AVTOVAZ GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT

31 December 2007

Contents **Section page number**

ERNST & YOUNG

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Independent Auditors' Report

To the shareholders of JSC AVTOVAZ

We have audited the accompanying consolidated financial statements of JSC AVTOVAZ ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

26 June 2008

(In millions of Russian Roubles)

	Note	**31 December 2007**	31 December 2006
ASSETS			
Current assets:			
Cash and cash equivalents	8,40	**19,017**	12,757
Trade receivables	7,9,40	**5,777**	6,196
Financial assets	10,40	**9,119**	4,319
Other current assets	11	**11,162**	11,234
Inventories	12	**22,502**	25,018
		67,577	59,524
Long-term assets:			
Property, plant and equipment	13	**97,707**	102,767
Financial assets	15,40	**8,999**	5,638
Investments in associates	16	**2,411**	1,903
Development costs	14	**5,197**	4,496
Other long-term assets	17	**632**	635
		114,946	115,439
Total assets		**182,523**	174,963
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	18,40	**23,340**	22,235
Other payables and accrued expenses	19	**8,264**	7,883
Income tax liability		**54**	155
Taxes other than income tax	22	**2,153**	3,214
Provisions	20	**1,336**	2,850
Loans and borrowings	21,40	**30,435**	26,417
Advances from customers		**7,338**	3,235
		72,920	65,989
Long-term liabilities:			
Loans and borrowings	21,40	**8,407**	11,584
Taxes other than income tax	22,40	**1,991**	2,654
Provisions	20	**288**	286
Deferred tax liabilities	34	**11,006**	10,840
Lease payables	35	**1,334**	113
		23,026	25,477
Total liabilities		**95,946**	91,466
Equity attributable to equity holders of the parent			
Share capital	23	**27,450**	27,447
Currency translation adjustment		**930**	996
Retained earnings		**56,458**	53,279
		84,838	81,722
Minority interest		**1,739**	1,775
Total equity		**86,577**	83,497
Total liabilities and equity		**182,523**	174,963

S. V. Fomin
Vice President, Finance and Economics
AVTOVAZ Group Ltd.

26 June 2008

S. A. Kochetkova
Chief Accountant, JSC AVTOVAZ –
Director for Accounting and Taxes

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

	Note	Year ended 31 December 2007	2006
Continuing operations			
Sales	24	**187,545**	179,915
Cost of sales	25	**(158,071)**	(148,694)
Gross profit		**29,474**	31,221
Share of associates' income, including reversal of provision for impairment	16	**2,050**	535
Administrative expenses	26	**(15,995)**	(13,441)
Distribution costs	27	**(8,406)**	(7,811)
Research expenses	28	**(469)**	(202)
Other operating income	29	**2,857**	1,447
Other operating expenses	30	**(763)**	(2,030)
Operating income		**8,748**	9,719
Finance income	31	**652**	1,065
Finance costs	32	**(4,339)**	(4,205)
Net gain from forgiveness of tax debt	22	**1,730**	-
Profit before taxation		**6,791**	6,579
Income tax expense	34	**(2,950)**	(3,096)
Profit from continuing operations		**3,841**	3,483
Discontinued operations			
(Loss)/profit from discontinued operations	33	**(172)**	41
Profit for the year		**3,669**	3,524
Attributable to:			
Equity holders' of the Company		**3,450**	3,100
Minority interest		**219**	424
		3,669	3,524
Earnings per share basic/diluted (in RR):			
-for profit for the year attributable to ordinary/preference equity holders' of the Company	36	**1.87**	1.68
-for profit for the year from continuing operations attributable to ordinary/preference equity holders' of the Company	36	**1.96**	1.65

(In millions of Russian Roubles)

	Note	Year ended 31 December 2007	2006
Cash flows from operating activities:			
Profit before taxation from continuing operations		**6,791**	6,579
(Loss)/profit before taxation from discontinued operations	33	**(98)**	116
Profit before taxation		**6,693**	6,695
Adjustments for:			
Depreciation and amortisation	39	**9,416**	6,977
Provision for impairment of receivables	26	**51**	(254)
Provision for impairment of financial assets	26	**208**	194
Provision for taxes other than income tax	29,30	**(1,563)**	1,591
Interest expense	32	**4,076**	4,040
Loss on impairment of property, plant and equipment	13	**320**	252
Reversal of provision for impairment of property, plant and equipment	13	**(510)**	(484)
Net gain from forgiveness of tax debt	22	**(1,730)**	-
Loss/(gain) on disposal of property, plant and equipment	29,30	**451**	(237)
Loss on impairment of financial assets	30	**12**	125
Share of associates' income, including reversal of provision for impairment	16	**(2,050)**	(535)
Gain on disposal of long-term financial assets, subsidiaries and associates	29	**(218)**	(200)
Unrealised foreign exchange effect on non-operating balances		**(450)**	(849)
Operating cash flows before working capital changes		**14,706**	17,315
Change in gross trade receivables		**(1,747)**	1,215
Change in current financial and other assets, excluding loans and receivables – financing segment		**(4,008)**	458
Change in inventories		**436**	(4,156)
Change in trade payables and other payables and accrued expenses		**2,945**	7,048
Change in tax liabilities other than income tax		**188**	(146)
Change in advances from customers		**4,122**	(7,492)
Change in loans and receivables – financing segment		**(3,589)**	(627)
Cash generated from operations		**13,053**	13,615
Income tax paid		**(2,546)**	(3,062)
Interest paid		**(3,905)**	(3,217)
Net cash generated from operating activities		**6,602**	7,336
Cash flows from investing activities:			
Purchase of property, plant and equipment and capitalized development costs		**(7,907)**	(8,745)
Proceeds from the sale of property, plant and equipment		**483**	482
Purchase of financial assets		**(6,648)**	(3,934)
Proceeds from the sale of financial assets		**5,220**	3,529
Proceeds from the sale of subsidiaries less cash disposed		**3,369**	-
Dividends received		**1,171**	201
Net cash used in investing activities		**(4,312)**	(8,467)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**11,787**	12,443
Repayment of loans and borrowings		**(7,553)**	(9,394)
Dividends paid		**(181)**	(73)
Sale of treasury shares		**2**	-
Purchase of treasury shares		**(80)**	(2,446)
Purchase of minority interest in existing subsidiaries		**-**	(170)
Net cash generated from financing activities		**3,975**	360
Effect of exchange rate changes		**(5)**	(85)
Net increase/(decrease) in cash and cash equivalents		**6,260**	(856)
Cash and cash equivalents at the beginning of the year		**12,757**	13,613
Cash and cash equivalents at the end of the year	8	**19,017**	12,757

The accompanying notes on pages 7 to 38 are an integral part of these consolidated financial statements.

(In millions of Russian Roubles)

	Note	Attributable to equity holders by parent						
	Note	Share capital	Treasury shares	Currency translation adjustment	Retained earnings	Total	Minority interest	Total equity
Balance at 31 December 2005		**64,251**	**(34,117)**	**1,093**	**49,537**	**80,764**	**1,992**	**82,756**
Currency translation adjustment		-	-	(97)	-	(97)	-	(97)
Profit for the year		-	-	-	3,100	3,100	424	3,524
Total income and expense for 2006		**-**	**-**	**(97)**	**3,100**	**3,003**	**424**	**3,427**
Purchase of treasury shares	6.1	-	(2,687)	-	918	(1,769)	(677)	(2,446)
Dividends		-	-	-	(106)	(106)	28	(78)
Purchase of minority interest in existing subsidiaries	6	-	-	-	(170)	(170)	36	(134)
Disposal of subsidiaries		-	-	-	-	-	(28)	(28)
Balance at 31 December 2006	23	**64,251**	**(36,804)**	**996**	**53,279**	**81,722**	**1,775**	**83,497**
Currency translation adjustment		-	-	(66)	-	(66)	-	(66)
Profit for the year		-	-	-	3,450	3,450	219	3,669
Total income and expense for 2007		**-**	**-**	**(66)**	**3,450**	**3,384**	**219**	**3,603**
Purchase of treasury shares		-	(1)	-	(79)	(80)	-	(80)
Sale of treasury shares		-	4	-	(2)	2	-	2
Dividends	23	-	-	-	(190)	(190)	49	(141)
Disposal of subsidiaries	6	-	-	-	-	-	(304)	(304)
Balance at 31 December 2007	23	**64,251**	**(36,801)**	**930**	**56,458**	**84,838**	**1,739**	**86,577**

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 Russia. The Group has a sales and service network spanning the Commonwealth of Independent States and some other countries. The parent company, JSC AVTOVAZ ("the Company" or JSC AVTOVAZ), was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. At 31 December 2007 the Group employed 129,514 employees (31 December 2006: 150,092 employees). The registered office of JSC AVTOVAZ is in Yuzhnoye Shosse, 36, Togliatti, 445024, Russian Federation.

These consolidated financial statements were authorised for issue by the Vice President, Finance and Economics of AVTOVAZ GROUP Ltd. on 26 June 2008.

The individual executive body of JSC AVTOVAZ is represented by the management entity AVTOVAZ GROUP Ltd.

2. Basis of presentation 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 90% 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 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 amortised 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 Note 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 as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

IFRS 7 Financial Instruments: Disclosures
IAS 1 Amendment - Presentation of Financial Statements
IFRIC 8 Scope of IFRS 2 Share-based Payment
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 10 Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

- IFRS 7 Financial Instruments: Disclosures. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.
- IAS 1 Presentation of Financial Statements. This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 40.
- IFRIC 8 Scope of IFRS 2 Share-based Payment. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity can not identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As the Group has no share based payments so this interpretation is not relevant for the Group.
- IFRIC 9 Reassessment of Embedded Derivatives. This interpretation states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation is not relevant for the Group.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

- IFRIC 10 Interim Financial Reporting and Impairment. This interpretation requires an entity not to reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed related to the aforementioned assets, the interpretation is not relevant for the Group.

Standards issued but not yet effective

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted.

IAS 23 Borrowing costs
IFRIC 12 Service Consession Arrangements
IFRIC 13 Customer Loyality Programmes
IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRS 2 Share-based Payments
IFRS 3R Business Combinations and IFRS 27R Consolidated and Separate Financial Statements
IAS 1 Revised Presentation of Financial Statements
IAS 32, IAS 1 Puttable Financial Instruments
IFRS 8 Operating Segments
IFRIC 11 IFRS 2 Group and Treasury Share Transactions

- IAS 23 Borrowing Costs. A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IFRIC 12 Service Concession Arrangements. IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.
- IFRIC 13 Customer Loyalty Programmes. IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group.
- IFRS 2 Share-based Payments - Vesting Conditions and Cancellations. This amendment to IFRS 2 Share-bused payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "Vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the event that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty; this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements. The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

- IAS 1 Revised Presentation of Financial Statements. The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments. Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.
- IFRS 8 Operating Segments become effective for annual periods beginning on or after 1 January 2009. This standard requires disclosure of information about the Group's operating segments and replaced the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. This standard will give rise to additional disclosures.
- IFRIC 11 and IFRS 2 Group and Treasury Share Transactions becomes effective for annual periods beginning on or after 1 March 2007. This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group does not expect these amendments to impact the financial statements of the Group.

3.2 Group reporting

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. Control is generally assessed when the Group has a shareholding of more than one half of an entity's voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between the Group's companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date includes the minority shareholders' portion of the fair values of the identifiable assets and liabilities of subsidiaries at the acquisition date, and the minority's portion of movements in those subsidiaries' equity since the date of acquisition. Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the Company. The Group does not attribute minority interest relating to cross shareholdings (Note 6.2).

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Purchase of minority interest

The difference, if any, between the carrying amount of a minority interest and the amount paid to acquire the minority interest is recorded as an adjustment directly in equity.

Associates

Associates are all entities over which the Group has significant influence but not control, generally a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

3. Summary of significant accounting policies (continued)

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 balance sheet date. All other financial assets are included in the available-for-sale category.

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

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

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's 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 amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

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

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

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.

Interest income of the consolidated subsidiary bank is recognized at the date of origination on accrual basis taking into account the effective interest rate.

(In millions of Russian Roubles)

3. Summary of significant accounting policies (continued)
3.4 Revenue recognition (continued)
Premiums of consolidated subsidiary insurance companies are recognized at the date of origination as accrued insurance premiums (contributions) on insurance or coinsurance agreements and agreements for reinsurance.

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

3.5 Trade receivables
Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and includes 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 income statement.

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 balance sheet 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 materials, direct labour and the appropriate indirect manufacturing costs (based on normal operating capacity). Obsolete and slow-moving inventories are written down, taking into account their expected use, to their future realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.8 Cash and cash equivalents
Cash comprises cash on hand, demand deposits held with banks, bank promissory notes, loans given by a subsidiary bank to banks, amounts due from other banks to a subsidiary bank, non-restricted balances with the Central Bank of the Russian Federation by a subsidiary bank and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. 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 balance sheet.

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 net selling price 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 income statement. 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	5 to 20
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 balance sheet 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 income statement 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 the consolidated income statement as incurred.

Assets under construction owned by the Group are not depreciated.

3. Summary of significant accounting policies (continued)

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 recognized in the balance sheet as lease payables.

The interest cost is charged to the income statement 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 income statement 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 amortised from the commencement of the commercial production of the new vehicles. The period of amortisation is during five years in line with expected production volume.

3.12 Impairment of assets

Assets that are subject to amortisation 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 balance sheet 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 utilised 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 utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet 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 balance sheet date.

3. Summary of significant accounting policies (continued)

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 amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. All borrowing costs are expensed in the period in which they are incurred.

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 balance sheet 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 amortised 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 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 balance sheet 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 income statement.

Foreign-currency denominated amounts in the balance sheet have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2007 of RR 24.5462 = US$ 1 (31 December 2006: RR 26.3311 = US$ 1) and RR 35.9332 = Euro 1 (31 December 2006: RR 34.6965 = Euro 1).

3.16 Product warranty costs

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

3.17 Employee benefits

Social costs

The Group incurs costs on social activities, principally within the City of Togliatti. The Group provides medical services, maintains recreation departments, summer camps for children, community facilities and provides financing of kindergartens. 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 the consolidated income statement.

Pension costs

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

3.18 Interest expense and interest income

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.

3.19 Earnings/(loss) 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 (loss) attributable to ordinary and preference shareholders by the weighted average number of participating shares outstanding during the reporting period.

For the purpose of calculating earnings per share, 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:

3. Summary of significant accounting policies (continued)

3.19 Earning/(loss) per share (continued)

(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.

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

3.20 Operating leases

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

3.21 Shareholders' equity

Share capital

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

Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent purchasing power of the RR as at 31 December 2002. 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 balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.22 Provisions

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

4. Comparative information

In order to achieve consistency of presentation with the current reporting period, changes have been made to the comparative figures principally related to reclassification of income and expenses of companies engaged in financing activities and presentation of the Share of associates' income. Previously the income and expenses related to financial institutions were presented on a net basis in other operating income, while at present they are included in sales and costs captions in the income statement. The effect of this reclassification has been to increase revenue by RR 2.5 billion, and costs and cost of sales by RR 2.5 billion for the year ended 31 December 2006. Presentation of Share of associates' income was previously excluded from Operating income, but is now presented within Operating income as these associates are related to manufacturing or sale of JSC AVTOVAZ brand vehicles and are therefore, more appropriately presented as part of operating activity.

5. Critical accounting estimates and judgements

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.

(In millions of Russian Roubles)

5. Critical accounting estimates and judgements (continued)

5.1 Taxation

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

As at 31 December 2006 the balance of taxation provisions of RR 1,591 relates to JSC AVTOVAZ's ongoing legal proceedings in relation to decisions of tax authorities on additional taxes, fines and penalties accrued. On 25 May 2007, following a review of appeals filed by JSC AVTOVAZ, the Russian Federation Tax Service cancelled nearly the entire amount of the tax claim against JSC AVTOVAZ. A gain from reversal of the taxation provision which amounted to RR 1,563 is recorded within Other operating income in the consolidated income statement.

5.2 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 estimates, then the carrying value of buildings would be RR 1,822 higher or RR 2,014 lower respectively. If the estimated remaining useful life of plant and equipment had been 5% higher or lower than management estimates, then the carrying value of plant and equipment would be RR 3,818 higher or RR 4,220 lower respectively.

5.3 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 balance sheet date.

5.4 Non-accrual of provision in respect of certain payments to employees on retirement

Management has determined that certain one-off payments to employees do not result in a legal or constructive obligation to the Group. As a consequence, no provision in respect of these payments was provided.

6. Principal subsidiaries and associates

The principal subsidiaries of the Group and the degree of ownership by the Group are as follows:

Entity	Country of incorporation	Activity	**31 December 2007 % share**	31 December 2006 % share
OAO AvtoVAZtrans	Russia	Transport	**100**	100
OAO TEVIS	Russia	Utilities	**100**	100
OAO Elektroset	Russia	Power supply	**100**	100
ZAO CB Avtomobilny Bankirsky Dom (hereinafter – ZAO CB ABD or Group's subsidiary bank)	Russia	Bank services	**100**	100
Delta Motor Group Oy	Finland	Car distribution	**100**	100
ZAO UKRAVTOVAZ	Ukraine	Car distribution	**100**	100
Lada International Ltd.	Cyprus	Car distribution	**99.9**	99.9
OAO AVVA	Russia	Financial	**86**	86
ZAO Central Branch of Automobile Financial Corporation (hereinafter - ZAO CB AFC)	Russia	Investing and financial	**60**	60
OAO Piter-Lada	Russia	Car distribution	**52.4**	52.4
ZAO IFC	Russia	Investing and financial	**100**	100
OAO SAAZ	Russia	Car components	**-**	100
OAO DAAZ	Russia	Car components	**-**	100
ZAO Serdobsky Mashinostroitelny Zavod (hereinafter - ZAO SMZ)	Russia	Car components	**-**	51
OOO «Eleks-Polus»	Russia	Car distribution	**51**	51
OAO «Avtocenter-Togliatti-VAZ»	Russia	Car repair	**51**	51
129 Technical Service Centres	Russia, CIS	Car service centres	**50.1-100**	50.1-100

(In millions of Russian Roubles)

6. Principal subsidiaries and associates (continued)

During 2007 subsidiaries OAO DAAZ, OAO SAAZ and ZAO SMZ were sold and have been presented as discontinued operations for both periods presented (Note 33).

The principal associated companies and degree of ownership by the Group are as follows:

Entity	Country of incorporation	Activity	**31 December 2007 % share**	31 December 2006 % share
ZAO GM-AVTOVAZ	Russia	Vehicle production	**41.6**	41.6

6.1 Cross-shareholding

At 31 December 2007 OAO AVVA, an 86.00% (31 December 2006: 86.00%) owned subsidiary of JSC AVTOVAZ, owned 36.55% (31 December 2006: 36.00%) of the ordinary shares of JSC AVTOVAZ. ZAO CB AFC, in which JSC AVTOVAZ together with OAO AVVA owns 60.00% of the shares, in turn owns 27.88% (31 December 2006: 28.40%) of the ordinary shares of JSC AVTOVAZ. Furthermore, ZAO IFC, a subsidiary of JSC AVTOVAZ, in which JSC AVTOVAZ together with ZAO Audit-Service owns 100% of shares, in turn owns 2.08% (31 December 2006: 2.08%) of the ordinary shares of JSC AVTOVAZ. As a result, approximately 66.51% (31 December 2006: 66.51%) of the ordinary voting share capital of JSC AVTOVAZ is held by entities within the Group. The shares of JSC AVTOVAZ that are owned by subsidiaries are recognised as treasury shares in these consolidated financial statements. In accordance with the Russian legislation JSC AVTOVAZ's shares owned by its subsidiaries have the right to vote at shareholders' meetings and participate in dividends distribution. Consequently, the ultimate controlling party of the Group is JSC AVTOVAZ (the parent company) itself.

During 2006 the Group acquired from third parties 1,320,000 ordinary and 23,500 preference shares of JSC AVTOVAZ for RR 2,446.

6.2 Minority interest

The minority interest in equity presented in the consolidated balance sheet does not include the holdings of OAO AVVA and ZAO CB AFC in JSC AVTOVAZ's share capital. Minorities indirectly hold 14.60% (2006: 14.84%) of the total share capital or 17.09% (2006: 17.16%) of ordinary share capital of JSC AVTOVAZ.

7. Balances and transactions with related parties

7.1 Balances with related parties

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's shareholding structure is disclosed in Note 6.1.

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 2007 and 2006 are detailed below.

Consolidated balance sheet caption	Relationship	**31 December 2007**	31 December 2006
Trade receivables – gross	Associates	**772**	960
Provision for impairment of receivables	Associates	**(6)**	(4)
Loan issued	Associates	**563**	-
Trade payables	Associates	**347**	328

7.2 Transactions with related parties

The income and expense items with related parties for 2007 and 2006 are as follows:

Consolidated income statement caption	Relationship	**2007**	2006
Sales	Associates	**8,434**	7,267
Purchases	Associates	**5,569**	5,370
Administrative expenses	Short-term employee benefits – compensation of the Key Management – the Board of Directors	**148**	61

(In millions of Russian Roubles)

7. Balances and transactions with related parties (continued)

7.2 Transactions with related parties (continued)

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free, with the exception of the loan issued, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2007, the Group has recorded impairment of receivables relating to amounts owed by related parties in the amount of RR 6 (2006: RR 4). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

8. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2007	31 December 2006
Short-term bank promissory notes and deposits	**12,221**	8,980
Cash on hand and balances with banks	**6,796**	3,777
	19,017	12,757

Cash deposits of RR 12,121 held by the Group at 31 December 2007 bear a weighted-average interest of 5.4% per annum (31 December 2006: RR 2,593 bear a weighted-average interest of 5.7 % per annum). Bank promissory notes of RR 100 are not interest-bearing (31 December 2006: RR 3,603 bear a weighted-average interest of 6.2% per annum and RR 2,784 not interest bearing). Cash balances with bank are not interest bearing.

9. Trade receivables

At 31 December, the ageing analysis of trade receivables is 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
2006	6,196	5,659	246	155	136
2007	5,777	5,485	103	153	36

Movements in provision for impairment of receivables are as follows:

Balance at 31 December 2005	**513**
Charge for the year	78
Utilised	-
Unused amounts reversed	(332)
Balance at 31 December 2006	**259**
Charge for the year	138
Utilised	(70)
Unused amounts reversed	(87)
Balance at 31 December 2007	**240**

(In millions of Russian Roubles)

10. Financial assets – current

	31 December 2007	31 December 2006
Rouble denominated loans and receivables less provision	**5,214**	3,141
Financial assets at fair value through profit or loss	**663**	680
Available-for-sale financial assets:		
Bank promissory notes (with original maturities of more than three months)	**159**	318
Promissory notes of third parties	**86**	180
Deposit accounts	**2,997**	-
	9,119	4,319

As at 31 December 2007 loans and receivables include RR 1,300 (31 December 2006: RR 1,288) of commercial loans given by ZAO CB ABD, the Group's subsidiary bank, to its customers for a period less than 12 months after the balance sheet date, RR 2,821 (31 December 2006: RR 1,320) of short-term loans given by the Group's subsidiary OOO Eleks-Polyus to third parties, RR 576 (31 December 2006: nil) of short-term loans issued by JSC AVTOVAZ, RR 618 (31 December 2006: RR 598) of short-term loans issued by subsidiaries to third parties. Provision for impairment of commercial loans given by ZAO CB ABD to its customers at 31 December 2007 amounts to RR 101 (31 December 2006: RR 65).

Average effective interest rate for commercial loans given by the Group's subsidiary bank to its customers is 15% (2006: 16%), for short-term loans given by the Group's subsidiary OOO Eleks-Polyus to third parties is 11% (2006: 0 to 16%), for short-term loans issued by JSC AVTOVAZ is 6% (2006: nil) and for short-term loans issued by subsidiaries to third parties is between 9% and 11% (2006: 5% - 12%).

RR 2,997 of deposit accounts with interest rates ranging between 6% and 11.5% per annum were issued for a period over 3 months, but not more than 12 months after the balance sheet date.

As at 31 December 2007 and 2006 there were no overdue financial asset balances.

11. Other current assets

Other current assets consist of the following:

	31 December 2007	31 December 2006
Prepaid expenses and other receivables less provision	**6,630**	5,742
Value added tax	**3,241**	4,128
Construction in progress in relation to real estate for resale	**1,291**	1,364
	11,162	11,234

As at 31 December 2007 impairment provision for other current assets was RR 297 (31 December 2006: RR 295).

12. Inventories

Inventories consist of the following:

	31 December 2007	31 December 2006
Raw materials	**8,710**	9,790
Work in progress	**3,341**	3,583
Finished goods	**10,451**	11,645
	22,502	25,018

Inventories are recorded net of obsolescence provision of RR 392 at 31 December 2007 (31 December 2006: RR 410).

The cost of write-down of inventories recognised as an expense amounted to RR 311 (2006: RR 464).

(In millions of Russian Roubles)

13. Property, plant and equipment

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

	Buildings	Manufacturing equipment and machinery	Office and other equipment	Assets under construction	Total
Cost					
Balance at 31 December 2005	77,996	122,938	11,695	14,673	227,302
Additions	-	-	-	7,599	7,599
Disposals	(218)	(1,891)	(283)	(44)	(2,436)
Transfers	545	8,042	869	(9,456)	-
Balance at 31 December 2006	**78,323**	**129,089**	**12,281**	**12,772**	**232,465**
Accumulated depreciation and impairment					
Balance at 31 December 2005	(36,764)	(74,305)	(10,453)	(2,789)	(124,311)
Depreciation charge	(1,892)	(5,521)	(397)	-	(7,810)
Disposals	206	1,876	109	-	2,191
Reversal of impairment provision	-	-	-	484	484
Transfers	-	-	(62)	62	-
Impairment charge	(29)	(9)	(214)	-	(252)
Balance at 31 December 2006	**(38,479)**	**(77,959)**	**(11,017)**	**(2,243)**	**(129,698)**
Net book amount					
Balance at 31 December 2005	**41,232**	**48,633**	**1,242**	**11,884**	**102,991**
Balance at 31 December 2006	**39,844**	**51,130**	**1,264**	**10,529**	**102,767**
Cost					
Balance at 31 December 2006	78,323	129,089	12,281	12,772	232,465
Additions	-	-	-	8,761	8,761
Disposals	(4,035)	(7,008)	(941)	(446)	(12,430)
Transfers	2,000	8,249	1,051	(11,300)	-
Balance at 31 December 2007	**76,288**	**130,330**	**12,391**	**9,787**	**228,796**
Accumulated depreciation and impairment					
Balance at 31 December 2006	(38,479)	(77,959)	(11,017)	(2,243)	(129,698)
Depreciation charge	(1,831)	(7,045)	(336)	-	(9,212)
Disposals	2,051	4,832	739	9	7,631
Reversal of impairment provision	-	-	73	437	510
Impairment charge	-	-	(171)	(149)	(320)
Balance at 31 December 2007	**(38,259)**	**(80,172)**	**(10,712)**	**(1,946)**	**(131,089)**
Net book amount					
Balance at 31 December 2006	**39,844**	**51,130**	**1,264**	**10,529**	**102,767**
Balance at 31 December 2007	**38,029**	**50,158**	**1,679**	**7,841**	**97,707**

(In millions of Russian Roubles)

13. Property, plant and equipment (continued)

Assets Under Construction ("AUC") include the cost of property, plant and equipment which have yet to be put into production. The balance of accumulated depreciation and impairment of AUC includes 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 likely not to be completed. Additionally, management reviews previous impairments and releases amounts if there is evidence that construction of the project will be completed.

The increase in impairment provision for AUC predominantly relates to projects identified during 2007 that are unlikely to be completed. A respective loss of RR 149 was recorded in the consolidated income statement for the year ended 31 December 2007.

Impairment provision for AUC was reversed as projects previously identified as unlikely to be completed have been completed or planned to be completed in the nearest future. A respective gain of RR 437 (2006: RR 484) was recognised in the consolidated income statement.

The assets transferred to the Company upon privatisation 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 JSC AVTOVAZ 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 37.1.

Included in Property, plant and equipment and assets under construction are properties used by the local community (such as rest houses, kindergartens, sports and medical facilities) at a gross carrying value of RR 2,203 and RR 2,704 as of 31 December 2007 and 31 December 2006, respectively. These properties are fully provided for. An increase of the impairment provision for property, plant and equipment of RR 320 for the year ended 31 December 2007 (2006: RR 252) relates predominantly to the acquisition and construction of assets intended for use by the local community.

At 31 December 2007 and 31 December 2006, the gross carrying value of fully depreciated property, plant and equipment was RR 44,150 and RR 45,857, respectively.

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

	31 December 2007	31 December 2006
Cost – finance leases capitalised	**2,218**	438
Accumulated depreciation	**(289)**	(174)
Net carrying amount	**1,929**	264

14. Development costs

	Capitalised cost for products under development	Capitalised development cost for products currently in use	Total
Cost			
Balance at 31 December 2005	1,957	1,665	3,622
Additions	1,176	-	1,176
Transfers	(434)	434	-
Balance at 31 December 2006	**2,699**	**2,099**	**4,798**
Amortization			
Balance at 31 December 2005	-	(90)	(90)
Additions to cumulative amortization	-	(212)	(212)
Balance at 31 December 2006	**-**	**(302)**	**(302)**
Carrying amount at 31 December 2006	**2,699**	**1,797**	**4,496**

(In millions of Russian Roubles)

14. Development costs (continued)

	Capitalised cost for products under development	Capitalised development cost for products currently in use	Total
Cost			
Balance at 31 December 2006	2,699	2,099	4,798
Additions	943	-	943
Transfers	(483)	483	-
Balance at 31 December 2007	**3,159**	**2,582**	**5,741**
Amortization			
Balance at 31 December 2006	-	(302)	(302)
Additions to cumulative amortization	-	(242)	(242)
Balance at 31 December 2007	**-**	**(544)**	**(544)**
Carrying amount at 31 December 2007	**3,159**	**2,038**	**5,197**

15. Financial assets – long-term

	31 December 2007	31 December 2006
Loans and receivables of subsidiary bank ZAO CB ABD less provision	**6,397**	4,600
Loans issued	**973**	577
Available-for-sale financial assets	**365**	244
Financial assets held to maturity	**1,264**	217
	8,999	5,638

Loans and receivables of subsidiary bank ZAO CB ABD at 31 December 2007 bear interest of 15% per annum (2006: RR 16% per annum). Collateral with respect to commercial loans given by the Group's subsidiary bank to its customers at 31 December 2007 including current portion (Note 10) amounts to RR 9,040 (31 December 2006: RR 11,095).

As at 31 December 2007 loans issued include RR 700 with an interest rate of 8.4% per annum (31 December 2006: RR 370 with an intrest rate of 8.4% per annum) of loans issued by ZAO AFC to third parties, RR 207 (31 December 2006: RR 207) of interest-free loans issued by JSC AVTOVAZ to third parties, RR 66 (31 December 2006: nil) of interest-free loans issued by OAO AVVA to third parties.

As at 31 December 2007 available-for-sale financial assets represent RR 365 (31 December 2006: RR 244) of investments in shares of other companies. The investees have not published recent financial information about their operations, their shares are not quoted. Management could not reliably estimate fair value of financial assets. Therefore, the investments are carried at actual acquisition cost in the consolidated balance sheet.

As at 31 December 2007 financial assets held to maturity include long-term bank deposits with interest rate of 8% per annum (2006: 8% per annum).

Changes in the provision for impairment of commercial loans given by subsidiary bank ZAO CB ABD to its customers with a repayment period more than a year are the following:

Balance at 31 December 2005	**169**
Accrued	140
Unused amounts reversed	(101)
Balance at 31 December 2006	**208**
Accrued	279
Unused amounts reversed	(93)
Balance at 31 December 2007	**394**

(In millions of Russian Roubles)

16. Investments in associates

	31 December 2007	31 December 2006
Beginning of the year	**1,903**	1,680
Share of income	**610**	535
Reversal of provision for impairment of the investment in ZAO GM-AVTOVAZ	**1,440**	-
Disposals	**(371)**	(111)
Dividends received	**(1,171)**	(201)
End of the year	**2,411**	1,903

Investments in associates consist of the following:

	31 December 2007	31 December 2006
ZAO GM-AVTOVAZ	**2,015**	1,217
Other	**396**	686
Total	**2,411**	1,903

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

ZAO GM-AVTOVAZ significantly improved its operating results in 2006 and 2007, which is an indicator that the impairment provision established previously may not be required anymore. As a result, the Group prepared a value-in-use calculation using discount rate of 12% which supports the reversal of impairment in the amount of RR 1,440.

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

	31 December 2007			31 December 2006		
	GM-AVTOVAZ	Other	Total	GM-AVTOVAZ	Other	Total
Assets:						
Long-term assets	**1,215**	**158**	**1,373**	1,465	1,073	2,538
Current assets	**1,582**	**639**	**2,221**	1,871	1,752	3,623
Liabilities:						
Long-term liabilities	**(12)**	**(39)**	**(51)**	(12)	(370)	(382)
Current liabilities	**(770)**	**(362)**	**(1,132)**	(667)	(1,769)	(2,436)
Net assets	**2,015**	**396**	**2,411**	2,657	686	3,343
Impairment provision	**-**	**-**	**-**	(1,440)	-	(1,440)
Investment in associate as reported	**2,015**	**396**	**2,411**	1,217	686	1,903
Revenue	**6,717**	**2,669**	**9,386**	5,434	4,093	9,527
Expenses	**(6,212)**	**(2,564)**	**(8,776)**	(5,021)	(3,971)	(8,992)
Profit after income tax	**505**	**105**	**610**	413	122	535

17. Other long-term assets

	31 December 2007	31 December 2006
Long-term receivables	**120**	178
Advances for property, plant and equipment	**126**	186
Intangible assets, other than development costs	**142**	143
Software	**244**	128
	632	635

(In millions of Russian Roubles)

18. Trade payables

	31 December 2007	31 December 2006
Trade payables	**22,993**	21,907
Payables to associates	**347**	328
	23,340	22,235

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

19. Other payables and accrued expenses

Other payables and accrued expenses include the following:

	31 December 2007	31 December 2006
Salaries payable and vacation accrual	**3,543**	3,520
Advances received by the subsidiary-real estate developer	**1,515**	1,359
Unearned insurance premiums and reserves for claims	**1,057**	877
Dividends payable	**158**	149
Accrued interest	**167**	131
Other	**1,824**	1,847
	8,264	7,883

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

20. Provisions

During 2007 the following movements of provisions took place:

	Warranty		Taxation provision		Total	
	31 December 2007	31 December 2006	**31 December 2007**	31 December 2006	**31 December 2007**	31 December 2006
Beginning of the year	**1,545**	1,253	**1,591**	-	**3,136**	1,253
Utilised	**(1,340)**	(1,302)	**(28)**	-	**(1,368)**	(1,302)
Additional provision	**1,419**	1,594	-	1,591	**1,419**	3,185
Unused amounts reversed	-	-	**(1,563)**	-	**(1,563)**	-
End of the year	**1,624**	1,545	-	1,591	**1,624**	3,136
Short-term portion	**1,336**	1,259	-	1,591	**1,336**	2,850
Long-term portion	**288**	286	-	-	**288**	286
	1,624	1,545	-	1,591	**1,624**	3,136

In 2007 JSC AVTOVAZ changed warranty terms for vehicles: the warranty period for front-wheel drive vehicles was increased from two to three years and the warranty period for spare parts, assembly units and mechanisms for all model ranges was reduced from two to one year. In December 2007 some changes were introduced in the Russian consumer legislation, which provide the customer with the ability to return vehicles purchased under certain conditions. Based on historical trends the management has estimated that the abovementioned changes in aggregate will not increase the Company's total future warranty expenses.

As at 31 December 2006 the balance of taxation provisions of RR 1,591 relates to JSC AVTOVAZ's ongoing legal proceedings in relation to decisions of tax authorities on additional taxes, fines and penalties accrued. On 25 May 2007, following a review of appeals filed by JSC AVTOVAZ, the Russian Federation Tax Service cancelled nearly the entire amount of the tax claim against JSC AVTOVAZ. A gain from reversal of the taxation provision which amounted to RR 1,563 is recorded within Other operating income in the consolidated income statement.

(In millions of Russian Roubles)

21. Loans and borrowings

Short-term loans and borrowings consist of the following:

	Effective interest rate	**31 December 2007**	31 December 2006
Rouble denominated bank loans	10.4%	**16,689**	16,407
JSC AVTOVAZ corporate bonds	7.6%	**5,040**	8,000
USD credit linked notes	8.5%	**6,136**	-
EURO denominated bank loans	8.4%	**2,447**	1,898
Other bank loans	7.4%	**123**	112
Total short-term loans and borrowings		**30,435**	26,417

JSC AVTOVAZ corporate rouble-denominated coupon bearer bonds of RR 5,000 were issued in June 2005 and mature in 5 years. The bonds were issued at a par value of 1,000 Roubles each. These bonds carry ten semi-annual coupons. The coupon rates are set by the Company every year. Each time the Group is setting a new interest rate, bond holders have an option to redeem the securities. As a result, these bonds are classified as short-term liabilities.

In February 2004 the Company completed the issue of RR 3,000 Rouble denominated coupon bearer bonds maturing in 2008. The bonds were issued at a par value of 1,000 Roubles each. These bonds carry nine semi-annual coupons. Following an offer on 16 February 2007 convertible interest-bearing documentary coupon bearer bonds in the amount of RR 2,960 were acquired by the Company.

Credit linked notes with limited right of recourse are recorded within short-term borrowings as they mature in April 2008.

Long-term loans and borrowings consist of the following:

	Effective interest rate	**31 December 2007**	31 December 2006
Rouble denominated bank loans	8.4%	**1,678**	3,234
JSC AVTOVAZ corporate bonds	7.8%	**5,000**	-
EURO denominated bank loans	4.9%	**1,141**	1,175
Rouble denominated interest-free bearer promissory notes		**490**	396
USD credit linked notes	8.5%	**-**	6,584
Other bank loans	7.4%	**98**	195
Total long-term loans and borrowings		**8,407**	11,584

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 2007	31 December 2006
Current portion of loans and borrowings	**2,340**	10,700
1 to 2 years	**5,709**	9,639
2 to 3 years	**525**	495
3 to 4 years	**719**	104
4 to 5 years	**214**	222
> 5 years	**1,240**	1,124
Total long-term loans and borrowings	**10,747**	22,284
Less current portion of loans and borrowings	**(2,340)**	(10,700)
Long-term portion of loans and borrowings	**8,407**	11,584

Rouble denominated interest-free bearer promissory notes has 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 2006: RR 9,129).

(In millions of Russian Roubles)

21. Loans and borrowings (continued)

In May 2007 the Company completed the issue of RR 5,000 Rouble denominated coupon bearer bonds maturing in 2014. Corporate bonds are issued at par value of 1,000 roubles each. The rate for the first four coupons, which was determined at the auction, was 7.8% per annum, the coupon rates of the fifth to fourteenth coupons will be established by the Group. Each time the Group is setting a new interest rate, bond holders have an option to redeem the securities. Due to the fact that the interest rate for the first four coupons is fixed, the bonds are recorded as long-term liabilities.

As at 31 December 2007 and 31 December 2006 the Group's loans and borrowings of RR 13,388 and RR 15,032, respectively, including short-term loans and borrowings were guaranteed by different types of assets presented below:

	31 December 2007	31 December 2006
Inventories	**2,836**	4,800
Equipment	**3,144**	5,456
Buildings	**3,001**	3,527
Promissory notes and securities	**118**	797
Receivables	**293**	170
Other collateral	**4,719**	1,772

22. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable comprise the following:

	31 December 2007	31 December 2006
Property and other taxes	**774**	711
Current portion of restructured taxes	**527**	1,503
Social taxes	**449**	621
Value added tax	**319**	228
Penalties and interest on property and other taxes	**84**	151
	2,153	3,214

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 10 years.

The restructured tax liabilities are carried at amortised cost, calculated by applying the interest rates at the date of restructuring ranging between 10.1% and 28%.

The carrying value of this debt and its maturity profile is as follows:

	31 December 2007	31 December 2006
Current portion of restructured taxes	**527**	1,503
1 to 2 years	**739**	468
2 to 3 years	**1,120**	664
3 to 4 years	**132**	1,514
Thereafter	**-**	8
Total restructured taxes	**2,518**	4,157
Less current portion of restructured taxes	**(527)**	(1,503)
Long-term portion of restructured taxes	**1,991**	2,654

If the Company duly pays its restructured tax obligation in accordance with the repayment schedule, it is granted forgiveness of tax fines and penalties associated with those restructured taxes. During 2007 AVTOVAZ was granted forgiveness of tax fines and penalties amounting to RR 1,730.

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)

23. Share capital

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

	31 December 2007			31 December 2006		
	No. of shares	**Legal statutory value**	**Carrying amount**	No. of shares	Legal statutory value	Carrying amount
Class A preference	493,034,000	2,465	9,861	4,930,340	2,465	9,861
Ordinary	2,719,462,400	13,597	54,390	27,194,624	13,597	54,390
Total share capital	3,212,496,400	16,062	64,251	32,124,964	16,062	64,251
Less: treasury share capital						
Class A preference	(31,274,542)	(156)	(626)	(314,697)	(157)	(629)
Ordinary	(1,808,758,886)	(9,044)	(36,175)	(18,087,316)	(9,044)	(36,175)
Total treasury share capital	(1,840,033,428)	(9,200)	(36,801)	(18,402,013)	(9,201)	(36,804)
Total outstanding share capital	**1,372,462,972**	**6,862**	**27,450**	13,722,951	6,861	27,447

In September 2007 32,124,964 shares of JSC AVTOVAZ were converted into 3,212,496,400 shares. As a result of split-up of the Company's shares each ordinary registered share of JSC AVTOVAZ with a nominal value of 500 roubles is converted into 100 (one hundred) ordinary registered shares of JSC AVTOVAZ with nominal value of 5 roubles and each preference registered share of JSC AVTOVAZ with nominal value of 500 roubles is converted into 100 (one hundred) preference registered shares of JSC AVTOVAZ with nominal value of 5 roubles. The shares were placed through conversion of the stock resulting from the above split-up.

Subsequent to year end the Group reduced the shares outstanding by cancelling shares held by subsidiaries after the merger of these subsidiaries and issuance of AVTOVAZ shares directly to minorities of these subsidiaries (Note 41). After this share consolidation the outstanding share capital is:

	No. of shares	**Legal statutory value**
Class A preference	461,764,300	2,309
Ordinary	1,388,289,720	6,941
Total share capital	1,850,054,020	9,250

Ordinary shares, including those held in subsidiaries as treasury, give the holders the right to vote on all matters of the General Shareholders' Meeting.

(In millions of Russian Roubles)

23. Share capital (continued)

Class A preference shares, including those held as treasury, give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation 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 even though the Company had statutory net profit for the year.

Preference shareholders are equally entitled to dividends along with holders of ordinary shares on the basis of a resolution of the General Shareholders' Meeting. 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 2007 before the share conversion a dividend was declared and paid in respect of 2006 to holders of preference shares of 10.3 Roubles per preference share (2006: 5.7 Roubles) and to holders of ordinary shares of 10.3 Roubles per ordinary share (2006: 5.7 Roubles).

24. Sales

The components of sales revenue are as follows:

	2007	2006
Finished vehicles and assembly kits of own production	**145,138**	138,337
Automotive components of own production	**6,213**	6,235
Dealership sales of other producers' vehicles	**21,415**	20,001
Other sales	**14,779**	15,342
	187,545	179,915

	2007	2006
Domestic sales	**140,752**	137,346
Sales in EU countries	**22,651**	20,943
Other sales	**24,142**	21,626
	187,545	179,915

25. Cost of sales

The components of cost of sales are as follows:

	2007	2006
Materials and components, goods for resale	**116,017**	116,129
Labour costs	**21,216**	19,053
Production overheads and other expenses	**9,699**	9,437
Depreciation	**8,214**	6,444
Social expenses	**1,679**	1,607
Reversal of provision for impairment of property, plant and equipment (Note 13)	**(510)**	(484)
Loss on impairment of property, plant and equipment (Note 13)	**320**	252
Changes in inventories of finished goods and work in progress	**1,436**	(3,744)
	158,071	148,694

(In millions of Russian Roubles)

26. Administrative expenses

Administrative expenses comprise:

	2007	2006
Labour costs	**8,707**	7,034
Local and regional taxes	**2,064**	1,933
Third parties services	**859**	883
Materials	**725**	654
Transportation	**620**	616
Bank services	**315**	376
Depreciation	**509**	409
Repair expenses	**211**	134
Provision for impairment of receivables	**51**	(254)
Provision for impairment of financial assets	**208**	194
Other	**1,726**	1,462
	15,995	13,441

27. Distribution costs

Distribution costs comprise:

	2007	2006
Transportation	**3,512**	3,562
Advertising	**1,582**	1,321
Labour costs	**1,447**	1,101
Materials	**718**	721
Depreciation	**97**	93
Other	**1,050**	1,013
	8,406	7,811

28. Research expenses

Research expenses comprise:

	2007	2006
Labour costs	**146**	106
Amortisation	**123**	31
Materials	**26**	14
Other	**174**	51
	469	202

29. Other operating income

The components of other operating income are as follows:

	2007	2006
Gain on reversal of taxation provision	**1,563**	-
Interest income	**873**	360
Gain from disposal of long-term financial assets, subsidiaries and associates	**218**	200
Foreign exchange gain	**102**	-
Gain on disposal of property, plant and equipment	**-**	237
Gain from loan interest expenses refund from Federal Budget	**-**	278
Other operating income	**101**	372
	2,857	1,447

(In millions of Russian Roubles)

30. Other operating expenses

The components of other operating expenses are as follows:

	2007	2006
Loss on disposal of property, plant and equipment	**451**	-
Loss on impairment of financial assets	**12**	125
Taxation provision	**-**	1,591
Foreign exchange loss	**-**	96
Other operating expenses	**300**	218
	763	2,030

31. Finance income

Finance income recorded in the consolidated income statement comprises:

	2007	2006
Foreign exchange gain	**652**	1,065
	652	1,065

32. Finance costs

Finance costs charged to the consolidated income statement comprise:

	2007	2006
Interest expense	**4,076**	4,040
Foreign exchange loss	**197**	120
Finance lease expenses	**66**	45
	4,339	4,205

33. Discontinued operations

In September 2007 stakes in subsidiaries OAO DAAZ and OAO SAAZ were sold and in October 2007 the stake in ZAO SMZ was sold for a total amount of RR 3,392. The subsidiaries' activities relate to the automotive segment. Operating results of the subsidiaries sold are presented below.

	2007	2006
Sales	**4,602**	6,437
Cost of sales	**(3,396)**	(5,005)
Gross profit	**1,206**	1,432
Administrative expenses	**(881)**	(939)
Distribution costs	**(155)**	(177)
Research expenses	**-**	(3)
Other operating income/(expenses), net	**(48)**	(26)
Operating income	**122**	287
Finance costs	**(220)**	(171)
Profit before taxation	**(98)**	116
Income tax expense	**(26)**	(75)
(Loss)/profit after tax from discontinued operations	**(124)**	41
Gain on sale of discontinued operations	**309**	-
Income tax expense on sale of discontinued operations	**(357)**	-
(Loss)/profit from discontinued operations	**(172)**	41
Basic/diluted (loss)/earnings per share from discontinued operations (in roubles)	**(0.09)**	0.03

(In millions of Russian Roubles)

33. Discontinued operations (continued)

Cash inflows arising on the sale of subsidiaries are as follows:

	2007
Proceeds from disposal	**3,392**
Less cash held in subsidiaries	**(23)**
Net cash inflow	**3,369**

The following table presents cash flows regarding the Group's discontinued operations:

	2007	2006
Cash flows from:		
Operating activities	**2,583**	(630)
Investing activities	**(157)**	(414)
Financing activities	**(2,492)**	1,100
Net (decrease)/increase in cash and cash equivalents	**(66)**	56

The following amounts represent assets and liabilities of discontinued operations as at the date of disposal:

	Date of disposal
Assets:	
Long-term assets	**4,097**
Current assets less cash	**4,317**
	8,414
Liabilities:	
Long-term liabilities	**728**
Current liabilities	**4,626**
	5,354

34. Income tax expense

	2007	2006
Income tax expense – current	**2,445**	3,465
Deferred tax expense/(benefit)	**505**	(369)
	2,950	3,096

The tax charge of the Group is reconciled as follows:

	2007	2006
IFRS profit before taxation in the Group's consolidated financial statements	**6,791**	6,579
Theoretical tax charge at statutory rate of 24% (2006: 24%)	**1,630**	1,579
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income:		
Net gain from forgiveness of tax debt	**(415)**	-
Gain from reversal of provision for taxes other than income tax	**(375)**	-
Non-deductible expenses:		
Losses of non-production divisions of the Company and other expenses	**1,410**	589
Social expenses	**509**	437
Amortization of long-term portion of restructured taxes	**95**	70
Non-deductible research and development costs	**96**	39
Provision for taxes other than income tax	**-**	382
Income tax expense	**2,950**	3,096

(In millions of Russian Roubles)

34. Income tax expense (continued)

During 2007 most of the Group's entities were subject to tax rates of 24% on taxable profits. Deferred tax assets/liabilities are measured at the rate of 24% as at 31 December 2007 (31 December 2006: 24%).

Deferred tax assets and liabilities

	31 December 2005	**Movement for 2006**	**31 December 2006**	**Movement for 2007**	**Movement in relation to discontinued operations**	**31 December 2007**
Tax effects of temporary differences:						
Provision for impairment of receivables	176	(117)	59	(10)	(3)	46
General and overhead expenses allocation on inventories	(90)	(70)	(160)	(149)	(35)	(344)
Effect of inflation and different depreciation rates of property, plant and equipment	(11,292)	466	(10,826)	(20)	423	(10,423)
Provision for impairment of property, plant and equipment	1,206	(247)	959	(110)	-	849
Impairment loss on financial assets	34	(3)	31	(151)	-	(120)
Accounts payable and provisions	670	263	933	35	(41)	927
Discounting of long-term loans and borrowings	(2,158)	60	(2,098)	25	-	(2,073)
Other temporary differences	245	17	262	(125)	(5)	132
	(11,209)	369	(10,840)	(505)	339	(11,006)
Tax losses carried forward	199	(9)	190	(144)	-	46
Non-recognised tax losses carried forward	(199)	9	(190)	144	-	(46)
Deferred tax liabilities, net	(11,209)	369	(10,840)	(505)	339	(11,006)

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 7,271 and RR 8,967 as of 31 December 2007 and 31 December 2006, respectively. A deferred tax liability on these temporary differences was not recognised because management controls the timing of the utilisation of the temporary differences and believes that they will not be utilised in the foreseeable future.

35. Lease payables

Finance lease liabilities - minimum lease payments are as follows:

	31 December 2007	31 December 2006
Not later than one year	**996**	201
1 to 3 years	**2,448**	148
	3,444	349
Finance lease servicing	**(1,946)**	(90)
Present value of finance lease liabilities	**1,498**	259

(In millions of Russian Roubles)

35. Lease payables (continued)

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

	31 December 2007	31 December 2006
Not later than one year	**164**	146
1 to 3 years	**1,334**	113
	1,498	259

The Group purchases machinery and equipment, computer equipment and auto-loaders under finance lease arrangements.

36. Earnings per share

Earnings per share is calculated taking into account number of outstanding shares after the share consolidation which has taken place subsequent to the balance sheet date (see note 41). As this consolidation of shares resulted in the reduction of the number of shares outstanding without a corresponding outflow of resources, the earnings per share calculation has been based on the new number of shares for all periods presented in these financial statements.

	31 December 2007	31 December 2006
Number of preference shares in the Company's share capital (thousands)	**461,764**	461,764
Number of ordinary shares in the Company's share capital (thousands)	**1,388,290**	1,388,290
Weighted average number of treasury shares (thousands)	**(1,713)**	-
Weighted average number of ordinary and preference shares outstanding (thousands)	**1,848,341**	1,850,054
Profit/(loss) attributable to equity holders	**3,450**	3,100
Profit/(loss) from continuing operations attributable to equity holders	**3,622**	3,059
Earnings per share (in RR):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders' of the Company	**1.87**	1.68
-basic/diluted, for profit for the period from continuing operations attributable to ordinary/preference equity holders' of the Company	**1.96**	1.65

Preference holders share in earnings along with ordinary holders (Note 23).

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

37. Contingencies, commitments and guarantees

37.1 Contractual commitments and guarantees

As at 31 December 2007 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 613 (31 December 2006: RR 1,132). In addition, the Group issued financial guarantees to third parties in the amount of RR 15 (31 December 2006: RR 18). 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 minimum rental payments under non-cancellable operating leases of land are as follows:

	31 December 2007	31 December 2006
Within one year	**254**	254
After one year but not more than 5 years	**828**	820
More than 5 years	**1,916**	1,901
	2,998	2,975

The amount of lease payments recognized as an expense for the year ended 31 December 2007 was RR 254 (2006: RR 254).

37. Contingencies, commitments and guarantees (continued)

37.2 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 regional and federal authorities.

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

As at 31 December 2007 management believes that 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 rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

37.3 Insurance policies

The Group holds no insurance policies in relation to its assets, operations, or in respect of third party liability or other insurable risks.

37.4 Environmental matters

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

37.5 Legal proceedings

During 2007 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. Operating environment of the Group

Whilst there have been improvements in the economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside the Russian Federation, currency controls and relatively high inflation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

39. Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services. Secondary information is reported geographically.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Transactions between the business segments are on normal commercial terms and conditions. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Business segments

The following business segments are reported in these consolidated financial statements:

- Automotive - production and sale of vehicles, assembly kits and automotive components of own production and other producers and resale of other producers' vehicles; and
- Financing - Banking activity of subsidiary bank ZAO CB ABD and insurance activities of insurance companies, which are the Group's subsidiaries.

(In millions of Russian Roubles)

39. Segment information (continued)

The following tables present revenue, expenditure and certain asset and liability information regarding the Group's business segments:

	Automotive		Financing		Elimination		Total	
Year ended 31 December	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Continuing operations								
Revenue								
Sales to external customers	185,206	177,911	2,339	2,004	-	-	187,545	179,915
Inter-segment sales	-	-	207	381	(207)	(381)	-	-
Total revenue	**185,206**	**177,911**	**2,546**	**2,385**	**(207)**	**(381)**	**187,545**	**179,915**
Results								
Share of associates' income, including reversal of impairment provision	2,050	505	-	30	-	-	2,050	535
Segment result	8,009	9,027	739	692	-	-	8,748	9,719
Finance income	652	1,065	-	-	-	-	652	1,065
Finance costs	(4,339)	(4,205)	-	-	-	-	(4,339)	(4,205)
Net gain from forgiveness of tax debt	1,730	-	-	-	-	-	1,730	-
Profit before taxation	6,052	5,887	739	692	-	-	6,791	6,579
Income tax expense	(2,741)	(2,890)	(209)	(206)	-	-	(2,950)	(3,096)
Profit for the period from continuing operations	3,311	2,997	530	486	-	-	3,841	3,483
Discontinued operations								
Profit/(loss) from discontinued operations	(172)	41	-	-	-	-	(172)	41
Profit for the year							**3,669**	**3,524**

31 December	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Segment assets	173,475	168,718	10,150	8,871	(3,513)	(4,529)	180,112	173,060
Investments in associates	2,411	1,782	-	121	-	-	2,411	1,903
Total assets	175,886	170,500	10,150	8,992	(3,513)	(4,529)	182,523	174,963
Segment liabilities	91,837	89,288	7,622	6,707	(3,513)	(4,529)	95,946	91,466

Other segment information

	Continuing operations				Total	
	Automotive		Financing			
Year ended 31 December	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Depreciation and amortisation	(9,407)	(6,972)	(9)	(5)	(9,416)	(6,977)
Capital expenditure	9,689	8,749	15	26	9,704	8,775
Reversal/(charge) for current and non-current assets impairment provisions	159	365	(228)	(73)	(69)	292
Reversal/(charge) for warranty and taxation provisions	(1,419)	(3,185)	-	-	(1,419)	(3,185)
Reversal of taxation provision	1,563	-	-	-	1,563	-

(In millions of Russian Roubles)

39. Segment information (continued)

The following table presents cash flows regarding the Group's business segments:

	Continuing operations						Total	
	Automotive		Financing		Elimination			
Year ended 31 December	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Cash flows from:								
Operating activities	8,284	7,142	(2,385)	607	703	(413)	6,602	7,336
Investing activities	(4,568)	(8,285)	56	(180)	200	(2)	(4,312)	(8,467)
Financing activities	2,181	262	1,552	(6)	242	104	3,975	360
Effect of exchange rate changes	(5)	(85)	-	-	-	-	(5)	(85)
Net increase/(decrease) in cash and cash equivalents	5,892	(966)	(777)	421	1,145	(311)	6,260	(856)

Segment assets consist primarily of property, plant and equipment and current assets. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Geographical segments

The following tables present revenue, expenditure and certain assets information regarding the Group's geographical segments:

	Russia and CIS countries		EU countries		Total	
Year ended 31 December	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Revenue						
Sales to external customers	170,042	166,282	22,105	20,070	192,147	186,352
Sales to external customers of companies referred to as discontinued operations	(4,602)	(6,437)	-	-	(4,602)	(6,437)
Revenue from continuing operations	165,440	159,845	22,105	20,070	187,545	179,915
Inter-segment sales	682	931	76	65	758	996
Segment revenue	**166,122**	**160,776**	**22,181**	**20,135**	**188,303**	**180,911**
Other segment information						
Capital expenditure	9,477	8,600	227	175	9,704	8,775
Segment assets	170,295	164,332	9,817	8,728	180,112	173,060
Investments in associates	2,411	1,903	-	-	2,411	1,903
Total assets	**172,706**	**166,235**	**9,817**	**8,728**	**182,523**	**174,963**

(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 and cash and short-term deposits, which arise directly from its operations.

It is, and has been throughout 2007 and 2006 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 39). As a result the Group has currency exposures. Such exposure arises from sales in currencies other than Group's functional currency. Approximately 12% 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 6.5 billion of loans and borrowings 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
2007		
EURO	+3.20	106
USD	+4.20	(153)
EURO	-5.40	(179)
USD	-5.80	211
2006		
EURO	+3.90	106
USD	+3.70	(232)
EURO	-6.10	(166)
USD	-5.30	333

Credit risk

The Group has RR 19,017 (2006: RR 12,757) in cash and cash equivalents and RR 2,997 (2006: nil) of short-term deposits included in financial assets. Credit risk in relation to these financial assets arises from default of the counterparty with maximum exposure equal to the carrying amount.

The Group has RR 6,930 (2006: RR 5,358) of commercial loans given by its subsidiary bank ZAO CB ABD to its customers. The majority of such loans is given to finance car sales and usually is secured with the purchased cars.

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 as disclosed in Note 9. There are no significant concentrations of credit risk within the Group.

Liquidity risk

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

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

(In millions of Russian Roubles)

40. Financial risk management objectives and policies (continued)

The table below summarises the maturity of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

	Less than three months	3 to 12 months	1 to 5 years	> 5 years	Total
Year ended 31 December 2007					
Loans and borrowings	**2,939**	**27,496**	**7,167**	**9,879**	**47,481**
Finance lease liabilities	**-**	**216**	**3,223**	**-**	**3,439**
Trade, other payables and advances from customers	**39,619**	**-**	**-**	**-**	**39,619**
Year ended 31 December 2006					
Loans and borrowings	7,374	19,043	10,460	9,857	46,734
Finance lease liabilities	-	189	163	-	352
Trade, other payables and advances from customers	33,353	-	-	-	33,353

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 all of the Group's financial instruments:

	Carrying amount		Fair values	
	31 December 2007	31 December 2006	**31 December 2007**	31 December 2006
FINANCIAL ASSETS:				
Cash and cash equivalents	**19,017**	12,757	**19,017**	12,757
Financial assets – current	**9,119**	4,319	**9,119**	4,319
Financial assets – long term	**8,999**	5,638	**8,999**	5,638
Trade receivables	**5,777**	6,196	**5,777**	6,196
FINANCIAL LIABILITIES:				
Short-term loans and borrowings	**30,435**	26,417	**30,414**	26,417
Long-term loans and borrowings	**8,407**	11,584	**10,000**	13,439
Finance lease liabilities	**1,498**	259	**2,681**	332
Trade payables	**23,340**	22,235	**23,340**	22,235
Long-term taxes other than income tax	**1,991**	2,654	**2,281**	2,953

The fair value of current financial assets has been calculated using market interest rates. The fair value of long-term loans and borrowings has been calculated using current interest rates and market value of bonds.

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 maximise 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 or sell treasury shares held by subsidiaries. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

41. Post balance sheet events

In the first half of 2008, JSC AVTOVAZ placed bonds in the amount of RR 4 billion with a maturity of 364 days.

Due to the merger of OAO AVVA, ZAO Audit-Service, ZAO CB AFC and ZAO IFC with JSC AVTOVAZ, and subsequent elimination of the JSC AVTOVAZ shares held in these subsidiaries, the Company was required by Joint Stock Company Law to make an offer to redeem its bonds. As a result, on 18 March 2008 the Company made an offer to their bond holders to redeem of outstanding bonds in the amount of RR 10,040 (of which RR 5,000 were classified as long-term in these financial statements), the bonds are to be redeemed at their nominal value.

As a result of this offer, the Company expects that all bonds will be redeemed during 2008.

Elimination of cross-shareholding (Note 6.1)

In the beginning of 2008 several decisions related to the elimination of the cross-shareholding were made at the Extraordinary General Shareholders' Meeting and Meeting of Board of Directors of JSC AVTOVAZ, including:
- reorganization of JSC AVTOVAZ by merging OAO AVVA, ZAO CB AFC, ZAO IFC and ZAO Audit-Service;
- liquidation of JSC AVTOVAZ shares held by OAO AVVA, ZAO CB AFC and ZAO IFC; and
- issuance of additional 500,000,000 of ordinary shares of JSC AVTOVAZ to be placed with the minorities of OAO AVVA and ZAO CB AFC.

On 29 February 2008 RENAULT s.a.s acquired 25% of the share capital of JSC AVTOVAZ. RENAULT, FGUP Rosoboronexport, "Rostechnologii" state corporation, Troika Dialog Group Limited and JSC AVTOVAZ signed a Memorandum on Principles of Cooperation that sets out general principles of cooperation and an action plan to finalise the establishment of a strategic partnership between the parties.

In the first half of 2008 OAO AVVA, ZAO CB AFC and ZAO IFC were liquidated. Additional shares were placed with minorities of those companies at their fair value. As a result of this share consolidation, the share capital of the Company comprises of 1,388,289,720 ordinary and 461,764,300 preference shares.