2011**	2010
Sales	**427**	1,082
Purchases of services, goods and inventory	**17,610**	13,444
Interest income	**377**	452
Interest expenses	**157**	1,981

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

For details of loans received from the Russian Technologies State Corporation see Note 22.

In December 2011 JSC AVTOVAZ sold to the Russian Technologies State Corporation the following assets:

- 20% of shares of an associate company ZAO CB NOVIKOMBANK,
- RR 1,000 long-term loan issued to ZAO CB NOVIKOMBANK, and
- RR 1,000 long-term deposit in ZAO CB NOVIKOMBANK.

In exchange, the Russian Technologies State Corporation agreed to extinguish a loan of RR 4,430 that had been previously provided to JSC AVTOVAZ (Note 22). This transaction resulted in a gain of RR 1,089, which was recorded in Other operating income.

(In millions of Russian Roubles)

8. Balances and transactions with related parties (continued)

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 2011 and 31 December 2010, except for companies directly or indirectly controlled by the Russian Government, are detailed below.

Consolidated statement of financial position caption	Relationship	**31 December 2011**	31 December 2010
Cash and cash equivalents	Associate bank	-	6,945
Trade receivables before provision charge	Associates	**978**	604
Current financial assets before provision charge	Associates	-	544
Provision for impairment of current financial assets	Associates	-	(394)
Other current assets before provision charge	Associates	-	84
Provision for impairment of other current assets	Associates	-	(61)
Advances issued	Subsidiary of a major shareholder	**1,352**	-
Financial assets – long-term	Associate bank	-	2,000
Trade payables	Associates	**246**	429
Trade payables	Associate of a major shareholder	**480**	-
Trade payables	Subsidiary of a major shareholder	**28**	-
Collateral issued by the Company	Associate bank	-	1,142
Advances received	Associate of a major shareholder	**2,426**	826

As at 31 December 2011 the Group received a long-term interest-free advance payment of RR 2,426 from Nissan Manufacturing RUS LLC (hereinafter – “Nissan”). According to the terms of the advance payment, proceeds from this advance can be used only to finance purchase of equipment. This advance payment will be settled by future deliveries of vehicles. Alternatively, the Group has an option to settle this advance by cash. If the Group is not in compliance with certain terms and provisions agreed with Nissan, the advance shall be repaid within 30 days. In exchange for the advance JSC AVTOVAZ agrees to make available to Nissan the reserved capacity on a new production line.

The income and expense items with related parties for the year ended 31 December 2011 and 31 December 2010 were as follows:

	Relationship	**2011**	2010
Sales	Associates	**7,857**	6,241
Purchases of goods and inventory	Associates	**1,613**	2,839
Purchases of equipment	Associate of a major shareholder	**514**	-
Purchases of services	Associate of a major shareholder	**27**	-
Purchases of equipment	Subsidiary of a major shareholder	**540**	-
Purchases of intangible assets	Subsidiary of a major shareholder	**457**	-
Purchases of services	Subsidiary of a major shareholder	**468**	-
Reversal of provision for impairment of assets	Associates	**55**	-
Interest income	Associates	**-**	25
Interest income	Associate bank	**325**	59
Interest expenses	Associate bank	**8**	2
Other services	Shareholder	**454**	-
Administrative expenses	Short-term employee benefits - compensation of the Key Management	**150**	115

During 2011 the Group issued 434,173,411 ordinary shares to existing shareholders, see Note 24.

(In millions of Russian Roubles)

9. Cash and cash equivalents

Cash and cash equivalents were as follows:

	31 December 2011	31 December 2010
Short-term deposits and bank promissory notes	**3,650**	6,933
Rouble-denominated cash on hand and balances with banks	**3,913**	5,756
	7,563	12,689

Cash deposits of RR 424 held by the Group at 31 December 2011 (31 December 2010: RR 679) bear interest of 0.5% - 1.5% (2010: 0.9%); cash deposits of RR 3,226 (31 December 2010: RR 6,254) bear interest of 4.5% - 8.1% (2010: 3.5% - 10.5%). The Group's balances with bank are not interest bearing.

10. Trade receivables

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

			Past due but not impaired		
31 December	Trade receivables	Neither past due nor impaired	< 3 months	3 to 6 months	6 to 12 months
2010	3,487	3,379	31	29	48
2011	**4,305**	**4,149**	**55**	**5**	**96**

Movements in provision for impairment of receivables were as follows:

Balance at 31 December 2009	**1,807**
Charge	193
Unused amounts reversed	(318)
Utilized	(9)
Disposal of discontinued operations	(103)
Balance at 31 December 2010	**1,570**
Charge	202
Unused amounts reversed	(138)
Utilized	(15)
Reclassification from provision for impairment of other long-term assets	13
Reclassification to provision for impairment of other current assets	(192)
Balance at 31 December 2011	**1,440**

11. Financial assets – current

	31 December 2011	31 December 2010
Rouble-denominated loans less provision	**1,237**	540
Financial assets at fair value through profit or loss	**21**	53
Available-for-sale financial assets (bank promissory notes with original maturities of more than three months)	**-**	6,123
Deposit accounts	**5,743**	704
	7,001	7,420

Average effective interest rate for short-term loans issued by the Group was 8.13% (2010: 10.59%).

Deposit accounts carried interest rates of 7% - 9.6% (2010: 4.4% - 7.75%).

In 2011 loss on revaluation of financial assets at fair value through profit or loss recorded in profit or loss was nil (2010: RR 40).

(In millions of Russian Roubles)

11. Financial assets – current (continued)

Changes in the provision for impairment of loans were as follows:

Balance at 31 December 2009	**3,307**
Charge	925
Reclassification to provision for impairment of other current assets	(584)
Unused amounts reversed	(257)
Balance at 31 December 2010	**3,391**
Charge	102
Unused amounts reversed	(411)
Utilized	(336)
Reclassification from provision for impairment of other current assets	56
Balance at 31 December 2011	**2,802**

12. Inventories

Inventories consisted of the following:

	31 December 2011	31 December 2010
Raw materials	**12,641**	10,345
Finished goods	**7,814**	9,421
Work in progress	**3,890**	3,016
	24,345	22,782

Inventories are recorded net of obsolescence provision of RR 1,474 at 31 December 2011 (31 December 2010: RR 1,109). The carrying amount of inventories recorded at net realisable value as at 31 December 2011 was RR 280 (2010: RR 172).

The cost of write-down of inventories recognised as an expense for the year ended 31 December 2011 was RR 365 (for the year ended 31 December 2010 the reversal of write-down of inventories recognised as income was RR 950).

13. Other current assets

Other current assets consisted of the following:

	31 December 2011	31 December 2010
Value added tax	**2,228**	1,703
Construction in progress in relation to real estate for resale	**1,088**	258
Receivables from the government under the car scrappage programme	**84**	750
Prepaid expenses and other receivables less provision	**2,383**	2,294
	5,783	5,005

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

Balance at 31 December 2009	**3,680**
Charge	512
Unused amounts reversed	(355)
Utilized	(465)
Reclassification from provision for impairment of current financial assets	584
Reclassification to provision for impairment of other long-term assets	(99)
Balance at 31 December 2010	**3,857**
Charge	352
Unused amounts reversed	(994)
Utilized	(443)
Reclassification from provision for impairment of other long-term assets	449
Reclassification from provision for impairment of trade receivables	192
Reclassification to provision for impairment of current financial assets	(56)
Balance at 31 December 2011	**3,357**

(In millions of Russian Roubles)

14. Property, plant and equipment

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

	Buildings and land	Manufacturing equipment, machinery, specific tools	Office and other equipment	Assets under construction	Total
Cost					
Balance at 31 December 2009	75,448	134,841	8,194	8,857	227,340
Additions	-	-	-	4,318	4,318
Disposals	(166)	(2,893)	(604)	(92)	(3,755)
Transfers	525	4,319	161	(5,005)	-
Discontinued operations	(707)	(4,253)	(23)	(389)	(5,372)
Balance at 31 December 2010	**75,100**	**132,014**	**7,728**	**7,689**	**222,531**
Accumulated depreciation and impairment					
Balance at 31 December 2009	(51,289)	(105,283)	(7,275)	(3,428)	(167,275)
Depreciation charge	(1,539)	(7,350)	(402)	-	(9,291)
Disposals	104	2,505	663	51	3,323
Reversal of impairment provision	-	-	-	236	236
Impairment charge	-	-	(76)	(33)	(109)
Discontinued operations	357	3,668	12	-	4,037
Balance at 31 December 2010	**(52,367)**	**(106,460)**	**(7,078)**	**(3,174)**	**(169,079)**
Net book amount					
Balance at 31 December 2009	**24,159**	**29,558**	**919**	**5,429**	**60,065**
Balance at 31 December 2010	**22,733**	**25,554**	**650**	**4,515**	**53,452**
Cost					
Balance at 31 December 2010	75,100	132,014	7,728	7,689	222,531
Additions	-	-	-	14,649	14,649
Acquisition of a subsidiary (Note 7)	972	1,961	5	-	2,938
Disposals	(2,144)	(3,441)	(1,761)	(215)	(7,561)
Transfers	1,216	2,861	107	(4,184)	-
Balance at 31 December 2011	**75,144**	**133,395**	**6,079**	**17,939**	**232,557**
Accumulated depreciation and impairment					
Balance at 31 December 2010	(52,367)	(106,460)	(7,078)	(3,174)	(169,079)
Depreciation charge	(1,490)	(6,744)	(294)	-	(8,528)
Disposals	1,809	3,214	1,674	143	6,840
Reversal of impairment provision	-	-	-	7	7
Impairment charge	-	-	(15)	(109)	(124)
Balance at 31 December 2011	**(52,048)**	**(109,990)**	**(5,713)**	**(3,133)**	**(170,884)**
Net book amount					
Balance at 31 December 2010	**22,733**	**25,554**	**650**	**4,515**	**53,452**
Balance at 31 December 2011	**23,096**	**23,405**	**366**	**14,806**	**61,673**

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 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 2011 that are unlikely to be completed. Respective expenses of RR 109 were recorded in profit or loss for the year ended 31 December 2011 (2010: RR 33) and relate to the automotive segment.

(In millions of Russian Roubles)

14. Property, plant and equipment (continued)

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

Included in property, plant and equipment and assets under construction are properties used by the local community (such as health resorts and sports facilities) at a gross carrying value of RR 880 and RR 1,149 as of 31 December 2011 and 31 December 2010, respectively. These properties are fully provided for.

The amount of borrowing costs capitalised during 2011 was RR 434 (2010: RR 19). The rate used to determine the amount of borrowing costs eligible for capitalization in 2011 was 8.13% (2010: 9.56%).

As at 31 December 2011 and 31 December 2010, the gross carrying value of fully depreciated property, plant and equipment was RR 54,794 and RR 50,860, respectively.

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

	31 December 2011	31 December 2010
Cost – finance leases capitalised	**1,571**	1,740
Accumulated depreciation	**(1,406)**	(1,145)
Net book amount	**165**	595

15. Development costs

	Capitalised cost for products under development	Capitalised development cost for products currently in use	Total
Cost			
Balance at 31 December 2009	9,502	4,616	14,118
Additions	461	-	461
Transfers	(4)	4	-
Write-off	-	-	-
Balance at 31 December 2010	**9,959**	**4,620**	**14,579**
Amortization			
Balance at 31 December 2009	-	(3,777)	(3,777)
Additions to accumulated amortization	-	(449)	(449)
Balance at 31 December 2010	**-**	**(4,226)**	**(4,226)**
Carrying amount at 31 December 2010	**9,959**	**394**	**10,353**

	Capitalised cost for products under development	Capitalised development cost for products currently in use	Total
Cost			
Balance at 31 December 2010	9,959	4,620	14,579
Additions	1,389	-	1,389
Write-off	(210)	(439)	(649)
Balance at 31 December 2011	**11,138**	**4,181**	**15,319**
Amortization and impairment			
Balance at 31 December 2010	-	(4,226)	(4,226)
Additions to accumulated amortization	-	(307)	(307)
Write-off	-	439	439
Balance at 31 December 2011	**-**	**(4,094)**	**(4,094)**
Carrying amount at 31 December 2011	**11,138**	**87**	**11,225**

(In millions of Russian Roubles)

15. Development costs (continued)

Development costs include RR 9,159 of know-how in relation to production, assembling and sale of licensed cars and engines, which was bought in 2008 under license agreements with Renault s.a.s. The Group will amortize these intangible assets from the period of the commencement of production.

16. Financial assets – long-term

	31 December 2011	31 December 2010
Loans issued	**50**	1,057
Financial assets held to maturity	**49**	1,049
Available-for-sale financial assets	**26**	32
	125	2,138

As at 31 December 2011 provision for impairment of long-term financial assets was RR 237 (31 December 2010: nil). For the year ended 31 December 2011 charge to provision for impairment of long-term financial assets was RR 237 (for the year ended 31 December 2010: nil), see Note 32.

As at 31 December 2011 available-for-sale financial assets include RR 26 (31 December 2010: RR 32) 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.

As at 31 December 2011 financial assets held to maturity include long-term bank deposits with interest rate of 8% (2010: 7.75%). Interest income on financial assets held to maturity was RR 84 (2010: RR 81).

17. Investments in associates

Balance at 31 December 2009	**2,972**
Share in income	975
Dividends received	(375)
Balance at 31 December 2010	**3,572**
Share in income	1,200
Disposals	(1,500)
Dividends received	(280)
Balance at 31 December 2011	**2,992**

Investments in associates consisted of the following:

	31 December 2011	31 December 2010
ZAO GM-AVTOVAZ	**2,663**	1,783
ZAO CB NOVIKOMBANK	**-**	1,271
Other	**329**	518
	2,992	3,572

The shareholders of ZAO GM-AVTOVAZ are JSC AVTOVAZ (41.6%), GM Auslandsprojekte GMBH (41.6%) and EBRD (16.8%).

In December 2011 the Company sold its share in ZAO CB NOVIKOMBANK to the Russian Technologies State Corporation, see Note 8.1.

(In millions of Russian Roubles)

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 2011	31 December 2010
Assets:		
Long-term assets	**860**	3,930
Current assets	**3,568**	7,392
Liabilities:		
Long-term liabilities	**(82)**	(971)
Current liabilities	**(1,354)**	(6,779)
Net assets	**2,992**	3,572
Investments in associates	**2,992**	3,572
Revenue	**14,433**	15,022
Expenses	**(13,233)**	(14,047)
Profit after income tax	**1,200**	975

18. Other long-term assets

	31 December 2011	31 December 2010
Prepayments for technical assistance	**1,352**	-
Long-term rent of property	**786**	806
Prepayments for long-term assets	**700**	989
Software	**262**	133
Long-term receivables	**129**	229
Other intangible assets	**14**	10
	3,243	2,167

Prepayments of RR 1,352 were made to Renault Samara s.a.s. for technical assistance in launching new car models.

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

Balance at 31 December 2009	**392**
Charge	24
Utilized	(52)
Reclassification from provision for impairment of other current assets	99
Balance at 31 December 2010	**463**
Charge	863
Unused amounts reversed	(7)
Reclassification to provision for impairment of trade receivables	(13)
Reclassification to provision for impairment of other current assets	(449)
Balance at 31 December 2011	**857**

19. Trade payables

	31 December 2011	31 December 2010
Trade payables	**19,305**	16,476
Payables to associates	**246**	429
	19,551	16,905

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

(In millions of Russian Roubles)

20. Other payables and accrued expenses

Other payables and accrued expenses included the following:

	31 December 2011	31 December 2010
Salaries payable and vacation accrual	**3,295**	3,185
Advances received by the subsidiary-real estate developer	**1,056**	1,169
Settlements on promissory note transactions	**961**	961
Dividends payable	**174**	176
Accrued interest	**155**	148
Unearned insurance premiums and reserves for claims	**81**	454
Government grants	**10**	717
Other	**910**	1,253
	6,642	8,063

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

21. Provisions

During 2011 there were the following movements of warranty provision:

Balance at 31 December 2009	**1,699**
Charge	1,639
Utilized	(1,299)
Reversed	(202)
Balance at 31 December 2010	**1,837**
Short-term portion	1,000
Long-term portion	837
	1,837
Charge	1,461
Utilized	(1,376)
Acquisition of a subsidiary (Note 7)	10
Balance at 31 December 2011	**1,932**
Short-term portion	1,071
Long-term portion	861
	1,932

22. Loans and borrowings

Short-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2011**	31 December 2010
Rouble-denominated interest-free loans	-	**2,930**	37,203
Rouble-denominated bank loans	12.77	**2,235**	1,965
Euro-denominated bank loans	4.61	**1,379**	1,047
Other loans	11.74	**752**	1,182
		7,296	41,397

Long-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2011**	31 December 2010
Rouble-denominated interest-free loans	-	**39,252**	28,520
Euro-denominated bank loans	4.65	**3,742**	4,443
Rouble-denominated interest-free bearer promissory notes	-	**1,151**	930
Rouble-denominated bank loans	10.41	**2,159**	369
Other bank loans	17.61	**69**	215
		46,373	34,477

(In millions of Russian Roubles)

22. Loans and borrowings (continued)

In January 2011 the Company signed an amendment to the loan agreement with the Russian Technologies State Corporation to prolong the repayment period of the loan in the amount of RR 25,000 from 3 to 10 years from the date of the first prolongation, i.e. the maturity date is changed from July 2012 to June 2019. This change in the loan terms was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The new loan was recorded at fair value determined as future cash flows discounted at the current market rate of 9.2%. The difference between the carrying amount of the extinguished financial liability and the fair value of the new financial liability as of the date of the extinguishment was accounted for in accordance with IAS 20 and treated as a government grant as the loan was received from a Russian state corporation. Fair value of the government grant in the amount of RR 7,828 was recognised immediately as income, see Note 31.

In March 2011 the Company signed an amendment to the loan agreement with the Russian Technologies State Corporation to prolong the repayment period of the loan in the amount of RR 4,497 from 18 to 42 months from the date of issue on 31 December 2009. This change in the loan terms was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The new financial liability was recorded at fair value determined as future cash flows discounted at the current market rate of 9.2%. The difference between the carrying amount of the extinguished financial liability and the fair value of the new financial liability as of the date of the extinguishment was accounted for in accordance with IAS 20 and treated as a government grant as the loan was received from a Russian state corporation. Fair value of the government grant in the amount of RR 311 was recognised immediately as income, see Note 31.

During 2011 JSC AVTOVAZ issued 313,416,829 ordinary shares to the Russian Technologies State Corporation in exchange for extinguishment of the Company’s liability in relation to interest-free loans with nominal value of RR 12,612. The difference between the carrying amount of the extinguished loan and fair value of own equity instruments issued, which arose on extinguishment of the loan and amounted to RR 628, was recognized as finance cost, see Note 34.

In June 2011 the Company signed an amendment to the loan agreement with the Russian Technologies State Corporation to prolong the repayment period of the loan in the amount of RR 28,000 from 18 to 36 months from the date of issue on 30 April 2010. This change in the loan terms was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The new financial liability was recorded at fair value determined as future cash flows discounted at the current market rate of 9.2%. The difference between the carrying amount of the extinguished financial liability and the fair value of the new financial liability as of the date of the extinguishment was accounted for in accordance with IAS 20 and treated as a government grant as the loan was received from a Russian state corporation. Fair value of the government grant in the amount of RR 3,193 was recognised immediately as income, see Note 31.

The Russian Technologies State Corporation extinguished a loan of RR 4,430 that had been previously provided to the Company in exchange for the following assets:

- 20% of shares of an associate company ZAO CB NOVIKOMBANK,
- RR 1,000 long-term loan issued to ZAO CB NOVIKOMBANK, and
- RR 1,000 long-term deposit in ZAO CB NOVIKOMBANK.

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 21% and 30%. Their gross nominal value is RR 9,129 (31 December 2010: RR 9,129).

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

Long-term loans and borrowings are repayable as follows:

	31 December 2011	31 December 2010
Current portion of loans and borrowings	**1,233**	1,041
1 to 2 years	**25,868**	29,855
2 to 3 years	**1,650**	1,159
3 to 4 years	**1,047**	987
4 to 5 years	**511**	1,053
> 5 years	**17,297**	1,423
Total long-term loans and borrowings	**47,606**	35,518
Less current portion of loans and borrowings	**(1,233)**	(1,041)
Long-term portion of loans and borrowings	**46,373**	34,477

(In millions of Russian Roubles)

22. Loans and borrowings (continued)

As at 31 December 2011 and 31 December 2010 the Group's loans and borrowings of RR 3,927 and RR 2,215, respectively, including short-term loans and borrowings were guaranteed by different types of pledges presented below:

	31 December 2011	31 December 2010
Buildings	**2,378**	995
Equipment	**1,554**	356
Inventories	**803**	161
Securities	**53**	294
Accounts receivable	**3**	24
Other	**159**	85

23. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable were as follows:

	31 December 2011	31 December 2010
Value added tax	**771**	672
Property and other taxes	**693**	716
Social taxes	**673**	484
Current portion of restructured taxes	**-**	185
Penalties and interest on property and other taxes	**35**	65
	2,172	2,122

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 to be repaid over a period of up to 18 years.

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

	31 December 2011	31 December 2010
Current portion of restructured taxes	**-**	185
2 to 3 years	**193**	-
3 to 4 years	**250**	193
4 to 5 years	**412**	250
> 5 years	**314**	726
Total restructured taxes	**1,169**	1,354
Less current portion of restructured taxes	**-**	(185)
Long-term portion of restructured taxes	**1,169**	1,169

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

(In millions of Russian Roubles)

24. Share capital

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

	31 December 2011			31 December 2010		
	No. of shares	**Legal statutory value**	**Carrying amount**	No. of shares	Legal statutory value	Carrying amount
Class A preference	**461,764,300**	**2,309**	**9,235**	461,764,300	2,309	9,235
Ordinary	**1,388,289,720**	**6,941**	**27,766**	1,388,289,720	6,941	27,766
Total outstanding share capital	**1,850,054,020**	**9,250**	**37,001**	1,850,054,020	9,250	37,001

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 2011 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2010 (2010: a decision not to pay dividends in respect of 2009). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

During 2011 434,173,411 ordinary shares at par value of 5 Russian roubles were placed among existing shareholders at the price of 40.24 Russian roubles per share, as follows:

	Number of shares	Consideration	Settlement by
The Russian Technologies State Corporation	313,416,829	12,612	Loan extinguishment, see Note 22
Renault s.a.s.	108,543,355	4,368	Cash
Troika Dialog Investments Limited	10,854,335	437	Cash
Others	1,358,892	54	Cash
	434,173,411	**17,471**	

As at 31 December 2011 these shares were paid. All registration procedures were completed in February 2012.

25. Sales

The components of sales revenue were as follows:

	2011	2010
Finished vehicles and assembly kits of own production	**155,618**	123,684
Automotive components of own production	**10,163**	7,189
Dealership sales of other producers' vehicles	**1,375**	1,068
Other sales	**7,917**	5,689
	175,073	137,630

(In millions of Russian Roubles)

25. Sales (continued)

	2011	2010
Domestic sales	**161,046**	125,382
Sales in EU countries	**1,689**	1,386
Other sales	**12,338**	10,862
	175,073	137,630

Export sales amounted to RR 14,027 (2010: RR 12,248). Geographical information is presented based on the location of customers.

26. Cost of sales

The components of cost of sales were as follows:

	2011	2010
Materials and components, goods for resale	**111,473**	85,772
Labour costs	**22,903**	18,232
Depreciation and amortization	**8,423**	8,738
Production overheads and other expenses	**7,462**	5,766
Social expenses	**1,110**	911
Changes in inventories of finished goods and work in progress	**733**	1,386
	152,104	120,805

27. Administrative expenses

Administrative expenses were as follows:

	2011	2010
Labour costs	**6,295**	4,926
Local and regional taxes	**1,816**	1,623
Third parties' services	**1,785**	1,215
Materials	**784**	691
Transportation	**765**	716
Depreciation	**379**	419
Repair expenses	**228**	139
Bank services	**177**	219
Provision for impairment of other current assets (Note 13)	**134**	157
Charge to /(reversal) of provision for impairment of trade receivables (Note 10)	**64**	(125)
Other	**1,274**	565
	13,701	10,545

28. Distribution costs

Distribution costs were as follows:

	2011	2010
Transportation	**4,321**	2,714
Labour costs	**1,648**	1,148
Advertising	**1,193**	666
Materials	**855**	611
Depreciation	**33**	41
Other	**1,052**	975
	9,102	6,155

(In millions of Russian Roubles)

29. Idle time costs

The components of idle time costs were as follows:

	2011	2010
Labour costs	**-**	419
Depreciation	**-**	172
Fuel and energy	**-**	3
	-	594

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

30. Research expenses

Research expenses were as follows:

	2011	2010
Labour costs	**227**	115
Materials	**198**	12
Depreciation	**43**	84
Other	**707**	248
	1,175	459

31. Other operating income

The components of other operating income were as follows:

	2011	2010
Government grant on discounting of the interest-free loan (Note 22)	**11,332**	9,604
Gain on disposal of subsidiaries and associates	**1,509**	474
Reversal of provision for impairment of assets of subsidiary – real estate developer (Note 13)	**776**	-
Government subsidy	**725**	2,162
Gain on bargain purchase	**353**	-
Reversal of provision for impairment of current financial assets (Note 11)	**309**	-
Gain on disposal of property, plant and equipment	**156**	-
Rental income	**138**	216
Other operating income	**857**	643
	16,155	13,099

32. Other operating expenses

The components of other operating expenses were as follows:

	2011	2010
Provision for impairment of other long-term assets (Note18)	**856**	24
One-off payment to employees	**830**	1,001
Provision for impairment of long-term financial assets (Note 16)	**237**	-
Foreign exchange loss	**144**	-
Provision for impairment of property, plant and equipment	**117**	43
Provision for impairment of current financial assets (Note 11)	**-**	668
Loss on disposal of property, plant and equipment	**-**	263
Other operating expenses	**1,291**	1,185
	3,475	3,184

(In millions of Russian Roubles)

33. Finance income

Finance income recorded in profit or loss was as follows:

	2011	2010
Interest income	**1,074**	1,305
Foreign exchange gain	**-**	782
	1,074	2,087

34. Finance costs

Finance costs charged to profit or loss were as follows:

	2011	2010
Interest expense	**4,448**	9,209
Loss on extinguishment of debt (Note 22)	**747**	-
Finance lease expenses	**204**	458
Foreign exchange loss	**169**	-
	5,568	9,667

35. Discontinued operations

In July 2010 the Company sold 100% shares in the subsidiary bank ZAO CB LADA-CREDIT for RR 365. The sold subsidiary's activities related to other segments of the Group.

In December 2010 the Company sold 100% shares in subsidiaries OAO TEVIS, OAO Elektroset, OAO TEK for RR 2,546. The sold subsidiaries' activities related to other segments of the Group.

Total assets, liabilities, cash and cash equivalents at the date of disposal are presented below:

	ZAO CB LADA-CREDIT	OAO TEVIS, OAO Elektroset, OAO TEK
Assets:		
Financial assets	339	-
Property, plant and equipment	-	1,335
Other non-current assets	260	4
Total long-term assets	**599**	**1,339**
Cash and cash equivalents	2,438	97
Financial assets	857	-
Trade receivables	-	1,288
Other current assets	40	416
Total current assets	**3,335**	**1,801**
Total assets	**3,934**	**3,140**
Liabilities:		
Long-term liabilities	**593**	**184**
Accounts payable	-	619
Borrowings	2,956	94
Other payables	20	315
Total current liabilities	**2,976**	**1,028**
Total liabilities	**3,569**	**1,212**
Net assets at the date of disposal	**365**	**1,928**

(In millions of Russian Roubles)

35. Discontinued operations (continued)

Operating results of discontinued operations are presented below:

	2010
Sales	6,285
Cost of sales	(4,944)
Gross profit	1,341
Administrative expenses	(453)
Other operating expenses, net	(227)
Operating profit	661
Finance costs	(15)
Gain on disposal of discontinued operations	618
Profit before taxation from discontinued operations	1,264
Income tax expense	(182)
Income tax on disposal of discontinued operations	(461)
Profit from discontinued operations	621
Basic/diluted earnings per share (in Roubles)	0.34

The following table presents cash flows of discontinued operations:

	2010
Cash flows from:	
Operating activities	1,099
Investing activities	(239)
Financing activities	(71)
Effect of exchange rate changes	(2)
Net increase in cash and cash equivalents	787

36. Income tax expense/(benefit)

	2011	2010
Income tax expense – current	**225**	178
Recalculation of prior years income tax	**-**	(847)
Deferred tax expense	**1,561**	105
	1,786	(564)

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

	2011	2010
Profit before taxation from continuing operations	**8,463**	2,382
Profit before taxation from discontinued operations	**-**	1,264
	8,463	3,646
Theoretical tax expenses at statutory rate of 20%	**1,693**	729
Recalculation of prior years income tax	**-**	(847)
(Utilised tax losses previously not recognised)/unrecognised tax losses carried forward	**(94)**	21
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income:		
Gain on bargain purchase (Note 7)	**(71)**	-
Reversal of write-down of inventories	**-**	(190)
Other non-taxable income	**-**	(196)
Non-deductible expenses:		
Social expenses	**225**	146
Losses of non-production divisions of the Company	**33**	26
Non-deductible expenses related to discontinued operations	**-**	390
	1,786	79
Income tax expense/(benefit) reported in the consolidated statement of comprehensive income	**1,786**	(564)
Income tax attributable to discontinued operations	**-**	643
	1,786	79

(In millions of Russian Roubles)

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

During 2011 most of the Group's entities were subject to tax rates of 20% on taxable profits.

Deferred tax assets and liabilities:

	31 December 2009	Movement for 2010	Movement in relation to discontinued operations	31 December 2010	Movement for 2011	Business combinations (Note 7)	31 December 2011
Tax effects of temporary differences:							
Provision for impairment of receivables	186	16	(20)	182	(31)	-	151
General and overhead expenses allocation on inventories	(607)	59	-	(548)	120	-	(428)
Effect of inflation, different depreciation rates and provision for impairment of property, plant and equipment	(3,130)	651	141	(2,338)	241	(85)	(2,182)
Difference in depreciation and provision for impairment of development costs	(193)	183	-	(10)	(739)	-	(749)
Differences in relation to changes in cost of financial assets	(24)	(56)	-	(80)	(32)	-	(112)
Accounts payable and provisions	901	280	(2)	1,179	77	-	1,256
Discounting of loans and borrowings	(2,251)	(732)	-	(2,983)	(1,254)	-	(4,237)
Other temporary differences	436	85	38	559	212	(6)	765
	(4,682)	486	157	(4,039)	(1,406)	(91)	(5,536)
Tax losses carried forward	5,952	(570)	-	5,382	(249)	-	5,133
Unrecognised tax losses carried forward	(537)	(21)	-	(558)	94	-	(464)
Deferred tax assets/(liabilities), net	733	(105)	157	785	(1,561)	(91)	(867)
Reflected in the statement of financial position:							
Deferred tax assets	1,244			981			322
Deferred tax liabilities - continuing operations	(467)			(196)			(1,189)
Deferred tax liabilities - disposal group classified as held for sale	(44)			-			-
Deferred tax assets/(liabilities), net	733			785			(867)

(In millions of Russian Roubles)

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

As at 31 December 2011 cumulative tax loss in the amount of RR 23,345 (31 December 2010: RR 24,120), for which deferred tax asset was recognised, is available for offset against future taxable profit during successive 7-8 years.

The deductible temporary differences associated with investments in subsidiaries amount to RR 8,356 and RR 6,948 as of 31 December 2011 and 31 December 2010, respectively. A deferred tax asset in respect of deductible temporary difference related to the Group's investments in subsidiaries was not recognized as it is not probable that taxable profit will be available in the foreseeable future against which the temporary difference can be utilized.

37. Earnings per share

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

	31 December 2011	31 December 2010
Weighted average number of ordinary and preference shares outstanding (thousands)	**2,088,153**	1,850,054
Profit attributable to ordinary/preference equity holders of the Company	**6,793**	3,516
Net profit attributable to ordinary/preference equity holders of the Company from discontinued operations	**-**	621
Profit on continuing operations attributable to ordinary/preference equity holders of the Company	**6,793**	2,895
Earnings per share (in Roubles):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	**3.25**	1.90
-basic/diluted, for profit for the period from continuing operations attributable to ordinary/preference equity holders' of the Company	**3.25**	1.56

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

38. Contingencies, commitments and guarantees

38.1 Contractual commitments and guarantees

As at 31 December 2011 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 8,219 (31 December 2010: RR 775). In addition, the Group issued financial guarantees to third parties in the amount of RR 89 (31 December 2010: RR 1,008). 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 2011	31 December 2010
Not later than 1 year	**233**	268
Later than 1 year and not later than 5 years	**931**	1,074
Later than 5 years	**7,913**	9,394
	9,077	10,736

The amount of lease payments recognised as an expense for the year ended 31 December 2011 was RR 233 (2010: RR 268).

38. Contingencies, commitments and guarantees (continued)

38.2 Taxation

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

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

Management believes that at 31 December 2011 its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.

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

38.3 Environmental matters

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

38.4 Legal proceedings

During 2011, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group.

38.5 Factors affecting the Company's financial position

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. In 2011 the Russian government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

39. Segment information

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

- automotive - production and sale of vehicles, assembly kits and automotive components produced by the Company and OAG acquired in October 2011;
- dealership network - sales and services provided by technical centres;
- other segments - information about other business activities and operating segments that are not reportable based on quantitative thresholds was combined and disclosed as “Other segments”. Other segments include activities of insurance companies and other subsidiaries that are engaged in non-core activities.

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

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

(In millions of Russian Roubles)

39. Segment information (continued)

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

	Automotive		Dealership network		Other segments		Eliminations		Total	
Year ended 31 December	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Revenue										
Sales to external customers	123,068	92,777	39,211	35,856	12,794	8,997	-	-	175,073	137,630
Inter-segment sales	53,283	45,158	949	1,907	6,358	3,958	(60,590)	(51,023)	-	-
Total revenue	176,351	137,935	40,160	37,763	19,152	12,955	(60,590)	(51,023)	175,073	137,630
Results										
Depreciation and amortisation	(6,226)	(6,609)	(164)	(161)	(205)	(97)	-	-	(6,595)	(6,867)
Impairment of assets	741	473	(57)	(48)	(73)	(82)	-	-	611	343
Interest expense	(372)	(2,734)	(161)	(464)	(307)	(242)	-	-	(840)	(3,440)
Profit from discontinued operations, incl. income tax expense	-	1,279	-	-	-	-	-	-	-	1,279
Income tax (expense) / benefit	(346)	934	(190)	(36)	(86)	42	-	-	(622)	940
Statutory profit/(loss) for the year	2,982	2,106	406	(428)	4	(417)	-	-	3,392	1,261

	2011	2010
IFRS adjustments, net of deferred tax		
Discounting of loan received from Russian Technologies State Corporation, net of interest expense	5,616	3,095
(Charge)/reversal of provision for impairment of assets	(380)	1,555
Adjustments attributable to property, plant and equipment	(1,453)	(1,700)
Adjustments attributable to research and development expenses	(28)	126
Adjustment attributable to discontinued operations	-	(658)
Gain on bargain purchase	353	-
Adjustment related to disposal of ZAO CB NOVIKOMBANK	(495)	-
Overhead expenses allocated to inventories	18	(340)
Provision for one-off payment to employees	(664)	-
Adjustment attributable to associates	1,092	887
Dividends received from an associate company	(255)	(341)
Others	(519)	(318)
IFRS profit for the year	**6,677**	**3,567**

Inter-segment revenues are eliminated on consolidation.

	Automotive		Dealership network		Other segments		Eliminations		Total	
	31 December		**31 December**		**31 December**		**31 December**		**31 December**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Segment assets	138,948	126,781	12,144	12,791	16,321	9,048	(26,659)	(11,214)	140,754	137,406
IFRS adjustments										
Adjustments attributable to fixed assets									(6,663)	(6,114)
Adjustments attributable to development expenses									(50)	(303)
Charge to provision for impairment of assets									(1,632)	(2,954)
Adjustment related to deferred tax assets									(4,796)	(4,603)
Others									964	614
IFRS total assets									**128,577**	**124,046**

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

(In millions of Russian Roubles)

40. Financial risk management objectives and policies

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

It is, and has been throughout 2011 and 2010 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. Approximately 1% of sales is denominated in currencies other than Roubles, whilst almost 100% of costs is denominated in the functional currency. In addition, the Group has over RR 5,300 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 and Euro exchange rate of the Group's profit before tax.

	Increase/decrease in exchange rate, %	Effect on profit before tax
2011		
Euro/RR	11.77	(862)
USD/RR	12.50	1
Euro/RR	-11.77	862
USD/RR	-12.50	(1)
2010		
Euro/RR	11.05	(646)
USD/RR	8.90	77
Euro/RR	-11.05	646
USD/RR	-8.90	(77)

Credit risk

As at 31 December 2011 the Group has RR 7,563 (31 December 2010: RR 12,689) in cash and cash equivalents, RR 7,001 of current financial assets (31 December 2010: RR 7,420) and RR 125 (31 December 2010: RR 2,138) of long-term financial assets subject to potential credit risk. Credit risk in relation to these financial assets arises from default of the counterparty with maximum exposure equal to the carrying amount.

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

Liquidity risk

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

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

The table below summarizes the maturity of the Group's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted payments.

	Less than three months	3 to 12 months	1 to 5 years	> 5 years	Total
Year ended 31 December 2011					
Loans and borrowings	**1,643**	**5,954**	**32,390**	**35,428**	**75,415**
Trade and other payables	**26,193**	**-**	**-**	**-**	**26,193**
Year ended 31 December 2010					
Loans and borrowings	2,415	41,803	37,065	9,634	90,917
Finance lease liabilities	-	537	1	-	538
Trade and other payables	24,968	-	-	-	24,968

(In millions of Russian Roubles)

40. Financial risk management objectives and policies (continued)

Cash flow and fair value interest rate risk

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

Financial instruments

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

	Carrying amount		Fair values	
	31 December 2011	31 December 2010	**31 December 2011**	31 December 2010
FINANCIAL ASSETS:				
Cash and cash equivalents	**7,563**	12,689	**7,563**	12,689
Financial assets – current	**7,001**	7,420	**7,001**	7,420
Financial assets – long-term	**99**	2,106	**99**	2,106
Trade receivables	**4,305**	3,487	**4,305**	3,487
FINANCIAL LIABILITIES:				
Short-term loans and borrowings	**7,296**	41,397	**7,296**	41,690
Long-term loans and borrowings	**46,373**	34,477	**48,212**	36,765
Finance lease liabilities	**-**	299	**-**	499
Trade payables	**19,551**	16,905	**19,551**	16,905
Long-term taxes other than income tax	**1,169**	1,169	**1,363**	1,431

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 2011, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

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

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

Discount rate used for assessment of fair value of long-term borrowings was 9.2% (2010: 9.2%). To assess the fair value of long-term taxes and for finance lease liabilities they were discounted at 8% rate (2010: 7.75%).

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

Fair value hierarchy

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

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.

(In millions of Russian Roubles)

40. Financial risk management objectives and policies (continued)

Assets measured at fair value	**31 December 2011**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss (Note 11)	21	21	-	-

Assets measured at fair value	**31 December 2010**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss (Note 11)	53	53	-	-
Available-for-sale current financial assets (Note 11)				
Bank promissory notes	6,123	-	6,123	-

During the year ended 31 December 2011, 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 2011 and 2010.

41. Events after the reporting period

On 19 March 2012 a claim in the amount of RR 1,835 was filed with the court by a third party to challenge the ownership of OAG's (the Group's subsidiary) property, plant and equipment. In the opinion of management the claim will not be sustained.