**AVTOVAZ GROUP**

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

**31 December 2009**

**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 statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

We draw attention to Note 39 in the financial statements, which indicates that the Group incurred losses in the amount of 49,214 million rubles during the year ended 31 December 2009 and, as of that date, the Group's current liabilities, including debt due in 2010, exceeded its current assets by 52,974 million rubles. These conditions, including the Group's dependence on the refinancing of its current debt, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Management's plans to improve the Group's financial position and operating efficiency in context of anti-crisis support provided to the Group by the Government of the Russian Federation are also disclosed in Note 39 to the financial statements.

Ernst & Young LLC

17 June 2010

# AVTOVAZ GROUP
## Consolidated Statement of Financial Position at 31 December 2009
**(In millions of Russian Roubles)**

| | Note | **31 December 2009** | 31 December 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 8, 41 | **9,864** | 13,749 |
| Trade receivables | 9, 41 | **2,363** | 3,750 |
| Financial assets | 10, 41 | **929** | 8,742 |
| Inventories | 11 | **22,696** | 38,329 |
| Other current assets | 12 | **2,881** | 10,055 |
| | | **38,733** | 74,625 |
| **Long-term assets:** | | | |
| Property, plant and equipment | 13 | **60,065** | 82,661 |
| Financial assets | 15, 41 | **2,382** | 8,563 |
| Investments in associates | 16 | **2,972** | 1,613 |
| Development costs | 14 | **10,341** | 11,090 |
| Deferred tax assets | 35 | **1,244** | - |
| Other long-term assets | 17 | **1,057** | 4,402 |
| | | **78,061** | 108,329 |
| Assets of disposal group classified as held for sale | 34 | **4,406** | - |
| **Total assets** | | **121,200** | 182,954 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Trade payables | 18, 41 | **13,936** | 42,200 |
| Other payables and accrued expenses | 19, 41 | **7,092** | 14,519 |
| Income tax liability | | **397** | 151 |
| Taxes other than income tax | 22 | **1,871** | 2,528 |
| Provisions | 20 | **988** | 1,162 |
| Loans and borrowings | 21, 41 | **65,690** | 47,408 |
| Advances from customers | | **1,317** | 1,255 |
| Lease payables | 36, 41 | **416** | 363 |
| | | **91,707** | 109,586 |
| **Long-term liabilities:** | | | |
| Loans and borrowings | 21, 41 | **14,242** | 2,683 |
| Taxes other than income tax | 22, 41 | **1,149** | 1,392 |
| Provisions | 20 | **711** | 221 |
| Deferred tax liabilities | 35 | **467** | 6,284 |
| Lease payables | 36, 41 | **315** | 631 |
| | | **16,884** | 11,211 |
| Liabilities directly associated with disposal group classified as held for sale | 34 | **741** | - |
| **Total liabilities** | | **109,332** | 120,797 |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 23 | **37,001** | 37,001 |
| Currency translation adjustment | | **506** | 1,581 |
| Retained earnings | | **(26,327)** | 22,602 |
| | | **11,180** | 61,184 |
| **Minority interest** | | **688** | 973 |
| **Total equity** | | **11,868** | 62,157 |
| **Total liabilities and equity** | | **121,200** | 182,954 |

O. V. Lobanov
Executive Vice-President
Chief Financial Officer, JSC AVTOVAZ

S. A. Kochetkova
Chief Accountant, JSC AVTOVAZ

17 June 2010

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

| | Note | Year ended 31 December 2009 | Year ended 31 December 2008 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sales | 24 | **92,043** | 168,448 |
| Cost of sales | 25 | **(90,763)** | (154,996) |
| **Gross profit** | | **1,280** | 13,452 |
| Idle time costs | 26 | **(8,812)** | - |
| Share of associates' (loss)/income, including impairment provision | 16 | **(231)** | 569 |
| Administrative expenses | 27 | **(13,864)** | (16,209) |
| Distribution costs | 28 | **(5,368)** | (10,042) |
| Provision for impairment of long-term assets | 13, 14 | **(15,256)** | (10,712) |
| Research expenses | 29 | **(1,407)** | (1,897) |
| Other operating income | 30 | **5,281** | 1,512 |
| Other operating expenses | 31 | **(7,152)** | (2,813) |
| **Operating loss** | | **(45,529)** | (26,140) |
| Finance income | 32 | **32** | 623 |
| Finance costs | 33 | **(8,947)** | (4,142) |
| Net gain from restructuring/forgiveness of tax debt | 22 | **473** | 184 |
| **Loss before taxation** | | **(53,971)** | (29,475) |
| Income tax benefit | 35 | **6,668** | 4,784 |
| **Loss from continuing operations** | | **(47,303)** | (24,691) |
| **Discontinued operations** | | | |
| **(Loss)/profit after tax from discontinued operations** | 34 | **(1,911)** | 29 |
| **Loss for the year** | | **(49,214)** | (24,662) |
| Currency translation adjustment | | **233** | 651 |
| Foreign currency translation related to discontinued operations | 34 | **(1,308)** | - |
| Total other comprehensive income for the year, net of taxes | | **(1,075)** | 651 |
| **Total comprehensive loss for the year, net of taxes** | | **(50,289)** | (24,011) |
| **Loss attributable to:** | | | |
| Equity holders of the Company | | **(48,929)** | (24,346) |
| Minority interest | | **(285)** | (316) |
| | | **(49,214)** | (24,662) |
| **Total comprehensive loss attributable to:** | | | |
| Equity holders of the Company | | **(50,004)** | (23,695) |
| Minority interest | | **(285)** | (316) |
| **Total comprehensive loss for the year, net of taxes** | | **(50,289)** | (24,011) |
| **Loss per share, basic/diluted (in RR):** | | | |
| **-for loss for the year attributable to ordinary/preference equity holders of the Company** | 37 | **(26.45)** | (13.17) |
| **-for loss for the year from continuing operations attributable to ordinary/preference equity holders of the Company** | 37 | **(25.41)** | (13.18) |

**(In millions of Russian Roubles)**

| | Note | Year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Loss before taxation from continuing operations | | **(53,971)** | (29,475) |
| (Loss)/gain before taxation from discontinued operations | 34 | **(1,914)** | 114 |
| Loss before taxation | | **(55,885)** | (29,361) |
| Adjustments for: | | | |
| Depreciation and amortization | 13, 14 | **10,140** | 11,786 |
| Write off of capitalised development costs | 14 | **1,407** | 1,753 |
| Provision for impairment of receivables | 27 | **1,216** | 355 |
| Provision for impairment of other current assets from continuing operations | 27 | **1,381** | 640 |
| Provision for impairment of other current assets from discontinued operations | | **-** | 204 |
| Provision for impairment of financial assets from continuing operations | | **3,891** | 636 |
| Provision for impairment of financial assets from discontinued operations | | **340** | 704 |
| Provision for impairment of assets of subsidiary - real estate developer | 31 | **1,161** | - |
| Interest expense | 33 | **8,081** | 3,718 |
| Impairment of long-term assets | 13, 14 | **15,353** | 10,912 |
| Reversal of provision for impairment of property, plant and equipment | 13 | **(97)** | (200) |
| Net gain from restructuring/forgiveness of tax debt | | **(473)** | (184) |
| Gain on disposal of discontinued operations | 34 | **(427)** | - |
| Loss on disposal of property, plant and equipment | 31 | **583** | 735 |
| Share of associates' loss/(income), including impairment provision | 16 | **231** | (569) |
| Government grant on discounting of interest-free loan | 21, 30 | **(3,773)** | - |
| Impairment loss recognised on the remeasurement to fair value less cost to sell | 34 | **1,851** | - |
| Gain on disposal of long-term financial assets | 30 | **(142)** | (92) |
| Unrealised foreign exchange effect on non-operating balances | | **(46)** | (365) |
| **Operating cash flows before working capital changes** | | **(15,208)** | 672 |
| Change in trade receivables | | **(530)** | 1,672 |
| Change in current financial and other assets | | **11,343** | (945) |
| Change in inventories | | **13,541** | (15,827) |
| Change in trade payables and other payables and accrued expenses | | **(32,650)** | 18,615 |
| Change in tax liabilities other than income tax | | **(428)** | (235) |
| Change in advances from customers | | **62** | (6,083) |
| **Cash used in operations** | | **(23,870)** | (2,131) |
| Income tax paid | | **(82)** | (433) |
| Interest paid | | **(6,941)** | (3,629) |
| **Net cash used in operating activities** | | **(30,893)** | (6,193) |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment and capitalised development costs | | **(5,648)** | (9,127) |
| Proceeds from the sale of property, plant and equipment | | **273** | 163 |
| Purchase of a subsidiary | | **(99)** | - |
| Purchase of financial assets | | **-** | (4,231) |
| Purchase of rented property | | **-** | (845) |
| Proceeds from the sale of financial assets | | **74** | 2,731 |
| Proceeds from the sale of subsidiaries less cash disposed of | | **(198)** | 110 |
| Dividends received | | **59** | 1,392 |
| **Net cash used in investing activities** | | **(5,539)** | (9,807) |
| **Cash flows from financing activities:** | | | |
| Proceeds from loans and borrowings | | **46,600** | 23,556 |
| Repayment of loans and borrowings | | **(12,406)** | (12,545) |
| Dividends paid | | **-** | (504) |
| Sale of treasury shares | | **-** | 143 |
| Purchase of treasury shares | | **-** | (16) |
| **Net cash generated from financing activities** | | **34,194** | 10,634 |
| Effect of exchange rate changes | | **14** | 98 |
| **Net decrease in cash and cash equivalents** | | **(2,224)** | (5,268) |
| **Cash and cash equivalents at the beginning of the year** | 8 | **13,749** | 19,017 |
| **Cash and cash equivalents at the end of the year** | 8 | **11,525** | 13,749 |

**(In millions of Russian Roubles)**

| | Note | Equity attributable to equity holders of the Company | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Share capital | Treasury shares | Currency translation adjustment | Retained earnings | Total | | |
| **Balance at 31 December 2007** | | **64,251** | **(36,801)** | **930** | **56,458** | **84,838** | **1,739** | **86,577** |
| Loss for the year | | - | - | - | (24,346) | (24,346) | (316) | (24,662) |
| Other comprehensive income | | - | - | 651 | - | 651 | - | 651 |
| **Total comprehensive (loss)/income** | | **-** | **-** | **651** | **(24,346)** | **(23,695)** | **(316)** | **(24,011)** |
| Elimination of cross-shareholding | | (27,250) | 36,800 | - | (9,100) | 450 | (450) | - |
| Purchase of treasury shares | | - | (8) | - | (8) | (16) | - | (16) |
| Sale of treasury shares | | - | 9 | - | 134 | 143 | - | 143 |
| Dividends | 23 | - | - | - | (536) | (536) | - | (536) |
| **Balance at 31 December 2008** | 23 | **37,001** | **-** | **1,581** | **22,602** | **61,184** | **973** | **62,157** |
| Loss for the year | | - | - | - | (48,929) | (48,929) | (285) | (49,214) |
| Foreign currency translation related to discontinued operations | | - | - | (1,308) | - | (1,308) | - | (1,308) |
| Other comprehensive income | | - | - | 233 | - | 233 | - | 233 |
| **Total comprehensive loss** | | **-** | **-** | **(1,075)** | **(48,929)** | **(50,004)** | **(285)** | **(50,289)** |
| **Balance at 31 December 2009** | 23 | **37,001** | **-** | **506** | **(26,327)** | **11,180** | **688** | **11,868** |

### 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 ("CIS") and some other countries. The parent company, JSC AVTOVAZ ("the Company" or JSC AVTOVAZ), was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. At 31 December 2009 the Group employed 103,852 employees (31 December 2008: 130,698 employees). The registered office of JSC AVTOVAZ is in Yuzhnoye Shosse, 36, Togliatti, 445024, Russian Federation.

These consolidated financial statements were authorized for issue by the Executive Vice-President, Chief Financial Officer on 17 June 2010.

### 2. Basis of preparation of the consolidated financial statements

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

JSC AVTOVAZ and its subsidiaries resident in the Russian Federation, which account for over 97% of assets and liabilities of the Group, maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Similarly, adjustments to conform with IFRS, where necessary, are recorded in the financial statements of companies not resident in the Russian Federation.

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

### 3. Summary of significant accounting policies

#### 3.1 Adopted accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except the following. The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009;
IFRS 7 Financial Instruments: Disclosures effective 1 January 2009;
IFRS 8 Operating Segments effective 1 January 2009;
IAS 1 Presentation of Financial Statements effective 1 January 2009;
IAS 23 Borrowing Costs (Revised) effective 1 January 2009;
IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009;
IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009;
IFRIC 13 Customer Loyalty Programmes effective 1 July 2008;
IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008;
Improvements to IFRSs (May 2008);
Improvements to IFRSs (April 2009, early adopted).

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

*IFRS 2 Share-based Payment (Revised)*
The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group as the Group does not have share-based payments.

*IFRS 7 Financial Instruments: Disclosures*
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 41. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 41.

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

*IFRS 8 Operating Segments*
IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. IFRS 8 was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2009. The new disclosures are shown in Note 40 Segment information, including related revised comparative information.

*IAS 1 Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present all items of income and expense in one single statement.

*IAS 23 Borrowing Costs (Revised)*
The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes were made for borrowing costs incurred to this date that have been expensed.

*IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

*IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*
This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The Group has concluded that the amendment has no impact on the financial position or performance of the Group.

*IFRIC 13 Customer Loyalty Programmes*
IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Group does not maintain any loyalty points programme, so these amendments did not have any impact on the financial position or the performance of the Group.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation*
The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how the Group should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has concluded that the amendment has no impact on the financial position or performance of the Group as the Group has not entered into any such hedges.

*Improvements to IFRSs*
In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments except amendments to IAS 20 disclosed below resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

*IFRS 8 Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker reviews segment assets, the Group has continued to disclose this information in Note 40.

**3. Summary of significant accounting policies (continued)**

**3.1 Adopted accounting standards and interpretations (continued)**

*IAS 1 Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

*IAS 7 Statement of Cash Flows*: Explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

*IAS 16 Property, Plant and Equipment:* Replaces the term 'net selling price' with 'fair value less costs to sell'. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

*IAS 18 Revenue:* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

has primary responsibility for providing the goods or service;
has inventory risk;
has discretion in establishing prices;
bears the credit risk.

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment was implemented by the Group, but did not require any changes to prior periods as the Group started to receive loans from government from 2009 only. Gain on discounting of loans obtained from government was recorded within Other operating income.

*IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

*IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group.

*IAS 38 Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

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

IFRS 2 Share-based Payment;
IFRS 7 Financial Instruments: Disclosures;
IAS 8 Accounting Policies, Change in Accounting Estimates and Error;
IAS 10 Events after the Reporting Period;
IAS 19 Employee Benefits;
IAS 27 Consolidated and Separate Financial Statements;
IAS 28 Investments in Associates;
IAS 31 Interest in Joint Ventures;
IAS 34 Interim Financial Reporting;
IAS 38 Intangible Assets;

**3. Summary of significant accounting policies (continued)**
**3.1 Adopted accounting standards and interpretations (continued)**
IAS 40 Investment Properties;
IAS 39 Financial Instruments: Recognition and Measurement;
IFRIC 9 Reassessment of Embedded Derivatives;
IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

The Group has not applied the following standards and IFRIC interpretations that have been issued but are not yet effective:

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions (effective after January 2010);
IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39;
IFRS 7 Financial Instruments: Disclosures – Financial instrument disclosure exemptions (effective from 1 July 2010);
IFRS 9 Financial Instruments: Classification and Measurement (effective from 1 January 2013);
IAS 24 Related Party Disclosure – Definition of a Related Party (effective from 1 January 2011);
IAS 32 Financial Instruments: Presentation - Classification of rights issues denominated in a foreign currency (effective from 1 February 2010);
IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective from 1 July 2009);
IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction - Prepayments of a minimum funding requirement (effective from 1 January 2011);
IFRIC 17 Distributions of Non-Cash Assets to Owners (effective from July 1, 2009);
IFRIC 18 Transfer of Assets from Customers (effective from July 1, 2009);
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010);
Improvements to IFRSs (May 2010).

*IFRS 2 Share-based Payment (Revised)*
The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group does not expect this amendment to have an impact on the consolidated financial statements of the Group.

*IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)*
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of minority interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise 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 by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy will be applied prospectively and will have no material impact on earnings per share.

*IFRS 7 Financial Instruments: Disclosures*
The IASB has amended the transitional provisions of the March 2009 amendments to IFRS 7 to clarify its conclusions on the relief available from providing comparative disclosure information while at the same time making this relief available to first-time adopters of IFRS. These changes will benefit both existing IFRS reporters that present more than one comparative period and interim statements in the year following their initial application of the amendments and first-time adopters.

*IFRS 9 Financial Instruments: Classification and Measurement*
The IASB has published phase 1 of IFRS 9 Financial Instruments in November 2009, the accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. Phase 1 of the project establishes a new classification and measurement framework for financial assets.

*IAS 24 Related Party Disclosure*
In November 2009 the IASB has issued a revised version of IAS 24 Related Party Disclosures that clarifies and simplifies the definition of a related party.

*IAS 32 Financial Instruments: Presentation*
Amendment to IAS 32 Financial Instruments (October 2009): Presentation provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. Application of the amendment is retrospective and will result in the reversal of profits or losses previously recognised.

**3. Summary of significant accounting policies (continued)**

**3.1 Adopted accounting standards and interpretations (continued)**

*IAS 39 Financial Instruments: Recognition and Measurement*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

*IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*

In November 2009 IASB corrected an unintended consequence of IFRIC 14 and IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction. The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. This amendment will allow these entities to recognise a prepayment of pension contributions as an asset rather than an expense.

*IFRIC 17 Distributions of Non-cash Assets to Owners*

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

*IFRIC 18 Transfer of Assets from Customers*

This interpretation provides guidance on when and how to recognise assets transferred from customers. Entities will need to carefully analyse all the facts and circumstances to assess whether they actually control the assets in question and whether they need to make changes to their revenue policies, that would, in turn, significantly affect their future operating results and net asset positions.

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

In November 2009 the International Financial Reporting Interpretations Committee (IFRIC) has issued Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments which clarifies the treatment of financial liabilities that are extinguished with equity instruments.

*Amendments to IFRS 1 - Additional Exemptions for First-time Adopters*

Amendments to IFRS 1 issued in July 2009 provide additional relief for some entities applying IFRS for the first time, in particular: the measurement of oil and gas assets for entities using the "full cost accounting method" under local GAAP; and the assessment of leasing contracts in accordance with IFRIC 4. Amendments become effective for annual periods beginning on or after 1 January 2010. The Group has concluded that the amendment has no impact on the financial position or performance of the Group.

*Amendments to IFRS 1 - Limited Exemption from Comparative IFRS 7 Disclosures*

Additional amendments to IFRS 1 were issued in January 2010 and become effective for annual periods beginning on or after 1 July 2010. The IASB has amended the transitional provisions of the March 2009 amendments to IFRS 7 to clarify its conclusions on the relief available from providing comparative disclosure information while at the same time making this relief available to first-time adopters of IFRS. The Group has concluded that the amendment has no impact on the financial position or performance of the Group.

*Improvements to IFRSs*

In May 2010 the IASB issued amendments to the following standards and interpretation, including transitional provisions. Unless otherwise noted, the proposed effective date for the amendments is for annual periods beginning on or after 1 January 2011.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Accounting policy changes in the year of Adoption; Revaluation basis as deemed cost; Use of deemed cost for operations subject to rate regulation;
IFRS 3 Business Combinations - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; Measurement of non-controlling interests; Un-replaced and voluntarily replaced share-based payment awards (applicable to annual periods beginning on or after 1 July 2010);
IFRS 7 Financial Instruments: Disclosures - Clarifications of disclosures;
IAS 1 Presentation of Financial Statements - Clarification of statement of changes in equity;
IAS 27 Consolidated and Separate Financial Statements - Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements (applicable to annual periods beginning on or after 1 July 2010);
IAS 34 Interim Financial Reporting - Significant events and transactions;
IFRIC 13 Customer Loyalty Programmes - Fair value of award credit.

The Group anticipates that the adoption of these standards and amendments in future periods will have no material impact on its financial statements. The Group currently does not plan early application of the above standards and interpretations.

### 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 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 statement of comprehensive income.

**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.

### 3.3 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 accumulative gain or loss is removed from equity to profit or loss.

**3. Summary of significant accounting policies (continued)**

**3.3 Financial assets (continued)**

**Initial recognition of financial instruments**

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

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

**Impairment of financial assets**

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

**Financial assets carried at amortised cost**

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

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

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

**Available-for-sale financial investments**

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

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

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

**Derecognition of financial assets**

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

## 3. Summary of significant accounting policies (continued)

### 3.4 Revenue recognition

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

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

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

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

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

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

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

### 3.5 Trade receivables

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

### 3.6 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the 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 material, direct labour and the appropriate indirect manufacturing costs (based on normal operating capacity). Obsolete and slow-moving inventories are written down, taking into account their expected use, to their future realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

### 3.8 Cash and cash equivalents

Cash comprises cash on hand, demand deposits held with banks, bank promissory notes, loans and advances 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 amortized 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 fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

**3. Summary of significant accounting policies (continued)**

**3.9 Property, plant and equipment (continued)**

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

| | Number of years |
|---|---|
| Buildings | 40 to 80 |
| Manufacturing equipment and machinery | 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 statement of comprehensive income during the financial period in which they are incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss as incurred.

Assets under construction owned by the Group are not depreciated.

**3.10 Finance leases**

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

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

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

**3.11 Intangible assets**

**Research and development expenditure**

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

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

**3.12 Impairment of assets**

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

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

**3.13 Deferred income taxes**

Deferred income tax is provided using the liability method on temporary differences at the 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.

**3. Summary of significant accounting policies (continued)**

**3.13 Deferred income taxes (continued)**

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

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

The carrying amount of deferred income tax assets is reviewed at each 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 utilized. 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.

**3.14 Loans, borrowings and restructured taxes**

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

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

**3.15 Government grants**

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

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

**3.16 Foreign currency transactions and translation**

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

Monetary assets and liabilities, which are denominated in foreign currencies at the 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 statement of comprehensive income.

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 2009 of RR 30.2442 = US$ 1 (31 December 2008: RR 29.3804 = US$ 1) and RR 43.3883 = Euro 1 (31 December 2008: RR 41.4411 = Euro 1).

**3.17 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. Summary of significant accounting policies (continued)**

**3.18 Employee benefits**

**Social costs**

The Group incurs costs on social activities, principally within the City of Togliatti. The Group provides medical services, maintains recreation departments, summer camps for children, 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 profit or loss.

**Pension costs**

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

**3.19 Interest income and borrowing costs**

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

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

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

**3.20 Earnings/(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.

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

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

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

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

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

**3.21 Operating leases**

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

**3.22 Shareholders' equity**

**Share capital**

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

**Treasury shares**

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.

**3. Summary of significant accounting policies (continued)**

**3.22 Shareholders' equity (continued)**

**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 authorized for issue.

**3.23 Provisions**

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

**4. Critical accounting estimates**

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

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

**4.1 Taxation**

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

**4.2 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.

**4.3 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 2,442 higher or RR 2,699 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 5,360 higher or RR 5,924 lower respectively.

**4.4 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2009, the Group recognised an impairment loss of RR 15,256 (Note 13 and 14).

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

*Key assumptions used in value-in-use calculations*

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

- Sales volume assumption;
- Changes in steel prices; and
- Discount rates.

## 4. Critical accounting estimates (continued)
### 4.4 Impairment of non-financial assets (continued)
Sales volume assumption – This assumption is based on the Russian automotive market forecast of 1,600 – 1,700 thousand units for 2010 with gradual return to the 2006-2007 levels in 2012 when the market volume will comprise 2,200 thousands units. The Company's market share projections do not exceed 26% of total Russian automotive market.

Steel price – Estimates are obtained from published indices for Russia. Forecast figures are used if data is publicly available, otherwise historical movements in actual steel prices are used as an indicator of future price movements. The increase in steel prices used in impairment test business model was 7% for 2010, 8% - for 2011-2012 and 5% from 2013 and further.

Discount rates – Discount rate of 14.94% reflects the current market assessment of the risks specific to the cash generating unit. The discount rate is estimated based on average percentage of a weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

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

Management recognises that the scrappage program that is going to be implemented in 2010 can have a positive impact on the Group's sales volume. If the scrappage program is realised successfully, management expects the Group's sales volume to increase by 27% in 2010 that would lead to reversal of impairment loss by approximately RR 2,700.

Management has considered a possibility of greater than budgeted increases in steel prices. Budgeted price inflation lies within a range of 5% - 8%. However, in accordance with certain pessimistic scenarios, steel prices may increase to 22% from the midyear of 2010. Should the Group be unable to improve efficiency, a further impairment loss will be approximately RR 5,900.

With all other assumptions held constant, a decrease in the discount rate to 14.56% would lead to reversal of impairment loss of approximately RR 1,700.

### 4.5 Warranties
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. Before 2009 the management has estimated that the abovementioned changes will not increase the Company's total future warranty expenses. In 2009 management changed its accounting estimates in respect of product warranty costs. That led to increase in the warranty provision of RR 908 (Note 20).

## 5. Significant accounting judgements
### 5.1 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.

### 5.2 Discontinued operations
In November 2009 management decided to dispose of a subsidiary bank ZAO Commercial Bank LADA-CREDIT and therefore classified it as a disposal group held for sale. The management considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:

- Shares of the bank are available for immediate sale and can be sold to a potential buyer any time;
- The management had a plan to sell the subsidiary and had entered into preliminary negotiations with a potential buyer;
- Management expects the sale to be completed in summer 2010.

(In millions of Russian Roubles)

## 6. Principal subsidiaries and associates

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

| Entity | Country of incorporation | Activity | **31 December 2009 % share** | 31 December 2008 % share |
|---|---|---|---|---|
| OAO AvtoVAZtrans | Russia | Transport | **100** | 100 |
| OAO TEVIS | Russia | Utilities | **100** | 100 |
| OAO Elektroset | Russia | Power supply | **100** | 100 |
| ZAO Commercial Bank LADA-CREDIT* (hereinafter – the subsidiary bank) | Russia | Bank services | **100** | 100 |
| Lada International Ltd. | Cyprus | Subsidiaries management | **99.9** | 99.9 |
| OAO Piter-Lada | Russia | Car distribution and service | **52.4** | 52.4 |
| OAO Lada-Spetsoborudovaniye | Russia | Car distribution and service | **51** | 51 |
| OAO Lada-Service | Russia | Subsidiaries management | **100** | 100 |
| ZAO Lada-Image | Russia | Spare parts distribution | **100** | 100 |
| 111 Technical Service Centres | Russia, CIS, EU Countries | Car distribution and service | **50.1-100** | 50.1-100 |

*Formerly named ZAO CB ABD

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

| Entity | Country of incorporation | Activity | **31 December 2009 % share** | 31 December 2008 % share |
|---|---|---|---|---|
| ZAO GM-AVTOVAZ | Russia | Vehicle production | **41.6** | 41.6 |
| ZAO CB NOVIKOMBANK | Russia | Bank services | **20** | - |

## 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 nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 31 December 2009 and 31 December 2008 are detailed below.

| Consolidated statement of financial position caption | Relationship | **31 December 2009** | 31 December 2008 |
|---|---|---|---|
| Cash and cash equivalents | Associate bank | **344** | - |
| Trade receivables before provision accrual | Associates | **529** | 337 |
| Provision for impairment of receivables | Associates | **(2)** | - |
| Financial assets before provision accrual | Associates | **574** | 686 |
| Provision for impairment of financial assets | Associates | **(424)** | - |
| Other current assets before provision accrual | Associates | **92** | 37 |
| Provision for impairment of other current assets | Associates | **(45)** | (5) |
| Financial assets – long-term | Associate bank | **1,700** | - |
| Trade payables | Associates | **667** | 715 |
| Trade payables | Shareholder | **-** | 7,051 |
| Loans and borrowings | Associate bank | **626** | - |
| Loans and borrowings | Shareholder | **29,151** | - |
| Collateral received | Associates | **-** | 12 |
| Collateral issued by the Company against loans obtained from associate bank | Associate bank | **1,116** | - |

**(In millions of Russian Roubles)**

**7. Balances and transactions with related parties (continued)**

**7.2 Transactions with related parties**

The income and expense items with related parties for the year ended 31 December 2009 and 31 December 2008 were as follows:

| Consolidated statement of comprehensive income caption | Relationship | **2009** | 2008 |
|---|---|---|---|
| Sales | Associates | **5,669** | 8,160 |
| Purchases of inventory | Associates | **5,188** | 5,795 |
| Purchase of intangible assets | Shareholder | **-** | 9,159 |
| Purchases of services | Entity associated with shareholder | **-** | 342 |
| Interest income | Associates | **213** | - |
| Interest expenses | Associate bank | **5** | - |
| Administrative expenses | Short-term employee benefits - compensation of the Key Management | **112** | 249 |

*Terms and conditions of transactions with related parties*

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. For details of terms of loans issued by shareholder see Note 21. Long-term financial assets issued to associate bank relate to a loan issued to the associate bank of RR 700 at an interest rate of 7% and deposit held in the bank of RR 1,000 at an interest rate of 10.5%.

Major shareholders owning ordinary shares of the Company are Renault s.a.s., the Russian Technologies State Corporation and Troika Dialog Investments Limited. In 2008 in accordance with license agreements with Renault s.a.s. the Company recognised rights to production secrets (know-how) in the amount of RR 9,159. During the 2009 loans in the amount of RR 32,000 were received from the Russian Technologies State Corporation.

In 2009 the Company paid RR 2,324 (2008: RR 330) to Non-State Pension Fund of JSC AVTOVAZ.

**8. Cash and cash equivalents**

Cash and cash equivalents comprised the following:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Short-term bank promissory notes and deposits | **7,740** | 2,368 |
| Rouble-denominated cash on hand and balances with banks | **2,124** | 11,381 |
| | **9,864** | 13,749 |

Cash deposits of RR 1,332 held by the Group at 31 December 2009 (31 December 2008: RR 2,135) bear a weighted average interest of 1% per annum (2008: 3.4% per annum); cash deposits of RR 6,228 (31 December 2008: nil) bear interest of 6% per annum and cash deposits of RR 89 (31 December 2008: RR 133) bear interest of 12 to 16% per annum (2008: 11.5 to 18% per annum). Bank promissory notes of RR 91 bear interest of 13 to 14.75% per annum (31 December 2008: RR 100 bearing no interest). The Group's balances with bank are not interest bearing.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprised the following at 31 December 2009:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Short-term bank promissory notes and deposits | **7,740** | 2,368 |
| Rouble-denominated cash on hand and balances with banks | **2,124** | 11,381 |
| Cash at bank and short-term deposits attributable to discontinued operations (Note 34) | **1,661** | - |
| | **11,525** | 13,749 |

(In millions of Russian Roubles)

## 9. Trade receivables

At 31 December, the ageing analysis of trade receivables was as follows:

| | | | Past due but not impaired | | |
|---|---|---|---|---|---|
| **31 December** | Trade receivables | Neither past due nor impaired | < 3 months | 3 to 6 months | 6 to 12 months |
| **2008** | **3,750** | 3,312 | 288 | 117 | 33 |
| **2009** | **2,363** | 1,964 | 277 | 35 | 87 |

At 31 December 2009 a provision for impairment of receivables was RR 1,807 (2008: RR 595).

Movements in provision for impairment of receivables were as follows:

| | |
|---|---|
| **Balance at 31 December 2007** | **240** |
| Charge for the year | 489 |
| Utilized | - |
| Unused amounts reversed | (134) |
| **Balance at 31 December 2008** | **595** |
| Charge for the year | 1,239 |
| Utilized | (4) |
| Unused amounts reversed | (23) |
| **Balance at 31 December 2009** | **1,807** |

## 10. Financial assets – current

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Rouble-denominated loans less provision | **465** | 2,551 |
| Financial assets at fair value through profit or loss | **107** | 423 |
| Available-for-sale financial assets: | | |
| Bank promissory notes (with original maturities of more than three months) | **261** | 4,296 |
| Promissory notes of third parties | **11** | 1,450 |
| Deposit accounts | **85** | 22 |
| | **929** | 8,742 |

At 31 December 2009 loans include RR 1,169 (31 December 2008: RR 1,284) of short-term loans given by JSC AVTOVAZ and RR 1,062 (31 December 2008: RR 2,061) of short-term loans given by subsidiaries to other entities. As at 31 December 2009 a provision has been made for short-term loans in the amount of RR 1,766 (31 December 2008: RR 794). Loss from impairment of loans issued recorded in profit or loss account in 2009 was RR 1,433 (2008: RR 636).

Average effective interest rate for short-term loans given by the Group was 13.7% (2008: 11.4%).

Deposit accounts in the amount of RR 85 at interest rates of 10% and 15.5% were opened for a period of more than three months, but not exceeding 12 months after the balance sheet date (2008: deposit accounts in the amount of RR 22 at interest rate of 9%).

Loss from revaluation of financial assets at fair value through profit or loss recorded in profit or loss in 2009 was RR 4 (2008: RR nil). Loss from impairment of promissory notes of third parties recorded in profit or loss in 2009 was RR 2,393 (2008: nil).

(In millions of Russian Roubles)

### 10. Financial assets – current (continued)

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

| | |
|---|---|
| **Balance at 31 December 2007** | **101** |
| Accrued | 636 |
| Accrued for assets of disposal group classified as held for sale | 25 |
| Utilized in relation to disposal group classified as held for sale | (10) |
| Provision for assets transferred from long-term category in relation to disposal group classified as held for sale | 42 |
| **Balance at 31 December 2008** | **794** |
| Accrued | 3,830 |
| Accrued for assets of disposal group classified as held for sale | 330 |
| Utilized | (1,159) |
| Transfer to assets of disposal group classified as held for sale | (488) |
| **Balance at 31 December 2009** | **3,307** |

### 11. Inventories

Inventories consisted of the following:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Raw materials | **8,874** | 11,807 |
| Work in progress | **2,800** | 3,953 |
| Finished goods | **11,022** | 22,569 |
| | **22,696** | 38,329 |

Inventories are recorded net of obsolescence provision of RR 2,060 at 31 December 2009 (31 December 2008: RR 1,076). The carrying amount of inventories recorded at net realisable value as at 31 December 2009 was RR 9,559 (2008: RR 16,762).

During 2009 the cost of write-down of inventories recognised as an expense was RR 984 (2008: RR 1,050).

### 12. Other current assets

Other current assets consisted of the following:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Value added tax | **1,234** | 5,282 |
| Prepaid expenses and other receivables less provision | **1,594** | 4,058 |
| Construction in progress in relation to real estate for resale | **53** | 715 |
| | **2,881** | 10,055 |

As at 31 December 2009 provision for impairment of other current assets was RR 3,680 (31 December 2008: RR 1,524). Movements in provision for impairment of other current assets were as follows:

| | |
|---|---|
| **Balance at 31 December 2007** | **297** |
| Charge for the year | 1,382 |
| Utilized | (152) |
| Unused amounts reversed | (3) |
| **Balance at 31 December 2008** | **1,524** |
| Charge for the year | 2,244 |
| Utilized | (55) |
| Unused amounts reversed | (33) |
| **Balance at 31 December 2009** | **3,680** |

(In millions of Russian Roubles)

## 13. Property, plant and equipment

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

| | Buildings | Manufacturing equipment and machinery | Office and other equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 31 December 2007 | 76,288 | 130,330 | 12,391 | 9,787 | 228,796 |
| Additions | - | - | - | 5,730 | 5,730 |
| Disposals | (307) | (1,846) | (127) | (196) | (2,476) |
| Transfers | 1,036 | 4,829 | 586 | (6,451) | - |
| **Balance at 31 December 2008** | **77,017** | **133,313** | **12,850** | **8,870** | **232,050** |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at 31 December 2007 | (38,259) | (80,172) | (10,712) | (1,946) | (131,089) |
| Depreciation charge | (1,700) | (7,337) | (362) | - | (9,399) |
| Disposals | 265 | 1,215 | 98 | - | 1,578 |
| Transfers | - | - | (254) | 254 | - |
| Reversal of impairment provision | - | - | 112 | 88 | 200 |
| Impairment charge | (4,409) | (5,555) | (169) | (546) | (10,679) |
| **Balance at 31 December 2008** | **(44,103)** | **(91,849)** | **(11,287)** | **(2,150)** | **(149,389)** |
| **Net book amount** | | | | | |
| **Balance at 31 December 2007** | **38,029** | **50,158** | **1,679** | **7,841** | **97,707** |
| **Balance at 31 December 2008** | **32,914** | **41,464** | **1,563** | **6,720** | **82,661** |

| | Buildings | Manufacturing equipment and machinery | Office and other equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 31 December 2008 | 77,017 | 133,313 | 12,850 | 8,870 | 232,050 |
| Additions | - | - | - | 5,200 | 5,200 |
| Disposals | (2,272) | (2,279) | (5,058) | (42) | (9,651) |
| Transfers | 875 | 3,832 | 461 | (5,168) | - |
| Assets of disposal group classified as held for sale | (172) | (25) | (59) | (3) | (259) |
| **Balance at 31 December 2009** | **75,448** | **134,841** | **8,194** | **8,857** | **227,340** |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at 31 December 2008 | (44,103) | (91,849) | (11,287) | (2,150) | (149,389) |
| Depreciation charge | (1,616) | (7,793) | (342) | - | (9,751) |
| Disposals | 717 | 1,676 | 4,473 | - | 6,866 |
| Reversal of impairment provision | - | - | - | 97 | 97 |
| Impairment charge | (6,292) | (7,321) | (140) | (1,375) | (15,128) |
| Assets of disposal group classified as held for sale | 5 | 4 | 21 | - | 30 |
| **Balance at 31 December 2009** | **(51,289)** | **(105,283)** | **(7,275)** | **(3,428)** | **(167,275)** |
| **Net book amount** | | | | | |
| **Balance at 31 December 2008** | **32,914** | **41,464** | **1,563** | **6,720** | **82,661** |
| **Balance at 31 December 2009** | **24,159** | **29,558** | **919** | **5,429** | **60,065** |

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

Management annually reviews assets under construction and impairs those projects that are likely not to be completed. Additionally, management reviews previous impairments and releases amounts if there is evidence that construction is to be completed.

**(In millions of Russian Roubles)**

**13. Property, plant and equipment (continued)**

The increase in impairment provision for AUC relates to projects identified during 2009 that are unlikely to be completed. Respective expenses of RR 1,375 were recorded in profit or loss for the year ended 31 December 2009 (2008: RR 546) and relate to automotive segment.

The assets transferred to the Company upon privatization do not include the land on which the Company's factory and buildings, comprising the Group's principal manufacturing facilities, are situated. Until 11 December 2001 the land on which the Group's manufacturing facilities are situated was provided to 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 38.1.

Included in Property, plant and equipment and assets under construction are properties used by the local community (such as rest houses, sports and medical facilities) at a gross carrying value of RR 1,535 and RR 2,104 as of 31 December 2009 and 31 December 2008, respectively. These properties are fully provided for.

As at 31 December 2009 assets of the Group were tested for impairment due to significant deterioration in market conditions. Major part of the Group's assets belongs to one cash-generating unit engaged in production and sales of LADA brand vehicles. Methods used to determine the value in use include discounted forecasted cash flow of the Group for the period from 2010 to 2020. The management applied the weighted average cost of capital (WACC) equal to 14.94%. Based on the performed testing a provision of RR 15,128 related to fixed assets of the Group was recorded as at 31 December 2009, including RR 13,987 of impairment provision related to automotive and RR 1,141 – to dealership network segments.

The amount of borrowing costs capitalised during 2009 was RR 7. The rate used to determine the amount of borrowing costs eligible for capitalization was 8%.

At 31 December 2009 and 31 December 2008, the gross carrying value of fully depreciated property, plant and equipment was RR 46,238 and RR 42,477, respectively.

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

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Cost – finance leases capitalised | **1,874** | 2,269 |
| Accumulative depreciation | **(774)** | (473) |
| Net book amount | **1,100** | 1,796 |

**14. Development costs**

| | Capitalised cost for products under development | Capitalised development cost for products currently in use | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at 31 December 2007 | 3,159 | 2,582 | 5,741 |
| Additions | 10,265 | - | 10,265 |
| Transfers | (1,873) | 1,873 | - |
| Write-off | (1,753) | - | (1,753) |
| **Balance at 31 December 2008** | **9,798** | **4,455** | **14,253** |
| **Amortization** | | | |
| Balance at 31 December 2007 | - | (544) | (544) |
| Additions to accumulative amortization | - | (2,386) | (2,386) |
| Impairment | - | (233) | (233) |
| **Balance at 31 December 2008** | **-** | **(3,163)** | **(3,163)** |
| **Carrying amount at 31 December 2008** | **9,798** | **1,292** | **11,090** |

(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 2008 | 9,798 | 4,455 | 14,253 |
| Additions | 1,272 | - | 1,272 |
| Transfers | (161) | 161 | - |
| Write-off | (1,407) | - | (1,407) |
| **Balance at 31 December 2009** | **9,502** | **4,616** | **14,118** |
| **Amortization and impairment** | | | |
| Balance at 31 December 2008 | - | (3,163) | (3,163) |
| Additions to accumulative amortization | - | (389) | (389) |
| Impairment | - | (225) | (225) |
| **Balance at 31 December 2009** | **-** | **(3,777)** | **(3,777)** |
| **Carrying amount at 31 December 2009** | **9,502** | **839** | **10,341** |

In accordance with license agreements signed with Renault s.a.s. in September 2008 recognised in development costs are rights to know-how in relation to production, assembling and sale of licensed cars and engines in the amount of RR 9,159. The Group will amortize these intangible assets from the period of the commencement of production.

The aggregate amount of research and development expenditure recognised as expense during the reporting period was RR 2,021 (2008: RR 4,516).

### 15. Financial assets – long-term

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Financial assets held to maturity | **1,126** | 1,200 |
| Loans issued | **895** | 922 |
| Available-for-sale financial assets | **361** | 423 |
| Loans and receivables of subsidiary bank ZAO CB LADA-CREDIT less provision | **-** | 6,018 |
| | **2,382** | 8,563 |

As at 31 December 2009 loans issued include RR 700 of loans with an interest rate of 7% per annum (31 December 2008: RR 700 with an interest rate of 8.4% per annum) and RR 195 of interest-free loans issued to third parties (31 December 2008: RR 222). Interest-free loans were discounted and related expenses were recorded within other operating expenses. Interest income on loans issued recorded within other operating income was RR 66 (2008: RR 45).

As at 31 December 2009 available-for-sale financial assets include RR 361 (31 December 2008: RR 423) of investments in shares of other companies. The investees have not published recent financial information about their operations, their shares are not quoted. Management could not reliably estimate fair value of financial assets. Therefore, the investments are carried at actual acquisition cost.

As at 31 December 2009 financial assets held to maturity include long-term bank deposits with interest rate of 10.5% per annum (2008: 8% per annum). Interest income on financial assets held to maturity recorded in profit or loss account was RR 119 (2008: RR 15).

Changes in the provision for impairment of loans issued of disposal group classified as held for sale were as follows:

| | |
|---|---|
| **Balance at 31 December 2007** | **394** |
| Accrued | 411 |
| Unused amounts reversed | (101) |
| Reclassification of provision for assets transferred to short-term category | (42) |
| **Balance at 31 December 2008** | **662** |
| Impairment loss recognised on the remeasurement to fair value less costs to sell | 1,851 |
| Accrued | 72 |
| Utilized | (27) |
| Unused amounts reversed | (62) |
| Reclassification of provision for assets transferred to short-term category | (90) |
| Transfer to assets of disposal group classified as held for sale | (2,406) |
| **Balance at 31 December 2009** | - |

**(In millions of Russian Roubles)**

## 16. Investments in associates

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| **Beginning of the year** | **1,613** | 2,411 |
| Additions | **1,695** | 25 |
| Share in income | **462** | 569 |
| Disposals | **(46)** | - |
| Dividends received | **(59)** | (1,392) |
| Provision for impairment of investment | **(693)** | - |
| **End of the year** | **2,972** | 1,613 |

Investments in associates consisted of the following:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| ZAO GM-AVTOVAZ | **1,501** | 1,254 |
| ZAO CB NOVIKOMBANK | **1,093** | - |
| Other | **378** | 359 |
| **Total** | **2,972** | 1,613 |

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

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

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| **Assets:** | | |
| Long-term assets | **4,028** | 1,166 |
| Current assets | **6,449** | 1,400 |
| **Liabilities:** | | |
| Long-term liabilities | **(967)** | (35) |
| Current liabilities | **(6,538)** | (827) |
| Net assets | **2,972** | 1,704 |
| Impairment provision | **-** | (91) |
| Investments in associates | **2,972** | 1,613 |
| Revenue | **6,417** | 9,063 |
| Expenses | **(5,955)** | (8,494) |
| Profit after income tax | **462** | 569 |

## 17. Other long-term assets

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Long-term rent of property | **826** | 845 |
| Software | **141** | 227 |
| Intangible assets, other than development costs | **11** | 201 |
| Long-term receivables | **70** | 34 |
| Prepayments for long-term assets | **9** | 2,008 |
| Construction in progress in relation to real estate for resale | **-** | 1,087 |
| | **1,057** | 4,402 |

As at 31 December 2009 construction in progress in relation to real estate for resale are shown net of impairment provision of RR 392 (2008: RR 61).

**(In millions of Russian Roubles)**

### 18. Trade payables

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Trade payables | **13,269** | 41,485 |
| Payables to associates | **667** | 715 |
| | **13,936** | 42,200 |

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

### 19. Other payables and accrued expenses

Other payables and accrued expenses included the following:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Salaries payable and vacation accrual | **2,019** | 5,499 |
| Advances to sub-contractors received by the subsidiary-real estate developer | **1,263** | 1,659 |
| Settlements on promissory note transactions | **961** | 4,000 |
| Unearned insurance premiums and reserves for claims | **765** | 1,157 |
| Accrued interest | **355** | 256 |
| Dividends payable | **182** | 190 |
| Other | **1,547** | 1,758 |
| | **7,092** | 14,519 |

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

### 20. Provisions

During 2009 there were the following movements of warranty provision:

| | |
|---|---|
| **Balance at 31 December 2007** | **1,624** |
| Charge for the year | 1,038 |
| Utilized | (1,279) |
| **Balance at 31 December 2008** | **1,383** |
| Short-term portion | 1,162 |
| Long-term portion | 221 |
| | **1,383** |
| Change in accounting estimates | 908 |
| Charge for the year | 1,070 |
| Utilized | (1,381) |
| Transfer to discontinued operations | (281) |
| **Balance at 31 December 2009** | **1,699** |
| Short-term portion | 988 |
| Long-term portion | 711 |
| | **1,699** |

### 21. Loans and borrowings

Short-term loans and borrowings consisted of the following:

| | Effective interest rate | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| Rouble-denominated bank loans | 16.1% | **32,273** | 34,915 |
| Rouble-denominated interest-free loans | - | **23,360** | - |
| JSC AVTOVAZ corporate bonds | 13.0% | **4,880** | 8,000 |
| Euro-denominated bank loans | 14.0% | **3,513** | 4,249 |
| Other bank loans | 13.2% | **1,664** | 244 |
| Total short-term loans and borrowings | | **65,690** | 47,408 |

(In millions of Russian Roubles)

**21. Loans and borrowings (continued)**

In June-August 2009 a contract was signed with the Russian Technologies State Corporation on granting JSC AVTOVAZ an interest-free loan in the amount of RR 25,000 for a period of 12 months from the date of loan receipt. The loan was recorded at fair value determined as future cash flows discounted at the current market rate of 14.64%. The benefit of the below-market rate of interest was accounted for in accordance with IAS 20 and treated as government grant as the loan was received from the Russian state corporation. The fair value of government grant in the amount of RR 2,564 was recognised immediately as income, see Note 30.

During 2009 the Company redeemed its corporate bonds of RR 3,432 in due course (2008: RR 5,728).

Long-term loans and borrowings consist of the following:

| | Effective interest rate | **31 December 2009** | 31 December 2008 |
|---|---|---|---|
| Euro-denominated bank loans | 4.65% | **5,907** | 1,002 |
| Rouble-denominated interest-free loans | - | **5,791** | - |
| Rouble-denominated interest-free bearer promissory notes | - | **723** | 607 |
| Rouble-denominated bank loans | 13.95% | **430** | 752 |
| JSC AVTOVAZ corporate bonds | - | **-** | 312 |
| Other bank loans | 9.77% | **1,391** | 10 |
| Total long-term loans and borrowings | | **14,242** | 2,683 |

Rouble-denominated interest-free bearer promissory notes have a maturity period between 2017 and 2030. These notes were initially recorded at fair value calculated using effective interest rates ranging between 21% and 30%. Their gross nominal value is RR 9,129 (31 December 2008: RR 9,129).

Long-term Euro-denominated bank loans increased due to a loan received from Societe Generale at 4.65% per annum with maturity date in 2016 used to finance payment to Renault s.a.s. for the license. The loan is repayable by 14 equal semi-annual instalments.

In December 2009 a contract was signed with the Russian Technologies State Corporation on granting JSC AVTOVAZ an interest-free loan in the amount of RR 12,000 for a period of 18 months from the date of loan receipt. As at 31 December 2009 the Company received RR 7,000 of the loan under this contract. The loan was recorded at fair value determined as future cash flows discounted at the current market rate of 13.95%. The benefit of the below-market rate of interest was accounted for in accordance with IAS 20 and treated as government grant as the loan was received from the Russian state corporation. The fair value of government grant in the amount of RR 1,209 was recognised immediately as income, see Note 30.

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 2009** | 31 December 2008 |
|---|---|---|
| Current portion of loans and borrowings | **552** | 2,185 |
| 1 to 2 years | **7,830** | 1,056 |
| 2 to 3 years | **1,521** | 119 |
| 3 to 4 years | **1,274** | 180 |
| 4 to 5 years | **1,300** | 601 |
| > 5 years | **2,317** | 727 |
| Total long-term loans and borrowings | **14,794** | 4,868 |
| Less portion of current loans and borrowings | **(552)** | (2,185) |
| Long-term portion of loans and borrowings | **14,242** | 2,683 |

As at 31 December 2009 and 31 December 2008 the Group's loans and borrowings of RR 36,031 and RR 36,632, respectively, including short-term loans and borrowings were guaranteed by different types of pledges presented below:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Equipment | **21,986** | 21,562 |
| Inventories | **5,649** | 10,366 |
| Buildings | **3,325** | 3,437 |
| Securities | **212** | 672 |
| Accounts receivable | **8** | 89 |
| Other | **346** | 3,939 |

(In millions of Russian Roubles)

## 22. Taxes other than income tax

**Taxes payable – current other than income tax**

Current taxes payable comprised the following:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Property and other taxes | **674** | 790 |
| Value added tax | **422** | 487 |
| Social taxes | **375** | 464 |
| Current portion of restructured taxes | **351** | 699 |
| Penalties and interest on property and other taxes | **49** | 88 |
| | **1,871** | 2,528 |

**Long-term taxes payable**

Non-current taxes payable comprise various taxes payable to the Russian government which were previously past due and which have been restructured to be repaid over a period of up to 18 years.

The Russian government Resolution No. 259 dated 30 March 2009 introduced changes to Resolution No. 927 dated 29 December 2001, which set the redemption schedule of the Company's restructured tax liability due to the federal budget. Final redemption was delayed until 2017. Effect of the change in the repayment schedule for the restructured tax debt owed to the federal budget is RR 473 (2008: RR 184).

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

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Current portion of restructured taxes | **351** | 699 |
| 1 to 2 years | **-** | 1,392 |
| 4 to 5 years | **186** | - |
| > 5 years | **963** | - |
| Total restructured taxes | **1,500** | 2,091 |
| Less current portion of restructured taxes | **(351)** | (699) |
| Long-term portion of restructured taxes | **1,149** | 1,392 |

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.

## 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 2009** | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | **No. of shares** | **Legal statutory value** | **Carrying amount** | No. of shares | Legal statutory value | Carrying amount |
| Class A preference | 461,764,300 | 2,309 | 9,235 | 461,764,300 | 2,309 | 9,235 |
| Ordinary | 1,388,289,720 | 6,941 | 27,766 | 1,388,289,720 | 6,941 | 27,766 |
| Total outstanding share capital | **1,850,054,020** | **9,250** | **37,001** | **1,850,054,020** | **9,250** | **37,001** |

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

**(In millions of Russian Roubles)**

### 23. Share capital (continued)

Class A preference shares including treasury shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization 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 entitled to 10% of the Company's net profit for the year, so dividend in respect of one class A preference share equals to 10% of the Company's net profit for the last financial year divided by the number of issued preference shares of the Company. A resolution regarding the payment and the amount of dividends is taken by the General Shareholders' Meeting upon recommendations of the Board of Directors in view of financial results for the year.

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

In June 2009 the Annual Shareholders Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2008 (2008: 0.29 Roubles per preference share and 0.29 Roubles per ordinary share). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

### 24. Sales

The components of sales revenue were as follows:

| | **2009** | 2008 |
|---|---|---|
| Finished vehicles and assembly kits of own production | **76,076** | 147,364 |
| Automotive components of own production | **5,307** | 6,212 |
| Dealership sales of other producers' vehicles | **1,410** | 2,327 |
| Other sales | **9,250** | 12,545 |
| | **92,043** | 168,448 |

| | **2009** | 2008 |
|---|---|---|
| Domestic sales | **82,946** | 142,704 |
| Sales in EU countries | **2,092** | 2,010 |
| Other sales | **7,005** | 23,734 |
| | **92,043** | 168,448 |

Export sales amounted to RR 9,097 (2008: RR 25,744). Geographical information is presented based on the location of the customers.

### 25. Cost of sales

The components of cost of sales were as follows:

| | **2009** | 2008 |
|---|---|---|
| Materials and components, goods for resale | **51,732** | 117,697 |
| Labour costs | **12,281** | 24,725 |
| Production overheads and other expenses | **9,786** | 12,271 |
| Depreciation and amortization | **7,038** | 10,889 |
| Social expenses | **1,102** | 2,145 |
| Changes in inventories of finished goods and work in progress | **8,824** | (12,731) |
| | **90,763** | 154,996 |

**(In millions of Russian Roubles)**

### 26. Idle time costs

The components of idle time costs were as follows:

| | **2009** | 2008 |
|---|---|---|
| Labour costs | **6,066** | - |
| Depreciation | **2,703** | - |
| Fuel and energy | **43** | - |
| | **8,812** | - |

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

### 27. Administrative expenses

Administrative expenses comprised:

| | **2009** | 2008 |
|---|---|---|
| Labour costs | **5,139** | 7,997 |
| Local and regional taxes | **1,788** | 2,124 |
| Provision for impairment of other current assets (Note 12) | **1,381** | 640 |
| Provision for impairment of receivables (Note 9) | **1,216** | 355 |
| Third parties services | **1,174** | 1,309 |
| Materials | **566** | 690 |
| Transportation | **546** | 605 |
| Bank services | **359** | 319 |
| Depreciation | **333** | 430 |
| Repair expenses | **76** | 236 |
| Other | **1,286** | 1,504 |
| | **13,864** | 16,209 |

### 28. Distribution costs

Distribution costs comprised:

| | **2009** | 2008 |
|---|---|---|
| Transportation | **1,869** | 5,112 |
| Labour costs | **1,085** | 1,706 |
| Advertising | **577** | 1,033 |
| Materials | **412** | 793 |
| Depreciation | **66** | 62 |
| Other | **1,359** | 1,336 |
| | **5,368** | 10,042 |

### 29. Research expenses

Research expenses comprised:

| | **2009** | 2008 |
|---|---|---|
| Labour costs | **399** | 696 |
| Depreciation | **186** | 216 |
| Materials | **70** | 336 |
| Other | **752** | 649 |
| | **1,407** | 1,897 |

(In millions of Russian Roubles)

### 30. Other operating income

The components of other operating income were as follows:

| | 2009 | 2008 |
|---|---|---|
| Government grant on discounting of interest-free loan (Note 21) | **3,773** | - |
| Interest income | **439** | 794 |
| Gain on special purpose funding of an employment centre | **378** | - |
| Gain on refund of loan interest from the federal budget | **322** | 365 |
| Gain on disposal of long-term financial assets | **142** | 92 |
| Foreign exchange gain | **-** | 197 |
| Other operating income | **227** | 64 |
| | **5,281** | 1,512 |

### 31. Other operating expenses

The components of other operating expenses were as follows:

| | 2009 | 2008 |
|---|---|---|
| Provision for impairment of current financial assets (Note 10) | **3,830** | 636 |
| Provision for impairment of other current assets of subsidiary - real estate developer (Note 12) | **830** | 739 |
| Foreign exchange loss | **621** | - |
| Loss on disposal of property, plant and equipment | **583** | 735 |
| Provision for impairment of long-term assets of subsidiary - real estate developer (Note 17) | **331** | 61 |
| Other operating expenses | **957** | 642 |
| | **7,152** | 2,813 |

### 32. Finance income

Finance income recorded in profit or loss comprised:

| | 2009 | 2008 |
|---|---|---|
| Foreign exchange gain | **32** | 267 |
| Interest income | **-** | 356 |
| | **32** | 623 |

### 33. Finance costs

Finance costs charged to profit or loss comprised:

| | 2009 | 2008 |
|---|---|---|
| Interest expense | **8,081** | 3,570 |
| Finance lease expenses | **866** | 572 |
| | **8,947** | 4,142 |

(In millions of Russian Roubles)

### 34. Discontinued operations

In October 2009 the Company's stake in subsidiary Delta Motor Group Oy was diluted to 5%. The subsidiary's activities relate to the dealership network segment. Consideration received for the disposal of investment in the subsidiary is zero. Cash and cash equivalents held in the subsidiary at the moment of losing control by the Group amounted to RR 198.

In December 2009 the management of the Group decided to sell 100% shares in the subsidiary bank Commercial Bank LADA-CREDIT for cash. The disposal of the subsidiary bank will be completed in third quarter 2010. The subsidiary was previously included in other segments of the Group.

Operating results of discontinued operations are presented below.

| | Delta Motor Group Oy | | ZAO CB LADA-CREDIT | | Elimination of intragroup transactions | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December** | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Sales | **10,241** | 22,361 | **1,045** | 1,324 | **(113)** | (65) | **11,173** | 23,620 |
| Cost of sales | **(8,633)** | (19,360) | **(534)** | (603) | **295** | 278 | **(8,872)** | (19,685) |
| **Gross profit** | **1,608** | 3,001 | **511** | 721 | **182** | 213 | **2,301** | 3,935 |
| Administrative expenses | **(2,099)** | (2,641) | **(301)** | (732) | **-** | 76 | **(2,400)** | (3,297) |
| Distribution costs | **(205)** | (491) | **-** | - | **-** | - | **(205)** | (491) |
| Other operating income/(expenses), net | **67** | 57 | **(146)** | 41 | **(21)** | 17 | **(100)** | 115 |
| **Operating (loss)/profit** | **(629)** | (74) | **64** | 30 | **161** | 306 | **(404)** | 262 |
| Finance costs | **(86)** | (148) | **-** | - | **-** | - | **(86)** | (148) |
| Gain on disposal of discontinued operations | **427** | - | **-** | - | **-** | - | **427** | - |
| Impairment loss recognised on the remeasurment to fair value less cost to sell | **-** | - | **(1,851)** | - | **-** | - | **(1,851)** | - |
| **(Loss)/profit before taxation from discontinued operations** | **(288)** | (222) | **(1,787)** | 30 | **161** | 306 | **(1,914)** | 114 |
| Income tax benefit/(expense) | **(1)** | - | **4** | (85) | **-** | - | **3** | (85) |
| **(Loss)/profit from discontinued operations** | **(289)** | (222) | **(1,783)** | (55) | **161** | 306 | **(1,911)** | 29 |
| **Basic/diluted (loss)/earnings per share (in Roubles)** | | | | | | | **(1.04)** | 0.01 |

Gain on disposal of discontinued operations of Delta Motor Group Oy consisted of RR 909 of book value of net assets of the subsidiary at the date of disposal, cumulative foreign exchange gain of RR 1,308 and RR 28 gain on recording of investment in 5% of shares of Delta Motor Group Oy after dilution.

The Group did not record deferred tax asset in respect of impairment loss recognised on the remeasurement to fair value less cost to sell as the Group expects that it will not be able to utilise this loss in future.

(In millions of Russian Roubles)

**34. Discontinued operations (continued)**

The following table presents cash flows of discontinued operations:

| | Discontinued operations | | | | | |
|---|---|---|---|---|---|---|
| | Delta Motor Group Oy | | ZAO CB LADA-CREDIT | | Total | |
| **Year ended 31 December** | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Cash flows from: | | | | | | |
| Operating activities | **1,102** | 1,383 | **2,792** | (332) | **3,894** | 1,051 |
| Investing activities | **25** | (338) | **(26)** | (51) | **(1)** | (389) |
| Financing activities | **(846)** | (672) | **(1,495)** | 264 | **(2,341)** | (408) |
| Effect of exchange rate changes | **-** | - | **4** | 20 | **4** | 20 |
| **Net increse/(decrease) in cash and cash equivalents** | **281** | 373 | **1,275** | (99) | **1,556** | 274 |

The following amounts represent assets and liabilities of ZAO CB LADA-CREDIT as at 31 December 2009:

| | Gross balances | Elimination of intra-group balances | Net balances |
|---|---|---|---|
| **Assets**: | | | |
| Financial assets | 901 | - | 901 |
| Other non-current assets | 288 | - | 288 |
| **Total long-term assets** | **1,189** | **-** | **1,189** |
| Cash | 1,661 | - | 1,661 |
| Financial assets | 1,662 | (128) | 1,534 |
| Other current assets | 22 | - | 22 |
| **Total current assets** | **3,345** | **(128)** | **3,217** |
| Total assets | **4,534** | **(128)** | **4,406** |
| **Liabilities**: | | | |
| **Long-term liabilities** | **49** | **-** | **49** |
| Accounts payable | 3,450 | (3,420) | 30 |
| Borrowings | 424 | - | 424 |
| Other payables | 246 | (8) | 238 |
| **Total current liabilities** | **4,120** | **(3,428)** | **692** |
| **Total liabilities** | **4,169** | **(3,428)** | **741** |

The following amounts represent assets and liabilities of Delta Motor Group Oy at the date of disposal:

| | Date of disposal |
|---|---|
| **Assets**: | |
| Financial assets | 7 |
| Other non-current assets | 2,057 |
| **Total long-term assets** | **2,064** |
| Inventories | 2,123 |
| Cash | 198 |
| Trade receivables and other current assets | 854 |
| **Total current assets** | **3,175** |
| **Total assets** | **5,239** |
| **Liabilities**: | |
| **Long-term liabilities** | **1,093** |
| Accounts payable | 1,301 |
| Borrowings | 893 |
| Other payables | 1,043 |
| **Total current liabilities** | **3,237** |
| **Total liabilities** | **4,330** |
| **Net assets at the date of disposal** | **909** |

(In millions of Russian Roubles)

## 35. Income tax benefit

| | 2009 | 2008 |
|---|---|---|
| Income tax expense – current | **165** | 457 |
| Recalculation of current income tax of prior periods | **163** | (507) |
| Deferred tax (income) | **(6,996)** | (4,734) |
| | **(6,668)** | (4,784) |

The tax benefit of the Group is reconciled as follows:

| | 2009 | 2008 |
|---|---|---|
| Loss before taxation from continuing operations | **(53,971)** | (29,475) |
| (Loss)/profit before taxation from a discontinued operations | **(1,914)** | 114 |
| | **(55,885)** | (29,361) |
| Theoretical tax benefit at statutory rate of 20% (2008: 24%) | **(11,177)** | (7,047) |
| Recalculation of current income tax of prior periods | **163** | (507) |
| Recalculation of deferred income tax | **-** | 1,099 |
| Effect of change in income tax rate to 20% | **-** | (1,240) |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| Non-taxable income: | | |
| Net gain from restructuring/forgiveness of tax debt | **(95)** | (44) |
| Non-deductible expenses: | | |
| Provisions for impairment of assets | **1,703** | 568 |
| Losses of non-production divisions of the Company and other expenses | **1,109** | 1,386 |
| Unrecognised tax losses carried forward | **475** | 28 |
| Social expenses | **473** | 657 |
| Non-deductible expenses related to discontinued operations | **380** | 58 |
| Non-deductible research and development costs | **275** | 275 |
| Amortization of long-term portion of restructured taxes | **23** | 68 |
| | **(6,671)** | (4,699) |
| Income tax expense reported in the consolidated statement of comprehensive income | **(6,668)** | (4,784) |
| Income tax attributable to a discontinued operations | **(3)** | 85 |
| | **(6,671)** | (4,699) |

During 2009 most of the Group's entities were subject to tax rates of 20% on taxable profits. Following the decision made on 26 November 2008 on changing income tax rate in Russia from 24% to 20%, which is effective from 1 January 2009, deferred tax assets and liabilities at 31 December 2008 were reassessed using the rate of 20%.

(In millions of Russian Roubles)

**35. Income tax benefit (continued)**

**Deferred tax assets and liabilities:**

| | 31 December 2007 | Movement for 2008 | Effect of change in income tax rate | 31 December 2008 | Movement for 2009 | Movement in relation to discontinued operations | 31 December 2009 |
|---|---|---|---|---|---|---|---|
| Tax effects of temporary differences: | | | | | | | |
| Provision for impairment of receivables | 46 | 73 | (20) | 99 | 87 | - | 186 |
| General and overhead expenses allocation on inventories | (344) | (657) | 167 | (834) | 227 | - | (607) |
| Effect of inflation and different depreciation rates of property, plant and equipment | (9,574) | (458) | 1,672 | (8,360) | 515 | - | (7,845) |
| Provision for impairment of long-term assets | - | 2,447 | (408) | 2,039 | 2,768 | - | 4,807 |
| Differences in relation to changes in cost of financial assets | (120) | 66 | (5) | (59) | 35 | - | (24) |
| Accounts payable and provisions | 927 | 479 | (234) | 1,172 | (271) | - | 901 |
| Discounting of loans and borrowings | (2,073) | 28 | 341 | (1,704) | (547) | - | (2,251) |
| Other temporary differences | 132 | 328 | (77) | 383 | (253) | 21 | 151 |
| | (11,006) | 2,306 | 1,436 | (7,264) | 2,561 | 21 | (4,682) |
| Tax losses carried forward | 46 | 1,204 | (208) | 1,042 | 4,910 | - | 5,952 |
| Unrecognised tax losses carried forward | (46) | (28) | 12 | (62) | (475) | - | (537) |
| Deferred tax assets/(liabilities), net | (11,006) | 3,482 | 1,240 | (6,284) | 6,996 | 21 | 733 |

**Reflected in the statement of financial position:**

| | 31 December 2007 | 31 December 2008 | 31 December 2009 |
|---|---|---|---|
| Deferred tax assets | - | - | 1,244 |
| Deferred tax liabilities - continuing operations | (11,006) | (6,284) | (467) |
| Deferred tax liabilities - disposal group classified as held for sale | - | - | (44) |
| Deferred tax assets/(liabilities), net | (11,006) | (6,284) | 733 |

(In millions of Russian Roubles)

**35. Income tax benefit (continued)**

Cumulative tax loss in the amount of RR 27,074 as at 31 December 2009 (31 December 2008: RR 4,900) for which deferred tax asset was recognised is available for offset against future taxable profit during successive 10 years.

Deferred tax asset in respect of tax losses of RR 2,685 carried forward (31 December 2008: RR 310) has not been recognised as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses.

The taxable temporary differences associated with undistributed earnings of subsidiaries of RR 5,901 as of December 2008 have reversed during 2009 and deductible temporary differences of RR 2,747 have arisen. A deferred tax liability was not recognized in respect of taxable temporary difference as management controlled the timing of the distribution of profits of subsidiaries and believed that they will not be distributed in foreseeable future. A deferred tax asset in respect of subsidiaries was not recognized on deductable temporary difference as it is not probable that taxable profit against which the temporary difference can be utilised will be available.

**36. Lease payables**

Finance lease liabilities - minimum lease payments were as follows:

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Not later than one year | **994** | 1,102 |
| 1 to 3 years | **578** | 1,281 |
| | **1,572** | 2,383 |
| Finance lease servicing | **(841)** | (1,389) |
| Present value of finance lease liabilities | **731** | 994 |

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

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| Not later than one year | **416** | 363 |
| 1 to 3 years | **315** | 631 |
| | **731** | 994 |

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

**37. Loss per share**

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

| | **31 December 2009** | 31 December 2008 |
|---|---|---|
| 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) | **-** | (1,223) |
| Weighted average number of ordinary and preference shares outstanding (thousands) | **1,850,054** | 1,848,831 |
| Loss attributable to equity holders | **(48,929)** | (24,346) |
| Net profit/(loss) attributable to equity holders of the Company from a discontinued operation | **(1,911)** | 29 |
| Loss on continuing operations attributable to equity holders of the Company | **(47,018)** | (24,375) |
| Loss per share (in Roubles): | | |
| -basic/diluted, for loss for the period attributable to ordinary/preference equity holders' of the Company | **(26.45)** | (13.17) |
| -basic/diluted, for loss for the period from continuing operations attributable to ordinary/preference equity holders' of the Company | **(25.41)** | (13.18) |

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

(In millions of Russian Roubles)

## 38. Contingencies, commitments and guarantees

### 38.1 Contractual commitments and guarantees

As at 31 December 2009 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 614 (31 December 2008: RR 795). In addition, the Group issued financial guarantees to third parties in the amount of RR 200 (31 December 2008: RR 252). There are no other commitments and guarantees in favour of third parties or related companies that are not disclosed in these consolidated financial statements.

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

| | Nominal amount | | Discounted present values | |
|---|---|---|---|---|
| | **31 December 2009** | 31 December 2008 | **31 December 2009** | 31 December 2008 |
| Not later than 1 year | **259** | 260 | **259** | 260 |
| Later than 1 year and not later than 5 years | **1,037** | 1,038 | **777** | 772 |
| Later than 5 years | **9,335** | 9,605 | **1,853** | 1,211 |
| | **10,631** | 10,903 | **2,889** | 2,243 |

The amount of lease payments recognised as an expense for the year ended 31 December 2009 was RR 259 (2008: RR 260).

### 38.2 Taxation

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

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

Management believes that at 31 December 2009 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

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

### 38.3 Environmental matters

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

### 38.4 Legal proceedings

During 2009, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group.

### 38.5 Factors affecting the Company's financial position

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in capital markets instability and tighter credit conditions. While the Russian government has introduced a range of stabilization measures there continues to be uncertainty regarding the terms of access to borrowed funds for the Group and its counterparties, which could affect the Group's business prospects. Also, the borrowers of the Group may have been affected by these conditions, which could in turn impact their ability to repay the amounts due to the Group. Due to the fall in prices in global and Russian securities markets, the Group may face a decrease in the fair value of securities.

**38. Contingencies, commitments and guarantees (continued)**

**38.5 Factors affecting the Company's financial position (continued)**

The Group's management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances. Unexpected further deterioration in the areas described above could negatively affect the Group's financial position.

Changes in the political environment, legislation, tax and regulatory framework also can affect the Group's business operations. The nature and frequency of such changes and the attendant risks are usually uninsurable and unpredictable, as indeed is their impact on the future business operations of the Group.

## 39. Going concern

The global financial crisis has resulted in significant deterioration of the Group's business activity and a decrease in its liquidity and financial stability. For 2009 the Group incurred a net loss of RR 49,214 and its current liabilities exceeded its current assets by RR 52,974. For 2009 the Group's revenue amounted to RR 92,043 compared to RR 168,448 in 2008.

This decrease in demand for the Group's products in 2009 has placed increasing pressures on the Group's financial resources and worsened liquidity. As of 31 December 2009 the Group had loans and borrowings due in 2010 of RR 40,690, excluding loan payable to the Russian Technologies State Corporation of RR 25,000.

The Group is currently in the process of signing an amendment to the loan agreement with the Russian Technologies State Corporation which would prolong the RR 25,000 loan. In April-May 2010 the Group received an interest-free loan from the Russian Technologies State Corporation amounting to RR 28,000 with maturity period of 18 months that will be used for repayment of existing bank loans.

To address its operational and liquidity needs the Group's management has taken the following actions:

- Negotiate better prices with suppliers;
- Extend sales geography;
- Changes to logistics (reduce transportation costs and time of delivery, increase share of railway transportation with lower tariffs);
- Cut overhead expenses;
- Reduce stocks of components and finished vehicles at the Group's warehouses; and
- Optimize its workforce (from 2008 the Group reduced its personnel by 26,846 people).

The Group's management together with the Russian government also has developed the following measures to stimulate demand for its products:

- Implement a program to stimulate purchase of new vehicles in exchange for old ones passed in for recycling. As a result of this program the Company's sales in April 2010 increased to the level of pre-crisis monthly sales of vehicles;
- Optimize import duties for passenger vehicles;
- Promote an autoloan program;
- Program of customers' discounts; and
- Develop the Far East automotive market.

On 27 November 2009 the Group's shareholders signed a Memorandum of intentions to ensure JSC AVTOVAZ long-term operational efficiency and conditions for its recovery. In accordance with the Memorandum, the Renault-Nissan Alliance's total investment in the Group will amount to 300 million Euros. The financial support of the Russian government will amount to RR 75,000, including RR 32,000 and RR 33,000 already received in 2009 and 2010, respectively.

On 10 March 2010 the Board of Directors of JSC AVTOVAZ approved the Development Program of JSC AVTOVAZ (business plan) till 2020. The business plan includes a launch of a new vehicle on JSC AVTOVAZ platform before the end of 2011. In 2012 JSC AVTOVAZ will launch a model with LADA brand based on B0 platform of the Renault-Nissan Alliance. During 2012 and 2013 based on this platform the Group will start producing vehicles with Renault and Nissan brands. The Development Program was approved by the government of Russian Federation.

Without the continued support of the Russian government and its related institutions to assist in facilitating the refinancing of the Group's debt obligations and securing additional borrowings, the financial and market conditions discussed above create a material uncertainty that gives rise to significant doubt about the Group's ability to continue as a going concern and, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

While there remains uncertainty as to the Group's ability to achieve its short-term objectives of improving product demand, reducing its operating costs and improving profitability, and refinancing its debt obligations, management is confident that those objectives will be achieved and the Group will continue as a going concern in the foreseeable future and has no plans to discontinue or significantly reduce activities.

(In millions of Russian Roubles)

## 40. Segment information

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

- Automotive - production and sale of vehicles, assembly kits and automotive components of own production done by the Company;
- Dealership network - sales and services provided by technical centres;
- Other segments – information about other business activities and operating segments that are not reportable based on quantitative thresholds was combined and disclosed as "Other segments". Other segments include insurance activities of insurance companies, utility and electricity supply subsidiaries.

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

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

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

| | **Automotive** | | **Dealership network** | | **Other segments** | | **Eliminations** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| **Revenue** | | | | | | | | | | |
| Sales to external customers | 55,891 | 110,936 | 25,027 | 46,373 | 11,125 | 11,139 | - | - | 92,043 | 168,448 |
| Inter-segment sales | 28,292 | 49,302 | 1,068 | 2,775 | 4,408 | 4,952 | (33,768) | (57,029) | - | - |
| Total revenue | 84,183 | 160,238 | 26,095 | 49,148 | 15,533 | 16,091 | (33,768) | (57,029) | 92,043 | 168,448 |
| **Results** | | | | | | | | | | |
| Depreciation and amortisation | (8,356) | (9,233) | (202) | (204) | (423) | (359) | - | - | (8,981) | (9,796) |
| Impairment of assets | (10,872) | (338) | (108) | - | (429) | - | - | - | (11,409) | (338) |
| Interest expense | (6,491) | (2,403) | (447) | (789) | (212) | (59) | | | (7,150) | (3,251) |
| Income tax expense / (benefit) | 8,665 | 406 | 121 | (186) | 73 | (231) | - | - | 8,859 | (11) |
| **Statutory (loss)/profit for the year** | (38,468) | (6,684) | (1,569) | (623) | (660) | 54 | - | - | (40,697) | (7,253) |
| **IFRS adjustments** | | | | | | | | | | |
| Recognition of fair value of government grant (Note 21) | | | | | | | | | 3,773 | - |
| Recognition of fair value of restructured taxes | | | | | | | | | 473 | 184 |
| Impairment of non-financial assets | | | | | | | | | (14,167) | (10,712) |
| Adjustment attributable to valuation of subsidiaries' assets | | | | | | | | | 1,592 | (4,911) |
| Additional expense for fixed assets depreciation recognised in accordance with IFRS | | | | | | | | | (1,159) | (1,990) |
| Adjustment attributable to deferred tax | | | | | | | | | 1,301 | 4,383 |
| Adjustments attributable to development expenses | | | | | | | | | 1,088 | (1,049) |
| (Loss)/profit from discontinued operations | | | | | | | | | (1,911) | 29 |
| Overhead expenses allocated to inventories | | | | | | | | | 1,351 | (945) |
| Dividends received from associate company | | | | | | | | | (58) | (1,027) |
| Others | | | | | | | | | (800) | (1,371) |
| **IFRS loss for the year** | | | | | | | | | **(49,214)** | **(24,662)** |

**(In millions of Russian Roubles)**

**40. Segment information (continued)**

Inter-segment revenues are eliminated on consolidation.

| | Automotive | | Dealership network | | Other segments | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December | | 31 December | | 31 December | | 31 December | | 31 December | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Segment assets | 119,635 | 148,500 | 13,043 | 23,182 | 13,168 | 18,359 | (12,470) | (9,035) | 133,376 | 181,006 |
| **IFRS adjustments** | | | | | | | | | | |
| Remeasurement of fixed assets in accordance with IFRS | | | | | | | | | 19,689 | 21,837 |
| Impairment of non-financial assets | | | | | | | | | (26,525) | (14,061) |
| Capitalization of development costs | | | | | | | | | (450) | 5,751 |
| Impairment of other assets | | | | | | | | | (7,610) | (7,203) |
| Adjustment related to deferred tax assets | | | | | | | | | (2,532) | (403) |
| Assets of disposal group | | | | | | | | | 4,406 | - |
| Others | | | | | | | | | 846 | (3,973) |
| **IFRS total assets** | | | | | | | | | **121,200** | **182,954** |

Impairment of other assets of the Group includes additional impairment of inventory of RR 1,099 (31 December 2008: RR 3,268), reduction in impairment of investments of RR 262 (31 December 2008: impairment of investments RR 1,527), impairment of assets of subsidiary – real estate developer of RR 1,941 (31 December 2008: RR 227), impairment of trade and other receivables of RR 2,144 (31 December 2008: RR 900) and impairment of current financial assets of RR 2,688 (31 December 2008: RR 1,281).

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

**41. Financial risk management objectives and policies**

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

It is, and has been throughout 2009 and 2008 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 24). As a result the Group has currency exposures. Such exposure arises from sales in currencies other than Group's functional currency. Approximately 2% 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 11,300 of loans and borrowings received denominated in currencies other than Group's functional currency. Risk management is carried out by JSC AVTOVAZ Finance Department, which identifies, evaluates and manages foreign exchange risks by analysing the net position in each foreign currency. The Group is not exposed to equity securities price risk. The Group has not entered into any hedging arrangements in respect of its foreign currency exposure.

(In millions of Russian Roubles)

### 41. Financial risk management objectives and policies (continued)

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 |
|---|---|---|
| **2009** | | |
| Euro/RR | 14.00 | (1,312) |
| USD/RR | 14.80 | (46) |
| Euro/RR | -14.00 | 1,312 |
| USD/RR | -14.80 | 46 |
| **2008** | | |
| Euro/RR | -1.10 | (86) |
| USD/RR | -13.80 | 13 |
| Euro/RR | -18.30 | (1,431) |
| USD/RR | -31.80 | 30 |

**Credit risk**

The Group has RR 9,864 (2008: RR 13,749) in cash and cash equivalents, RR 929 of current financial assets (2008: 8,742) and RR 2,382 (2008: RR 8,563) of long-term financial assets subject to potential credit risk. Credit risk in relation to these financial assets arises from default of the counterparty with maximum exposure equal to the carrying amount.

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

**Liquidity risk**

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

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

The table below summarizes the maturity of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments.

| | Less than three months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| **Year ended 31 December 2009** | | | | | |
| Loans and borrowings | **2,626** | **66,887** | **13,380** | **10,759** | **93,652** |
| Finance lease liabilities | **-** | **994** | **578** | **-** | **1,572** |
| Trade and other payables | **21,028** | **-** | **-** | **-** | **21,028** |
| **Year ended 31 December 2008** | | | | | |
| Loans and borrowings | 2,537 | 49,803 | 2,062 | 9,249 | 63,651 |
| Finance lease liabilities | - | 1,102 | 1,281 | - | 2,383 |
| Trade and other payables | 52,719 | 4,200 | - | - | 56,919 |

**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.

(In millions of Russian Roubles)

## 41. Financial risk management objectives and policies (continued)

**Financial instruments**

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

| | Carrying amount | | Fair values | |
|---|---|---|---|---|
| | **31 December 2009** | 31 December 2008 | **31 December 2009** | 31 December 2008 |
| FINANCIAL ASSETS: | | | | |
| Cash and cash equivalents | **9,864** | 13,749 | **9,864** | 13,749 |
| Financial assets – current | **929** | 8,742 | **929** | 8,742 |
| Financial assets – long-term | **2,021** | 8,140 | **2,021** | 8,140 |
| Accounts receivable | **2,363** | 3,750 | **2,363** | 3,750 |
| FINANCIAL LIABILITIES: | | | | |
| Short-term loans and borrowings | **65,690** | 47,408 | **65,529** | 47,013 |
| Long-term loans and borrowings | **14,242** | 2,683 | **15,072** | 4,465 |
| Finance lease liabilities | **731** | 994 | **1,403** | 2,189 |
| Trade payables | **13,936** | 42,200 | **13,936** | 42,200 |
| Long-term taxes other than income tax | **1,149** | 1,392 | **1,373** | 1,262 |

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

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

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

Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2009, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

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

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

Discount rate used for assessment of fair value of long-term borrowings and for finance lease liabilities was 13.95% (2008: 10.08%). To assess the fair value of long term taxes they were discounted at 8.75% rate (2008: 13%).

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

**Fair value hierarchy**

As at 31 December 2009, the Group held the following financial instruments measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| **Assets measured at fair value** | **31 December 2009** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss (Note 10) | 107 | 107 | - | - |
| Available for sale current financial assets (Note 10) | | | | |
| Bank promissory notes | 261 | - | 261 | - |
| Promissory notes of third parties | 11 | - | - | 11 |

During the year ended 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**41. Financial risk management objectives and policies (continued)**

**Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during 2009 and 2008.

**42. Events after the reporting period**

In April-May 2010 the Group received an interest-free loan from the Russian Technologies State Corporation amounting to RR 28,000 with maturity period of 18 months that will be used for repayment of existing bank loans. See Note 39 for details.

In May 2010 the Board of Directors proposed to the General Shareholders meeting not to pay dividends as a result of 2009.