AVTOVAZ GROUP

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

31 December 2010

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Independent auditors' report

To the shareholders of JSC AVTOVAZ

We have audited the accompanying consolidated financial statements of JSC AVTOVAZ and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC AVTOVAZ and its subsidiaries as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

28 April 2011

AVTOVAZ GROUP
Consolidated Statement of Financial Position at 31 December 2010
(In millions of Russian Roubles)

	Note	**31 December 2010**	31 December 2009
ASSETS			
Current assets:			
Cash and cash equivalents	8, 41	**12,689**	9,864
Trade receivables	9, 41	**3,487**	2,363
Financial assets	10, 41	**7,420**	929
Inventories	11	**22,782**	22,696
Other current assets	12	**5,005**	2,881
		51,383	38,733
Long-term assets:			
Property, plant and equipment	13	**53,452**	60,065
Financial assets	15, 41	**2,138**	2,382
Investments in associates	16	**3,572**	2,972
Development costs	14	**10,353**	10,341
Deferred tax assets	35	**981**	1,244
Other long-term assets	17	**2,167**	1,057
		72,663	78,061
Assets of disposal group classified as held for sale	34	**-**	4,406
Total assets		**124,046**	121,200
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	18, 41	**16,905**	13,936
Other payables and accrued expenses	19, 41	**8,063**	7,092
Income tax liability		**33**	397
Taxes other than income tax	22	**2,122**	1,871
Provisions	20	**1,000**	988
Loans and borrowings	21, 41	**41,397**	65,690
Advances from customers		**1,478**	1,317
Lease payables	36, 41	**299**	416
		71,297	91,707
Long-term liabilities:			
Loans and borrowings	21, 41	**34,477**	14,242
Taxes other than income tax	22, 41	**1,169**	1,149
Provisions	20	**837**	711
Deferred tax liabilities	35	**196**	467
Lease payables	36, 41	**-**	315
Advances received	7	**826**	-
		37,505	16,884
Liabilities directly associated with disposal group classified as held for sale	34	**-**	741
Total liabilities		**108,802**	109,332
Equity attributable to equity holders of the Company			
Share capital	23	**37,001**	37,001
Currency translation adjustment		**315**	506
Accumulated losses		**(22,801)**	(26,327)
		14,515	11,180
Non-controlling interests		**729**	688
Total equity		**15,244**	11,868
Total liabilities and equity		**124,046**	121,200

I. A. Komarov
President, JSC AVTOVAZ

28 April 2011

S. A. Kochetkova
Chief Accountant, JSC AVTOVAZ

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

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Continuing operations			
Sales	24	**137,630**	87,388
Cost of sales	25	**(120,805)**	(86,421)
Gross profit		**16,825**	967
Administrative expenses	26	**(10,545)**	(13,410)
Distribution costs	27	**(6,155)**	(5,368)
Idle time costs	28	**(594)**	(8,812)
Research expenses	29	**(459)**	(1,407)
Provision for impairment of long-term assets	13, 14	**(43)**	(15,014)
Share of associates' profit/(loss)	16	**975**	(231)
Other operating income	30	**13,099**	5,135
Other operating expenses	31	**(3,141)**	(7,415)
Operating profit/(loss)		**9,962**	(45,555)
Finance income	32	**2,087**	467
Finance costs	33	**(9,667)**	(8,940)
Net gain from restructuring of tax debt		**-**	473
Profit/(loss) before taxation		**2,382**	(53,555)
Income tax benefit	35	**564**	6,687
Profit/(loss) from continuing operations		**2,946**	(46,868)
Discontinued operations			
Profit/(loss) after tax from discontinued operations	34	**621**	(2,346)
Profit/(loss) for the year		**3,567**	(49,214)
Currency translation adjustment		**(191)**	233
Foreign currency translation related to discontinued operations		**-**	(1,308)
Total other comprehensive loss for the year, net of taxes		**(191)**	(1,075)
Total comprehensive income/(loss) for the year, net of taxes		**3,376**	(50,289)
Profit/(loss) attributable to:			
Equity holders of the Company		**3,516**	(48,929)
Non-controlling interests		**51**	(285)
		3,567	(49,214)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**3,325**	(50,004)
Non-controlling interests		**51**	(285)
Total comprehensive income/(loss) for the year, net of taxes		**3,376**	(50,289)
Earnings/(loss) per share, basic/diluted (in RR):			
-for profit/(loss) for the year attributable to ordinary/preference equity holders of the Company	37	**1.90**	(26.45)
-for profit/(loss) for the year from continuing operations attributable to ordinary/preference equity holders of the Company	37	**1.56**	(25.18)

(In millions of Russian Roubles)

	Note	Year ended 31 December 2010	2009
Cash flows from operating activities:			
Profit/(loss) before taxation from continuing operations		**2,382**	(53,555)
Profit/(loss) before taxation from discontinued operations	34	**1,264**	(2,330)
Profit/(loss) before taxation		**3,646**	(55,885)
Adjustments for:			
Depreciation and amortization	13, 14	**9,629**	10,140
Research expenses	29	**459**	1,407
(Reversal)/accrual of provision for impairment of receivables from continuing operations	26	**(125)**	1,117
Provision for impairment of receivables from discontinued operations		**-**	99
Provision for impairment of other current assets from continuing operations	26	**157**	1,381
Provision for impairment of financial assets from continuing operations	31	**668**	3,830
Provision for impairment of financial assets from discontinued operations		**-**	340
Provision for impairment of other long-term assets from continuing operations	31	**24**	-
Provision for impairment of assets of subsidiary – real estate developer	31	**-**	1,161
Interest expense	33	**9,209**	8,074
Impairment of long-term assets from continuing operations	13, 14	**43**	15,111
Impairment of long-term assets from discontinued operations		**-**	242
Reversal of provision for impairment of property, plant and equipment	13	**-**	(97)
Net gain from restructuring/forgiveness of tax debt		**-**	(473)
Gain on disposal of discontinued operations	34	**(618)**	(427)
Loss on disposal of property, plant and equipment	31	**263**	583
Share of associates' (income)/loss	16	**(975)**	231
Government grant on discounting of interest-free loan	21, 30	**(9,604)**	(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	**(474)**	(142)
Unrealised foreign exchange effect on non-operating balances		**(744)**	(46)
Operating cash flows before working capital changes		**11,558**	(15,276)
Change in trade receivables		**(2,287)**	(530)
Change in current financial and other assets		**(5,994)**	10,969
Change in inventories		**(184)**	13,541
Change in trade payables and other payables and accrued expenses		**5,197**	(32,650)
Change in tax liabilities other than income tax		**215**	(428)
Change in advances from customers		**161**	62
Cash generated from/(used in) operations		**8,666**	(24,312)
Income tax paid		**(172)**	(82)
Interest received		**1,305**	435
Interest paid		**(3,418)**	(6,934)
Net cash generated from/(used in) operating activities		**6,381**	(30,893)
Cash flows from investing activities:			
Purchase of property, plant and equipment and capitalised development costs		**(6,151)**	(5,648)
Proceeds from the sale of property, plant and equipment		**169**	273
Purchase of a subsidiary		**-**	(99)
Proceeds from the sale of financial assets		**647**	74
Proceeds from the sale of subsidiaries less cash disposed of		**4,338**	(198)
Purchase of financial assets		**(5,300)**	-
Dividends received		**375**	59
Net cash used in investing activities		**(5,922)**	(5,539)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**43,441**	46,600
Repayment of loans and borrowings		**(43,524)**	(12,406)
Long-term advances received		**826**	-
Net cash generated from financing activities		**743**	34,194
Effect of exchange rate changes		**(38)**	14
Net increase/(decrease) in cash and cash equivalents		**1,164**	(2,224)
Cash and cash equivalents at the beginning of the year	8	**11,525**	13,749
Cash and cash equivalents at the end of the year	8	**12,689**	11,525

(In millions of Russian Roubles)

		Equity attributable to equity holders of the Company					
	Note	Share capital	Currency translation adjustment	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
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**
Profit for the year		-	-	3,516	3,516	51	3,567
Other comprehensive loss		-	(191)	-	(191)	-	(191)
Total comprehensive income		**-**	**(191)**	**3,516**	**3,325**	**51**	**3,376**
Acquisition of non-controlling interest		-	-	10	10	(10)	-
Balance at 31 December 2010	23	**37,001**	**315**	**(22,801)**	**14,515**	**729**	**15,244**

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. As at 31 December 2010 the Group employed 99,393 employees (31 December 2009: 103,852 employees). The registered office of JSC AVTOVAZ is at Yuzhnoye Shosse, 36, Togliatti, 445024, Russian Federation.

These consolidated financial statements were authorized for issue by the President on 28 April 2011.

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 2010:

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 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 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;
IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009;
IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009.

The adoption of the standards or interpretations is described below:

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 adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance 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 becoming effective. Changes affect the valuation of non-controlling 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.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

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) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
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.

The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

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

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Group does not expect any impact on its financial position or performance.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment has no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The effect of adoption of this interpretation on the financial statements of the Group is currently assessed by management.

3. Summary of significant accounting policies (continued)

3.1 Adopted accounting standards and interpretations (continued)

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. The amendments listed below, are considered to have a reasonable possible impact on the Group:

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 3; 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 expects no impact from the adoption of the amendments on its financial position or performance.

Amendments to IFRS 7 Financial Instruments: Disclosures

The IASB issued amendments to IFRS 7 Financial Instruments: Disclosures to enhance the transparency of disclosure requirements for the transfer of financial assets. The effective date will be annual periods beginning on or after 1 July 2011 and comparative disclosures are not required for any period beginning before that date. The amendments will assist users to understand the implications of transfers of financial assets and the potential risks that may remain with the transferor. The amendments will introduce more extensive and onerous quantitative and qualitative disclosure requirements.

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards

The IASB issued Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1). An entity must apply the amendments for annual periods beginning on or after 1 July 2011. These amendments to IFRS 1 First-time adoption of International Financial Reporting Standards introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. This amendment will have no impact on the Group financial statements.

Amendments to IAS 12 Income taxes

The IASB issued amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets. These amendments address the determination of deferred tax on investment property measured at fair value. This issue amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The amendments also incorporate SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets into IAS 12. This amendment will have no impact on the Group financial statements.

3.2 Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

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

3. Summary of significant accounting policies (continued)

3.2 Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated.

Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

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

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

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

3. Summary of significant accounting policies (continued)

3.2 Basis of consolidation (continued)

Investment in an associate

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

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

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

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

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

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

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

3.3 Financial assets

Classification of financial assets

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

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

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

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

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

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

Initial recognition of financial instruments

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

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

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

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 profit or loss.

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

Available-for-sale financial investments

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

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

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

Derecognition of financial assets

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

3.4 Revenue recognition

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

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

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

3. Summary of significant accounting policies (continued)
3.4 Revenue recognition (continued)
The following specific recognition criteria must also be met before revenue is recognised:

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

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

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

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

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

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

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

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

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 reporting date.

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

Assets under construction owned by the Group are not depreciated.

3.10 Finance leases

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

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

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

3.11 Intangible assets

Research and development expenditure

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

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

3.12 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. Summary of significant accounting policies (continued)

3.13 Deferred income taxes

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

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

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

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

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

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

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

3.14 Loans, borrowings and restructured taxes

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

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Restructured taxes are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument) at the date of restructuring. In subsequent periods, restructured taxes are stated at amortized cost.

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

3.15 Government grants

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

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

3. Summary of significant accounting policies (continued)

3.16 Foreign currency transactions and translation

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

Monetary assets and liabilities, which are denominated in foreign currencies at the reporting date, are translated into the functional currency at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the consolidated statement of comprehensive income.

Foreign currency denominated amounts in the statement of financial position have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2010 of RR 30.4769 = US$ 1 (31 December 2009 of RR 30.2442 = US$ 1) and RR 40.3331 = Euro 1 (31 December 2009: RR 43.3883 = Euro 1).

3.17 Product warranty costs

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

3.18 Employee benefits

Social costs

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

Pension costs

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

3.19 Interest income and borrowing costs

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

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

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

3.20 Earnings/(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. Summary of significant accounting policies (continued)

3.21 Operating leases

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

3.22 Shareholders' equity

Share capital

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

Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent purchasing power of the RR as at 31 December 2002. Any difference between cost and nominal value on the purchase of treasury shares is included in equity attributable to the Company's equity holders. Any gains or losses arising on the disposal of treasury shares are recognised in equity attributable to the Company's equity holders.

Dividends

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

3.23 Provisions

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

4. Critical accounting estimates

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

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

4.1 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 reporting 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 2,494 higher or RR 2,756 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 5,407 higher or RR 5,976 lower respectively.

4. Critical accounting estimates (continued)

4.4 Impairment of non-financial assets

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

In 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.

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 are expected to comprise 2,200 thousands units. The Company's market share projections do not exceed 26% of the 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.

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.

The Company assessed whether there were any indicators that non-financial assets may be impaired at the end of the reporting period ended 31 December 2010. As a result, no indicators of further impairment or impairment reversal were identified.

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 had estimated that the abovementioned changes would 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

Before 2010 the Group made one-off payments to employees upon retirement. The payments did not result in a legal or constructive obligation to the Group. Therefore, no provision was established in respect of these payments.

In 2010 the one-off payments to employees upon retirement were cancelled.

(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 2010 % share**	31 December 2009 % share
OAO AvtoVAZtrans	Russia	Transport	**100**	100
Lada International Ltd.	Cyprus	Subsidiaries management	**99.9**	99.9
OAO Piter-Lada	Russia	Car distribution and service	**89.4**	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
OAO TEVIS	Russia	Utilities	**-**	100
OAO Elektroset	Russia	Power supply	**-**	100
ZAO CB LADA-CREDIT	Russia	Bank services	**-**	100
107 Technical Service Centres	Russia, CIS, EU Countries	Car distribution and service	**50.1-100**	50.1-100

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

Entity	Country of incorporation	Activity	**31 December 2010 % share**	31 December 2009 % share
ZAO GM-AVTOVAZ	Russia	Vehicle production	**41.6**	41.6
ZAO CB NOVIKOMBANK	Russia	Bank services	**20**	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 2010 and 31 December 2009 are detailed below.

Consolidated statement of financial position caption	Relationship	**31 December 2010**	31 December 2009
Cash and cash equivalents	Associate bank	**6,945**	344
Trade receivables before provision accrual	Associates	**604**	529
Provision for impairment of receivables	Associates	**-**	(2)
Financial assets before provision accrual	Associates	**544**	574
Provision for impairment of financial assets	Associates	**(394)**	(424)
Other current assets before provision accrual	Associates	**84**	92
Provision for impairment of other current assets	Associates	**(61)**	(45)
Financial assets – long-term	Associate bank	**2,000**	1,700
Trade payables	Associates	**429**	667
Loans and borrowings	Associate bank	**-**	626
Loans and borrowings	Shareholder	**65,723**	29,151
Collateral issued by the Company	Associate bank	**1,142**	1,116
Advances received	Associate of a major shareholder	**826**	-

In December 2010 the Group received a long-term interest-free advance payment of RR 826 from Nissan Manufacturing RUS LLC (hereinafter – “Nissan”). According to the terms of the advance payment, proceeds from this advance can be used only to finance purchase of equipment. This advance payment will be settled by future deliveries of vehicles. Alternatively, the Group has an option to settle this advance by cash. If the Group is not in compliance with certain terms and provisions agreed with Nissan, the advance should be repaid within 30 days. In exchange for the advance JSC AVTOVAZ agrees to make available to Nissan the reserved capacity at a new production line.

(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 2010 and 31 December 2009 were as follows:

Consolidated statement of comprehensive income caption	Relationship	**2010**	2009
Sales	Associates	**6,241**	5,669
Purchases of goods and inventory	Associates	**2,839**	5,188
Interest income	Associates	**25**	28
Interest income	Associate bank	**59**	185
Interest expenses	Associate bank	**2**	5
Administrative expenses	Short-term employee benefits - compensation of the Key Management	**115**	112

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. For details of terms of loans issued by a shareholder see Note 21. Long-term financial assets issued to the associate bank relate to a loan issued to the associate bank of RR 700 at an interest rate of 6.2%, a loan issued to the associate bank of RR 300 at an interest rate of 8% and a deposit held in the associate bank of RR 1,000 at an interest rate of 7.75%.

Major shareholders owning ordinary shares of the Company are Renault s.a.s., the Russian Technologies State Corporation and Troika Dialog Investments Limited. During 2010 loans in the amount of RR 43,000 (2009: RR 32,000) were received from the Russian Technologies State Corporation.

In 2010 the Company made no payments to the Non-State Pension Fund of JSC AVTOVAZ (2009: RR 2,324).

8. Cash and cash equivalents

Cash and cash equivalents comprised the following:

	31 December 2010	31 December 2009
Short-term deposits and bank promissory notes	**6,933**	7,740
Rouble-denominated cash on hand and balances with banks	**5,756**	2,124
	12,689	9,864

Cash deposits of RR 679 held by the Group at 31 December 2010 (31 December 2009: RR 1,332) bear a weighted average interest of 0.9% (2009: 1%); cash deposits of RR 6,190 (31 December 2009: RR 6,228) bear interest of 3.5 to 5.7% (2009: 6%) and cash deposits of RR 64 (31 December 2009: RR 89) bear interest of 7 to 10.5% (2009: 12 to 16%). As at 31 December 2010 bank promissory notes amount to nil (31 December 2009: bank promissory notes of RR 91 bearing interest of 13 to 14.75%). 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:

	31 December 2010	31 December 2009
Short-term deposits and bank promissory notes	**6,933**	7,740
Rouble-denominated cash on hand and balances with banks	**5,756**	2,124
Cash at bank and short-term deposits attributable to discontinued operations (Note 34)	-	1,661
	12,689	11,525

9. Trade receivables

As at 31 December 2010, 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
2009	2,363	1,964	277	35	87
2010	**3,487**	**3,379**	**31**	**29**	**48**

(In millions of Russian Roubles)

9. Trade receivables (continued)

Movements in provision for impairment of receivables were as follows:

Balance at 31 December 2008	**595**
Accrued	1,140
Accrued to assets of discontinued operations	99
Utilized	(4)
Unused amounts reversed	(23)
Balance at 31 December 2009	**1,807**
Accrued	193
Utilized	(9)
Unused amounts reversed	(318)
Disposal of discontinued operations	(103)
Balance at 31 December 2010	**1,570**

10. Financial assets – current

	31 December 2010	31 December 2009
Rouble-denominated loans less provision	**540**	465
Financial assets at fair value through profit or loss	**53**	107
Available-for-sale financial assets:		
Bank promissory notes (with original maturities of more than three months)	**6,123**	261
Promissory notes of third parties	**-**	11
Deposit accounts	**704**	85
	7,420	929

At 31 December 2010 loans include RR 1,559 (31 December 2009: RR 1,169) of short-term loans issued by JSC AVTOVAZ and RR 1,368 (31 December 2009: RR 1,062) of short-term loans issued by subsidiaries to other entities. As at 31 December 2010 a provision has been made for short-term loans in the amount of RR 2,387 (31 December 2009: RR 1,766). In 2010 loss on impairment of loans issued was RR 885 (2009: RR 1,433).

Average effective interest rate for short-term loans issued by the Group was 10.59% (2009: 13.7%).

Deposit accounts in the amount of RR 704 at interest rates of 4.4% to 7.75% were opened for a period of more than three months, but not exceeding 12 months after the reporting date (2009: deposit accounts in the amount of RR 85 at interest rate of 10%).

Loss on revaluation of financial assets at fair value through profit or loss recorded in profit or loss in 2010 was RR 40 (2009: RR 4). Loss on impairment of promissory notes of third parties in 2010 amounted to nil (2009: RR 2,393).

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

Balance at 31 December 2008	**794**
Accrued	3,830
Accrued for assets of discontinued operations	330
Utilized in relation to discontinued operations	(1,159)
Provision for assets transferred from long-term category in relation to discontinued operations	(488)
Balance at 31 December 2009	**3,307**
Accrued	925
Reclassification to provision for impairment of other current assets	(584)
Unused amounts reversed	(257)
Balance at 31 December 2010	**3,391**

(In millions of Russian Roubles)

11. Inventories

Inventories consisted of the following:

	31 December 2010	31 December 2009
Raw materials	**10,345**	8,874
Finished goods	**9,421**	11,022
Work in progress	**3,016**	2,800
	22,782	22,696

Inventories are recorded net of obsolescence provision of RR 1,109 at 31 December 2010 (31 December 2009: RR 2,060). The carrying amount of inventories recorded at net realisable value as at 31 December 2010 was RR 172 (2009: RR 9,559).

The reversal of write-down of inventories recognised as an income for the year ended 31 December 2010 was RR 950 (for the year ended 31 December 2009 the cost of write-down of inventories recognised as an expense was RR 984).

12. Other current assets

Other current assets consisted of the following:

	31 December 2010	31 December 2009
Prepaid expenses and other receivables less provision	**2,294**	1,594
Value added tax	**1,703**	1,234
Receivables from the government under the car scrappage programme	**750**	-
Construction in progress in relation to real estate for resale	**258**	53
	5,005	2,881

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

Balance at 31 December 2008	**1,524**
Accrued	2,244
Utilized	(55)
Unused amounts reversed	(33)
Balance at 31 December 2009	**3,680**
Accrued	512
Utilized	(465)
Unused amounts reversed	(355)
Reclassification from provision for impairment of current financial assets	584
Reclassification to provision for impairment of other long-term assets	(99)
Balance at 31 December 2010	**3,857**

(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 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**
Cost					
Balance at 31 December 2009	75,448	134,841	8,194	8,857	227,340
Additions	-	-	-	4,318	4,318
Disposals	(166)	(2,893)	(604)	(92)	(3,755)
Transfers	525	4,319	161	(5,005)	-
Discontinued operations	(707)	(4,253)	(23)	(389)	(5,372)
Balance at 31 December 2010	**75,100**	**132,014**	**7,728**	**7,689**	**222,531**
Accumulated depreciation and impairment					
Balance at 31 December 2009	(51,289)	(105,283)	(7,275)	(3,428)	(167,275)
Depreciation charge	(1,539)	(7,350)	(402)	-	(9,291)
Disposals	104	2,505	663	51	3,323
Reversal of impairment provision	-	-	-	236	236
Impairment charge	-	-	(76)	(33)	(109)
Discontinued operations	357	3,668	12	-	4,037
Balance at 31 December 2010	**(52,367)**	**(106,460)**	**(7,078)**	**(3,174)**	**(169,079)**
Net book amount					
Balance at 31 December 2009	**24,159**	**29,558**	**919**	**5,429**	**60,065**
Balance at 31 December 2010	**22,733**	**25,554**	**650**	**4,515**	**53,452**

(In millions of Russian Roubles)

13. Property, plant and equipment (continued)

Assets Under Construction ("AUC") include the cost of property, plant and equipment which have 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.

The increase in impairment provision for AUC relates to projects identified during 2010 that are unlikely to be completed. Respective expenses of RR 33 were recorded in profit or loss for the year ended 31 December 2010 (2009: RR 1,375) 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 and sports facilities) at a gross carrying value of RR 1,149 and RR 1,535 as of 31 December 2010 and 31 December 2009, respectively. These properties are fully provided for.

The amount of borrowing costs capitalised during 2010 was RR 19 (2009: RR 7). The rate used to determine the amount of borrowing costs eligible for capitalization was 9.56% (2009: 8%).

At 31 December 2010 and 31 December 2009, the gross carrying value of fully depreciated property, plant and equipment was RR 50,860 and RR 46,238, respectively.

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

	31 December 2010	31 December 2009
Cost – finance leases capitalised	**1,740**	1,874
Accumulated depreciation	**(1,145)**	(774)
Net book amount	**595**	1,100

14. Development costs

	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	-	-	-
Transfers	(161)	161	-
Write-off	(135)	-	(135)
Balance at 31 December 2009	**9,502**	**4,616**	**14,118**
Amortization			
Balance at 31 December 2008	-	(3,163)	(3,163)
Additions to accumulated 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 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 2009	9,502	4,616	14,118
Additions	461	-	461
Transfers	(4)	4	-
Write-off	-	-	-
Balance at 31 December 2010	**9,959**	**4,620**	**14,579**
Amortization and impairment			
Balance at 31 December 2009	-	(3,777)	(3,777)
Additions to accumulated amortization	-	(449)	(449)
Balance at 31 December 2010	**-**	**(4,226)**	**(4,226)**
Carrying amount at 31 December 2010	**9,959**	**394**	**10,353**

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 908 (2009: RR 2,021).

15. Financial assets – long-term

	31 December 2010	31 December 2009
Loans issued	**1,057**	895
Financial assets held to maturity	**1,049**	1,126
Available-for-sale financial assets	**32**	361
	2,138	2,382

As at 31 December 2010 loans issued include RR 1,000 of loans with an interest rate of 6.2% to 8% (31 December 2009: RR 700 with an interest rate of 7%) and RR 57 of interest-free loans issued to third parties (31 December 2009: RR 195). 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 59 (2009: RR 66).

As at 31 December 2010 available-for-sale financial assets include RR 32 (31 December 2009: RR 361) 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 2010 financial assets held to maturity include long-term bank deposits with interest rate of 7.75% (2009: 10.5%). Interest income on financial assets held to maturity was RR 81 (2009: RR 119).

16. Investments in associates

Balance at 31 December 2008	**1,613**
Additions	1,695
Share in income	462
Disposals	(46)
Dividends received	(59)
Provision for impairment of investment	(693)
Balance at 31 December 2009	**2,972**
Share in income	975
Dividends received	(375)
Balance at 31 December 2010	**3,572**

(In millions of Russian Roubles)

16. Investments in associates (continued)

Investments in associates consisted of the following:

	31 December 2010	31 December 2009
ZAO GM-AVTOVAZ	**1,783**	1,501
ZAO CB NOVIKOMBANK	**1,271**	1,093
Other	**518**	378
Total	**3,572**	2,972

The shareholders of ZAO GM-AVTOVAZ are JSC AVTOVAZ (41.6%), GM Auslandsprojekte GMBH (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 2010	31 December 2009
Assets:		
Long-term assets	**3,930**	4,028
Current assets	**7,392**	6,449
Liabilities:		
Long-term liabilities	**(971)**	(967)
Current liabilities	**(6,779)**	(6,538)
Net assets	**3,572**	2,972
Investments in associates	**3,572**	2,972
Revenue	**15,022**	6,417
Expenses	**(14,047)**	(5,955)
Profit after income tax	**975**	462

17. Other long-term assets

	31 December 2010	31 December 2009
Prepayments for long-term assets	**989**	9
Long-term rent of property	**806**	826
Long-term receivables	**229**	70
Software	**133**	141
Intangible assets, other than development costs	**10**	11
	2,167	1,057

As at 31 December 2010 other long-term assets are shown net of impairment provision of RR 463 (2009: RR 392).

18. Trade payables

	31 December 2010	31 December 2009
Trade payables	**16,476**	13,269
Payables to associates	**429**	667
	16,905	13,936

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

(In millions of Russian Roubles)

19. Other payables and accrued expenses

Other payables and accrued expenses included the following:

	31 December 2010	31 December 2009
Salaries payable and vacation accrual	**3,185**	2,019
Advances received by the subsidiary-real estate developer	**1,169**	1,263
Settlements on promissory note transactions	**961**	961
Government grants	**717**	599
Unearned insurance premiums and reserves for claims	**454**	765
Dividends payable	**176**	182
Accrued interest	**148**	355
Other	**1,253**	948
	8,063	7,092

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

20. Provisions

During 2010 there were the following movements of warranty provision:

Balance at 31 December 2008	**1,383**
Change in accounting estimates	908
Accrued	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
Accrued	1,639
Utilized	(1,299)
Reversed	(202)
Balance at 31 December 2010	**1,837**
Short-term portion	1,000
Long-term portion	837
	1,837

21. Loans and borrowings

Short-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2010**	31 December 2009
Rouble-denominated interest-free loans	-	**37,203**	23,360
Rouble-denominated bank loans	14.93	**1,965**	32,273
Euro-denominated bank loans	4.65	**1,047**	3,513
JSC AVTOVAZ corporate bonds	0.1	**26**	4,880
Other bank loans	16.26	**1,156**	1,664
Total short-term loans and borrowings		**41,397**	65,690

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 the loan receipt. As at 31 December 2009 the Company received RR 7,000 of the loan and in January – February 2010 the Company received the remaining amount under the contract. The loan received in 2010 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 a government grant as the loan was received from the Russian state corporation. The fair value of the government grant in the amount of RR 865 was recognised immediately as income, see Note 30.

(In millions of Russian Roubles)

21. Loans and borrowings (continued)

In April-May 2010 the Company received from the Russian Technologies State Corporation an interest-free loan in the amount of RR 28,000 for a period of 18 months from the date of the loan receipt. The loan was recorded at fair value determined as future cash flows discounted at the current market rate of 9.4%. The benefit of the below-market rate of interest was accounted for in accordance with IAS 20 and treated as a government grant as the loan was received from the Russian state corporation. Fair value of the government grant in the amount of RR 3,457 was recognised immediately as income, see Note 30.

During 2010 the Company redeemed its corporate bonds of RR 4,854 in due course (2009: RR 3,432).

Long-term loans and borrowings consisted of the following:

	Effective interest rate	**31 December 2010**	31 December 2009
Rouble-denominated interest-free loans	-	**28,520**	5,791
Euro-denominated bank loans	4.65	**4,443**	5,907
Rouble-denominated interest-free bearer promissory notes	-	**930**	723
Rouble-denominated bank loans	12.84	**369**	430
Other bank loans	11.50	**215**	1,391
Total long-term loans and borrowings		**34,477**	14,242

In June 2010 the Company signed an amendment to the loan agreement with the Russian Technologies State Corporation which prolongs the period of repayment of loan in the amount of RR 25,000 from 12 to 37 months from the date of issue on 30 June 2009. This change in the loan terms was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The new loan was recorded at fair value determined as future cash flows discounted at the current market rate of 9.4%. The difference between the carrying amount of the extinguished financial liability and the fair value of the new financial liability as of the date of the extinguishment was accounted for in accordance with IAS 20 and treated as a government grant as the loan was received from a Russian state corporation. Fair value of the government grant in the amount of RR 4,070 was recognised immediately as income, see Note 30.

In October 2010 the Company received an interest-free loan from the Russian Technologies State Corporation in the amount of RR 10,000 for a period of 18 months from the date of the loan receipt. The loan was recorded at fair value determined as future cash flows discounted at the current market rate of 9.2%. The benefit of the below-market rate of interest was accounted for in accordance with IAS 20 and treated as a government grant as the loan was received from the Russian state corporation. The fair value of the government grant in the amount of RR 1,212 was recognised immediately as income, see Note 30. In December 2010 the loan was partially repaid in the amount of RR 2,560.

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 2009: RR 9,129).

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 2010	31 December 2009
Current portion of loans and borrowings	**1,041**	552
1 to 2 years	**29,855**	7,830
2 to 3 years	**1,159**	1,521
3 to 4 years	**987**	1,274
4 to 5 years	**1,053**	1,300
> 5 years	**1,423**	2,317
Total long-term loans and borrowings	**35,518**	14,794
Less current portion of loans and borrowings	**(1,041)**	(552)
Long-term portion of loans and borrowings	**34,477**	14,242

(In millions of Russian Roubles)

21. Loans and borrowings (continued)

As at 31 December 2010 and 31 December 2009 the Group's loans and borrowings of RR 2,215 and RR 36,031, respectively, including short-term loans and borrowings were guaranteed by different types of pledges presented below:

	31 December 2010	31 December 2009
Buildings	**995**	3,325
Equipment	**356**	21,986
Securities	**294**	212
Inventories	**161**	5,649
Accounts receivable	**24**	8
Other	**85**	346

22. Taxes other than income tax

Taxes payable other than income tax – current

Current taxes payable comprised the following:

	31 December 2010	31 December 2009
Property and other taxes	**716**	674
Value added tax	**672**	422
Social taxes	**484**	375
Current portion of restructured taxes	**185**	351
Penalties and interest on property and other taxes	**65**	49
	2,122	1,871

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.

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

	31 December 2010	31 December 2009
Current portion of restructured taxes	**185**	351
3 to 4 years	**193**	-
4 to 5 years	**250**	186
> 5 years	**726**	963
Total restructured taxes	**1,354**	1,500
Less current portion of restructured taxes	**(185)**	(351)
Long-term portion of restructured taxes	**1,169**	1,149

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 issued and fully paid up, consists of the following classes of shares:

	31 December 2010			31 December 2009		
	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 reorganization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Preference shares obtain the right to vote on all matters within the remit of the General Shareholders' Meeting if at the previous Annual Shareholders' Meeting it was decided not to pay a dividend on preference shares.

Preference shareholders are entitled to 10% of the Company's net profit for the year, so dividend in respect of one class A preference share equals to 10% of the Company's net profit for the last financial year divided by the number of issued preference shares of the Company. A resolution regarding the payment and the amount of dividends is taken by the General Shareholders' Meeting upon recommendations of the Board of Directors in view of financial results for the year.

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

In June 2010 the Annual Shareholders Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2009 (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.

As at 31 December 2010 total number of authorized ordinary shares was 1,823,289,720 (31 December 2009: 1,388,289,720). As at 31 December 2010 total number of authorized preference shares was 461,764,300 (31 December 2009: 461,764,300).

In September 2010 the Extraordinary Shareholders Meeting made a decision to authorise an additional issue of 434,173,411 shares. The additional share issue was registered in January 2011 (Note 42).

24. Sales

The components of sales revenue were as follows:

	2010	2009
Finished vehicles and assembly kits of own production	**123,684**	76,076
Automotive components of own production	**7,189**	5,307
Dealership sales of other producers' vehicles	**1,068**	1,410
Other sales	**5,689**	4,595
	137,630	87,388

	2010	2009
Domestic sales	**125,382**	78,291
Sales in EU countries	**1,386**	2,092
Other sales	**10,862**	7,005
	137,630	87,388

Export sales amounted to RR 12,248 (2009: RR 9,097). Geographical information is presented based on the location of the customers.

25. Cost of sales

The components of cost of sales were as follows:

	2010	2009
Materials and components, goods for resale	**85,772**	51,385
Labour costs	**18,232**	11,758
Depreciation and amortization	**8,738**	6,841
Production overheads and other expenses	**5,766**	6,529
Social expenses	**911**	1,084
Changes in inventories of finished goods and work in progress	**1,386**	8,824
	120,805	86,421

(In millions of Russian Roubles)

26. Administrative expenses

Administrative expenses comprised:

	2010	2009
Labour costs	**4,926**	4,938
Local and regional taxes	**1,623**	1,756
Third parties services	**1,215**	1,107
Transportation	**716**	546
Materials	**691**	557
Depreciation	**419**	329
Bank services	**219**	356
Provision for impairment of other current assets (Note 12)	**157**	1,381
Repair expenses	**139**	74
(Reversal)/accrual of provision for impairment of receivables (Note 9)	**(125)**	1,117
Other	**565**	1,249
	10,545	13,410

27. Distribution costs

Distribution costs comprised:

	2010	2009
Transportation	**2,714**	1,869
Labour costs	**1,148**	1,085
Advertising	**666**	577
Materials	**611**	412
Depreciation	**41**	66
Other	**975**	1,359
	6,155	5,368

28. Idle time costs

The components of idle time costs were as follows:

	2010	2009
Labour costs	**419**	6,066
Depreciation	**172**	2,703
Fuel and energy	**3**	43
	594	8,812

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

29. Research expenses

Research expenses comprised:

	2010	2009
Labour costs	**115**	399
Depreciation	**84**	186
Materials	**12**	70
Other	**248**	752
	459	1,407

(In millions of Russian Roubles)

30. Other operating income

The components of other operating income were as follows:

	2010	2009
Government grant on discounting of the interest-free loan (Note 21)	**9,604**	3,773
Government subsidy	**2,089**	378
Gain on disposal of long-term financial assets	**474**	142
Rental income	**216**	266
Foreign exchange gain	**176**	-
Gain on refund of loan interest from the federal budget	**51**	322
Other operating income	**489**	254
	13,099	5,135

31. Other operating expenses

The components of other operating expenses were as follows:

	2010	2009
One-off payment to employees	**1,001**	-
Provision for impairment of current financial assets (Note 10)	**668**	3,830
Loss on disposal of property, plant and equipment	**263**	583
Write-down of receivables	**143**	51
Provision for impairment of other long-term assets	**24**	-
Provision for impairment of assets of subsidiary - real estate developer	**-**	1,161
Foreign exchange loss	**-**	621
Other operating expenses	**1,042**	1,169
	3,141	7,415

32. Finance income

Finance income recorded in profit or loss comprised:

	2010	2009
Interest income	**1,305**	435
Foreign exchange gain	**782**	32
	2,087	467

33. Finance costs

Finance costs charged to profit or loss comprised:

	2010	2009
Interest expense	**9,209**	8,074
Finance lease expenses	**458**	866
	9,667	8,940

(In millions of Russian Roubles)

34. Discontinued operations

In July 2010 the Company sold 100% shares in the subsidiary bank ZAO Commercial Bank LADA-CREDIT for RR 365. As at 31 December 2010 unpaid amount was RR 243. The sold subsidiary's activities related to other segments of the Group.

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

In October 2009 the Company's stake in subsidiary Delta Motor Group Oy was diluted to 5%. The subsidiary's activities related to the dealership network segment. Consideration received for the disposal of investment in the subsidiary was zero.

Operating results of discontinued operations are presented below.

	OAO TEVIS, OAO Elektroset, OAO TEK, ZAO CB LADA-CREDIT		Delta Motor Group Oy		Elimination of intragroup transactions		Total	
Year ended 31 December	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Sales	**7,208**	7,088	**-**	10,241	**(923)**	(1,501)	**6,285**	15,828
Cost of sales	**(6,021)**	(6,044)	**-**	(8,633)	**1,077**	1,463	**(4,944)**	(13,214)
Gross profit	**1,187**	1,044	**-**	1,608	**154**	(38)	**1,341**	2,614
Administrative expenses	**(453)**	(755)	**-**	(2,099)	**-**	-	**(453)**	(2,854)
Distribution costs	**-**	-	**-**	(205)	**-**	-	**-**	(205)
Other operating income/ (expenses), net	**(266)**	(435)	**-**	67	**39**	(4)	**(227)**	(372)
Operating profit/(loss)	**468**	(146)	**-**	(629)	**193**	(42)	**661**	(817)
Finance income/(costs)	**(15)**	7	**-**	(86)	**-**	(10)	**(15)**	(89)
Gain on disposal of discontinued operations	**618**	-	**-**	427	**-**	-	**618**	427
Impairment loss recognised on the remeasurement to fair value less cost to sell	**-**	(1,851)	**-**	-	**-**	-	**-**	(1,851)
Profit/(loss) before taxation from discontinued operations	**1,071**	(1,990)	**-**	(288)	**193**	(52)	**1,264**	(2,330)
Income tax expense	**(182)**	(15)	**-**	(1)	**-**	-	**(182)**	(16)
Income tax on disposal of discontinued operations	**(461)**	-	**-**	-	**-**	-	**(461)**	-
Profit/(loss) from discontinued operations	**428**	(2,005)	**-**	(289)	**193**	(52)	**621**	(2,346)
Basic/diluted earnings/(loss) per share (in Roubles)							**0.34**	(1.27)

(In millions of Russian Roubles)

34. Discontinued operations (continued)

The following table presents cash flows of discontinued operations:

	OAO TEVIS, OAO Elektroset, OAO TEK, ZAO CB LADA-CREDIT		Delta Motor Group Oy		Total	
Year ended 31 December	**2010**	2009	**2010**	2009	**2010**	2009
Cash flows from:						
Operating activities	**1,099**	2,974	-	1,102	**1,099**	4,076
Investing activities	**(239)**	(238)	-	25	**(239)**	(213)
Financing activities	**(71)**	(1,462)	-	(846)	**(71)**	(2,308)
Effect of exchange rate changes	**(2)**	4	-	-	**(2)**	4
Net increse in cash and cash equivalents	**787**	1,278	-	281	**787**	1,559

The following amounts represent the major classes of assets and liabilities of ZAO CB LADA-CREDIT at the date of disposal:

	Date of disposal
Assets:	
Financial assets	339
Other non-current assets	260
Total long-term assets	**599**
Cash	2,438
Financial assets	857
Other current assets	40
Total current assets	**3,335**
Total assets	**3,934**
Liabilities:	
Long-term liabilities	**593**
Borrowings	2,956
Other payables	20
Total current liabilities	**2,976**
Total liabilities	**3,569**
Net assets at the date of disposal	**365**

The following amounts represent the major classes of assets and liabilities OAO TEVIS, OAO Elektroset and OAO TEK at the date of disposal:

	Date of disposal
Assets:	
Property, plant and equipment	1,335
Other non-current assets	4
Total long-term assets	**1,339**
Cash	97
Trade receivables	1,288
Other current assets	416
Total current assets	**1,801**
Total assets	**3,140**
Liabilities:	
Long-term liabilities	**184**
Accounts payable	619
Borrowings	94
Other payables	315
Total current liabilities	**1,028**
Total liabilities	**1,212**
Net assets at the date of disposal	**1,928**

(In millions of Russian Roubles)

34. Discontinued operations (continued)

The following amounts represent the major classes of 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**

35. Income tax benefit

	2010	2009
Income tax expense – current	**178**	109
Recalculation of prior years income tax	**(847)**	163
Deferred tax expense/(benefit)	**105**	(6,959)
	(564)	(6,687)

The tax benefit of the Group is reconciled as follows:

	2010	2009
Profit/ (loss) before taxation from continuing operations	**2,382**	(53,555)
Profit/(loss) before taxation from a discontinued operations	**1,264**	(2,330)
	3,646	(55,885)
Theoretical tax expenses at statutory rate of 20%	**729**	(11,177)
Recalculation of prior years income tax	**(847)**	163
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income:		
Reversal of write-down of inventories	**(190)**	-
Other non-taxable income	**(196)**	(95)
Non-deductible expenses:		
Non-deductible expenses related to discontinued operations	**390**	380
Social expenses	**146**	473
Losses of non-production divisions of the Company and other expenses	**26**	1,132
Unrecognised tax losses carried forward	**21**	475
Provisions for impairment of assets	**-**	1,703
Non-deductible research and development costs	**-**	275
	79	(6,671)
Income tax expense reported in the consolidated statement of comprehensive income	**(564)**	(6,687)
Income tax attributable to a discontinued operations	**643**	16
	79	(6,671)

(In millions of Russian Roubles)

35. Income tax benefit (continued)

During 2010 most of the Group's entities were subject to tax rates of 20% on taxable profits.

Deferred tax assets and liabilities:

	31 December 2008	Movement for 2009	Movement in relation to discontinued operations	31 December 2009	Movement for 2010	Movement in relation to discontinued operations	31 December 2010
Tax effects of temporary differences:							
Provision for impairment of receivables	99	69	18	186	16	(20)	182
General and overhead expenses allocation on inventories	(834)	227	-	(607)	59	-	(548)
Effect of inflation and different depreciation rates of property, plant and equipment	(8,360)	502	13	(7,845)	975	225	(6,645)
Provision for impairment of fixed assets and development costs	2,039	2,768	-	4,807	(350)	(84)	4,373
Differences in relation to changes in cost of financial assets	(59)	35	-	(24)	(56)	-	(80)
Accounts payable and provisions	1,172	(273)	2	901	280	(2)	1,179
Discounting of loans and borrowings	(1,704)	(547)	-	(2,251)	(732)	-	(2,983)
Other temporary differences	383	(257)	25	151	294	38	483
	(7,264)	2,524	58	(4,682)	486	157	(4,039)
Tax losses carried forward	1,042	4,910	-	5,952	(570)	-	5,382
Unrecognised tax losses carried forward	(62)	(475)	-	(537)	(21)	-	(558)
Deferred tax assets/(liabilities), net	(6,284)	6,959	58	733	(105)	157	785

Reflected in the statement of financial position:

	31 December 2008	31 December 2009	31 December 2010
Deferred tax assets	-	1,244	981
Deferred tax liabilities - continuing operations	(6,284)	(467)	(196)
Deferred tax liabilities - disposal group classified as held for sale	-	(44)	-
Deferred tax assets/(liabilities), net	(6,284)	733	785

(In millions of Russian Roubles)

35. Income tax benefit (continued)

Cumulative tax loss in the amount of RR 24,120 as at 31 December 2010 (31 December 2009: RR 27,074) for which deferred tax asset was recognised is available for offset against future taxable profit during successive 8-9 years.

Deferred tax asset in respect of tax losses of RR 2,790 carried forward (31 December 2009: RR 2,685) 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 deductible temporary differences associated with undistributed earnings of subsidiaries amount to RR 2,266 and RR 2,747 as of 31 December 2010 and 31 December 2009, respectively. A deferred tax asset in respect of subsidiaries was not recognised on deductable temporary difference as it is not probable that taxable profit against which the temporary difference can be utilized will be available.

36. Lease payables

Finance lease liabilities - minimum lease payments were as follows:

	31 December 2010	31 December 2009
Not later than one year	**537**	994
1 to 3 years	**1**	578
	538	1,572
Finance lease servicing	**(239)**	(841)
Present value of finance lease liabilities	**299**	731

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

	31 December 2010	31 December 2009
Not later than one year	**299**	416
1 to 3 years	**-**	315
	299	731

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

37. Earnings (loss) per share

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

	31 December 2010	31 December 2009
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 ordinary and preference shares outstanding (thousands)	**1,850,054**	1,850,054
Profit/(loss) attributable to ordinary/preference equity holders of the Company	**3,516**	(48,929)
Net profit/(loss) attributable to ordinary/preference equity holders of the Company from discontinued operations	**621**	(2,346)
Profit/(loss) on continuing operations attributable to ordinary/preference equity holders of the Company	**2,895**	(46,583)
Earnings /(loss) per share (in Roubles):		
-basic/diluted, for profit/(loss) for the period attributable to ordinary/preference equity holders of the Company	**1.90**	(26.45)
-basic/diluted, for profit/(loss) for the period from continuing operations attributable to ordinary/preference equity holders' of the Company	**1.56**	(25.18)

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

(In millions of Russian Roubles)

38. Contingencies, commitments and guarantees

38.1 Contractual commitments and guarantees

As at 31 December 2010 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 775 (31 December 2009: RR 614). In addition, the Group issued financial guarantees to third parties in the amount of RR 1,008 (31 December 2009: RR 200). There are no other commitments and guarantees in favour of third parties or related companies that are not disclosed in these consolidated financial statements.

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

	31 December 2010	31 December 2009
Not later than 1 year	**268**	259
Later than 1 year and not later than 5 years	**1,074**	1,037
Later than 5 years	**9,394**	9,335
	10,736	10,631

The amount of lease payments recognised as an expense for the year ended 31 December 2010 was RR 268 (2009: RR 259).

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 2010 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 2010, 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. Contingencies, commitments and guarantees (continued)

38.5 Factors affecting the Company's financial position

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

39. Going concern

Management has prepared these consolidated financial statements on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities, when they fall due, for the foreseeable future. In making this judgement management has considered the impact of the recent financial crisis, government support, the Group's access to financial resources, its current financial results and future plans. These factors have influenced the Group's position and performance as detailed below.

Current financial results

In 2009 the global financial crisis resulted in significant deterioration of the Group's business activity. However, measures implemented by the Group's management together with the Russian government, as well as the positive market trend have significantly improved the Group's performance in 2010:

- in 2010 the Group's revenue amounted to RR 137,630, an increase of 57% as comparable to 2009;
- the excess of the Group's current liabilities over its current assets reduced from RR 52,974 as of 31 December 2009 to RR 19,914 as of 31 December 2010;
- the Group demonstrated positive operating results. The Group generated profit and positive operating cash flows.

Government support

The Russian government is implementing the following support measures:

- The scrappage program launched in March 2010 offers consumers 50,000 roubles to scrap a car that is at least 10 years old and replace it with a new model that was assembled in Russia and appears on the list of models approved by the Russian government for this program. The Company has been the main beneficiary of the scheme. The Russian government has announced the extension of the program into 2011;
- Direct support. In 2009 and 2010 the Company received interest-free loans from the Russian Technologies State Corporation amounting to RR 75,000;
- Import duties. In 2009 the Russian government increased import duties on foreign cars to encourage investment in local manufacturing plants and boost domestic players.

Access to financial resources

- to repay loans due in 2010 the Group used funds obtained from the Russian Technologies State Corporation;
- the Group has reached an agreement with OAO Sberbank of Russia and OAO VTB Bank on opening a credit limit of RR 26,905;
- the Group has no bank debt overdue as at 31 December 2010.

Future plans

The Group's cash flow forecast for the period ended 31 December 2011 indicates that the cash flows generated from operating activities are expected to be sufficient to cover operational costs and a part of the investment program. Financial resources for the remaining capital expenditures are to be attracted through arrangements with the Russian government and the Renault-Nissan Alliance.

Because of the factors identified above, management believes that the Group will be able to realise its assets and meet its obligations in the normal course of business as they become due and that the Group will continue as a going concern.

(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 activities of insurance and other companies.

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	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenue										
Sales to external customers	92,777	55,891	35,856	25,027	8,997	6,470	-	-	137,630	87,388
Inter-segment sales	45,158	28,292	1,907	1,068	3,958	3,019	(51,023)	(32,379)	-	-
Total revenue	137,935	84,183	37,763	26,095	12,955	9,489	(51,023)	(32,379)	137,630	87,388
Results										
Depreciation and amortisation	(6,609)	(8,356)	(161)	(202)	(97)	(172)	-	-	(6,867)	(8,730)
Impairment of assets	473	(10,872)	(48)	(108)	(82)	(429)	-	-	343	(11,409)
Interest expense	(2,734)	(6,491)	(464)	(447)	(242)	(189)	-	-	(3,440)	(7,127)
Profit from discontinued operations, incl. income tax expense / (benefit)	1,279	-	-	-	-	-	-	-	1,279	-
Income tax (expense) / benefit	934	8,665	(36)	121	42	135	-	-	940	8,921
Statutory (loss)/profit for the year	2,106	(38,468)	(428)	(1,569)	(417)	(720)	-	-	1,261	(40,757)

IFRS adjustments		
Recognition of fair value of the government grant	3,869	2,849
Recognition of fair value of restructured taxes	-	473
Impairment of non-financial assets	114	(14,167)
Adjustment attributable to valuation of subsidiaries’ assets	1,376	1,691
Additional expense for fixed assets recognised in accordance with IFRS	(2,125)	(1,220)
Adjustment attributable to deferred tax	(376)	1,318
Adjustments attributable to development expenses	157	1,088
Adjustment attributable to discontinued operations	(658)	(2,346)
Overhead expenses allocated to inventories	(425)	1,351
Associates equity method	975	(231)
Dividends received from an associate company	(375)	(58)
Others	(226)	795
IFRS profit/(loss) for the year	**3,567**	**(49,214)**

(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	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Segment assets	126,781	119,635	12,791	13,043	9,048	13,168	(11,214)	(12,470)	137,406	133,376
IFRS adjustments										
Remeasurement of fixed assets in accordance with IFRS									19,949	19,689
Impairment of non-financial assets									(26,063)	(26,525)
Capitalization of development costs									(303)	(450)
Impairment of other assets									(2,954)	(7,610)
Adjustment related to deferred tax assets									(4,603)	(2,532)
Assets of disposal group									365	4,406
Others									249	846
IFRS total assets									**124,046**	**121,200**

Impairment of other assets of the Group includes additional impairment of inventory of RR 1,522 (31 December 2009: RR 1,099), reduction in impairment of investments of RR 665 (31 December 2009: impairment of investments RR 262), impairment of assets of subsidiary – real estate developer of RR 1,492 (31 December 2009: RR 1,941), reduction in impairment of trade and other receivables of RR 676 (31 December 2009: impairment RR 2,144) and impairment of current financial assets of RR 1,281 (31 December 2009: RR 2,688).

Major part of non-current assets other than financial instruments of the Group is 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 2010 and 2009 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 1% of sales is denominated in currencies other than Roubles, whilst almost 100% of costs is denominated in the functional currency. In addition, the Group has over RR 5,800 of loans and borrowings received denominated in currencies other than Group's functional currency. Risk management is carried out by JSC AVTOVAZ Finance Department, which identifies, evaluates and manages foreign exchange risks by analysing the net position in each foreign currency. The Group is not exposed to equity securities price risk. The Group has not entered into any hedging arrangements in respect of its foreign currency exposure.

The following table demonstrates the sensitivity to a change in the US dollar and Euro exchange rate of the Group's profit before tax.

	Increase/decrease in exchange rate, %	Effect on profit before tax
2010		
Euro/RR	11.05	(646)
USD/RR	8.90	77
Euro/RR	-11.05	646
USD/RR	-8.90	(77)
2009		
Euro/RR	14.00	(1,312)
USD/RR	14.80	(46)
Euro/RR	-14.00	1,312
USD/RR	-14.80	46

(In millions of Russian Roubles)

41. Financial risk management objectives and policies (continued)

Credit risk

The Group has RR 12,689 (2009: RR 9,864) in cash and cash equivalents, RR 7,420 of current financial assets (2009: RR 929) and RR 2,138 (2009: RR 2,382) 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 2010 based on contractual undiscounted payments.

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

Cash flow and fair value interest rate risk

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

Financial instruments

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

	Carrying amount		Fair values	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
FINANCIAL ASSETS:				
Cash and cash equivalents	**12,689**	9,864	**12,689**	9,864
Financial assets – current	**7,420**	929	**7,420**	929
Financial assets – long-term	**2,106**	2,021	**2,106**	2,021
Trade receivables	**3,487**	2,363	**3,487**	2,363
FINANCIAL LIABILITIES:				
Short-term loans and borrowings	**41,397**	65,690	**41,690**	65,529
Long-term loans and borrowings	**34,477**	14,242	**36,765**	15,072
Finance lease liabilities	**299**	731	**499**	1,403
Trade payables	**16,905**	13,936	**16,905**	13,936
Long-term taxes other than income tax	**1,169**	1,149	**1,431**	1,373

(In millions of Russian Roubles)

41. Financial risk management objectives and policies (continued)

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

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

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

Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2010, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

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

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

Discount rate used for assessment of fair value of long-term borrowings was 9.2% (2009: 13.95%). To assess the fair value of long-term taxes and for finance lease liabilities they were discounted at 7.75% rate (2009: 8.75%).

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

Fair value hierarchy

As at 31 December 2010, 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 2010**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss (Note 10)	53	53	-	-
Available-for-sale current financial assets (Note 10)				
Bank promissory notes	6,123	-	6,123	-
Promissory notes of third parties	-	-	-	-

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 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during 2010 and 2009.

42. Events after the reporting period

In January 2011 the Federal Financial Markets Service registered an additional share issue of AVTOVAZ. Under the terms of the additional issue, 434,173,411 ordinary shares at par value of RR 5 will be placed among existing shareholders at the price of RR 40.24 per share during 12 months after registration. As the first stage of the above issue, in March 2011 JSC AVTOVAZ placed 251,809,613 ordinary shares among the existing shareholders. As a result of the placement, Renault s.a.s. paid RR 2,575 by cash, AVTOVAZ settled the liability of RR 7,503 to the Russian Technologies State Corporation existing under a loan and other shareholders paid RR 55.

In January 2011 the Company and the Russian Technologies State Corporation signed an amendment to the loan agreement for RR 25,000 received in 2009 prolonging the loan maturity until June 2019 (Note 21).

In March 2011 the Company received long-term advance payments of RR 799 from Nissan Manufacturing RUS LLC. The term of this advance payment are similar to the terms of the advance payment of RR 826 received from Nissan Manufacturing RUS LLC (Note 7).

In March 2011 the Company and the Russian Technologies State Corporation signed an amendment to the RR 12,000 loan agreement dated 25 December 2009 prolonging the loan maturity until June 2012 (Note 21).