AVTOVAZ GROUP

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

31 December 2015

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Совершенствуя бизнес,
улучшаем мир

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

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

Independent auditors' report

To the shareholders of JSC AVTOVAZ

We have audited the accompanying consolidated financial statements of JSC AVTOVAZ and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, 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.

Совершенствуя бизнес, улучшая мир

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 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that JSC AVTOVAZ and its subsidiaries incurred a net loss of 73,851 million rubles during the year ended 31 December 2015 and, as of that date, the JSC AVTOVAZ and its subsidiaries' current liabilities exceeded their current assets by 67,780 million rubles. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on JSC AVTOVAZ and its subsidiaries' ability to continue as a going concern.

Ernst & Young LLC

11 February 2016

(In millions of Russian Roubles unless otherwise stated)

	Note	**31 December 2015**	31 December 2014
ASSETS			
Current assets:			
Cash and cash equivalents	10, 37	**4,987**	8,798
Trade receivables	11, 37	**9,173**	16,548
Financial assets	12, 37	**717**	1,954
Inventories	13	**24,237**	21,161
Other current assets	14, 37	**8,415**	6,568
		47,529	55,029
Long-term assets:			
Property, plant and equipment	15	**54,707**	77,045
Intangible assets	16	**12,668**	14,541
Investments in associates and a joint venture	17	**2,072**	3,429
Receivables for jointly-controlled assets	18	**16,087**	14,047
Financial assets	12, 37	**909**	52
Deferred tax assets	33	**1,301**	553
		87,744	109,667
Total assets		**135,273**	164,696
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	37	**47,300**	32,493
Loans and borrowings	21, 37	**44,864**	39,482
Other payables and accrued expenses	19, 37	**13,266**	12,353
Income tax liability		**68**	39
Other taxes	22	**4,540**	4,293
Provisions	20	**2,211**	1,238
Advances from customers		**3,060**	1,728
		115,309	91,626
Long-term liabilities:			
Loans and borrowings	21, 37	**48,893**	29,116
Other taxes	22, 37	**312**	727
Provisions	20	**521**	700
Deferred tax liabilities	33	**6,723**	5,238
Advances received		**2,242**	2,368
		58,691	38,149
Total liabilities		**174,000**	129,775
Equity attributable to equity holders of the Company			
Share capital	23	**39,172**	39,172
Share premium		**15,300**	15,300
Currency translation adjustment		**654**	468
Accumulated losses		**(94,328)**	(20,388)
		(39,202)	34,552
Non-controlling interests		**475**	369
Total equity		**(38,727)**	34,921
Total liabilities and equity		**135,273**	164,696

Bo Inge Andersson
President, JSC AVTOVAZ

Daniel Blyumin
Director, Accounting and Reporting

11 February 2016

AVTOVAZ GROUP
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2015
(In millions of Russian Roubles unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Sales	24	**176,482**	191,728
Cost of sales	25	**(182,341)**	(185,268)
Gross (loss)/profit		**(5,859)**	6,460
Administrative expenses	26	**(11,207)**	(10,279)
Distribution costs	27	**(5,673)**	(4,853)
Research and development expenses	28	**(2,089)**	(1,368)
Other operating income and expenses	29	**105**	2
Operating loss before impairment and restructuring costs		**(24,723)**	(10,038)
Impairment provisions and restructuring costs	30	**(42,095)**	(4,688)
Operating loss		**(66,818)**	(14,726)
Net interest income and expenses		**(5,136)**	(3,342)
Interest income		***1,203***	*593*
Interest expenses		***(6,339)***	*(3,935)*
Other finance income and expenses	31	**217**	(7,496)
Share of (loss)/profit of associates and a joint venture	17	**(1,306)**	258
Loss before taxation		**(73,043)**	(25,306)
Income tax (expenses)/benefit	33	**(808)**	256
Loss for the year		**(73,851)**	(25,050)
(Loss)/profit attributable to:			
Equity holders of the Company		**(73,940)**	(25,111)
Non-controlling interests		**89**	61
		(73,851)	(25,050)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation adjustment		**203**	211
Total other comprehensive income for the year to be reclassified to profit or loss in subsequent periods, net of taxes		**203**	211
Total comprehensive loss for the year, net of taxes		**(73,648)**	(24,839)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(73,754)**	(24,900)
Non-controlling interests		**106**	61
Total comprehensive loss for the year, net of taxes		**(73,648)**	(24,839)
Loss per share, basic/diluted (in RR):			
- loss for the year attributable to ordinary/preference equity holders of the Company	34	**(32.37)**	(10.99)

AVTOVAZ GROUP
Consolidated Statement of Cash Flows
for the year ended 31 December 2015
(In millions of Russian Roubles unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Cash flows from operating activities:			
Loss before taxation		**(73,043)**	(25,306)
Adjustments for:			
Depreciation and amortisation	15, 16	**11,102**	10,770
Write-off of capitalised development costs	16, 28	**84**	-
Impairment loss	6, 30	**32,094**	2,577
Provision for impairment of idle assets	30	**8,433**	645
Charge to/(reversal of) provision for impairment of financial assets	12	**1,596**	(38)
Charge to provision for impairment of inventories	13	**1,156**	839
Charge to/(reversal of) provision for impairment of trade receivables and other current assets	27	**1,085**	(119)
Movements in provisions	20	**794**	1
Interest income		**(1,203)**	(593)
Interest expense		**7,958**	4,871
Share of loss/(profit) of associates and a joint venture	17	**1,306**	(258)
Loss on acquisition of subsidiary		**197**	1,314
(Gain)/loss on disposal of property, plant and equipment	29	**(173)**	85
Gain on derecognition of liability on promissory notes and financial liability	31	**(1,928)**	(213)
Gain on sale of financial assets	31	**(80)**	-
Gain on disposal of subsidiaries and associates	29	**(128)**	(118)
Foreign exchange effect		**1,738**	6,296
Operating cash flows before working capital changes		**(9,012)**	753
Change in trade receivables		**6,053**	(10,982)
Change in other assets		**(619)**	(607)
Change in inventories		**(4,406)**	6,465
Change in trade payables, other payables and accrued expenses		**11,761**	16,317
Change in other taxes		**(134)**	2,005
Change in advances from customers		**1,617**	478
Cash generated from operations		**5,260**	14,429
Income tax paid		**(43)**	(95)
Interest received		**957**	504
Interest paid		**(8,020)**	(4,122)
Net cash (used in)/generated from operating activities		**(1,846)**	10,716
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets		**(25,869)**	(18,984)
Proceeds from the sale of property, plant and equipment		**443**	456
Purchase of financial assets		**(1,271)**	(1,920)
Proceeds from the sale of financial assets		**132**	245
Acquisition of a subsidiary, net of cash acquired		**15**	-
Proceeds from the sale of subsidiaries less cash disposed of		**466**	742
Dividends received		**-**	51
Net cash used in investing activities		**(26,084)**	(19,410)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**52,529**	36,997
Repayment of loans and borrowings		**(28,495)**	(22,991)
Net cash generated from financing activities		**24,034**	14,006
Effect of exchange rate changes		**85**	102
Net (decrease)/increase in cash and cash equivalents		**(3,811)**	5,414
Cash and cash equivalents at the beginning of the year	10	**8,798**	3,384
Cash and cash equivalents at the end of the year	10	**4,987**	8,798

(In millions of Russian Roubles unless otherwise stated)

	Equity attributable to equity holders of the Company						
	Share capital	Share premium	Currency translation adjustment	(Accumu-lated losses)/ retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2013	**39,172**	**15,300**	**257**	**4,723**	**59,452**	**308**	**59,760**
Loss for the year	-	-	-	(25,111)	(25,111)	61	(25,050)
Other comprehensive income	-	-	211	-	211	-	211
Total comprehensive income/(loss)	**-**	**-**	**211**	**(25,111)**	**(24,900)**	**61**	**(24,839)**
Balance at 31 December 2014	**39,172**	**15,300**	**468**	**(20,388)**	**34,552**	**369**	**34,921**
Loss for the year	-	-	-	(73,940)	(73,940)	89	(73,851)
Other comprehensive income	-	-	186	-	186	17	203
Total comprehensive income/(loss)	**-**	**-**	**186**	**(73,940)**	**(73,754)**	**106**	**(73,648)**
Balance at 31 December 2015	**39,172**	**15,300**	**654**	**(94,328)**	**(39,202)**	**475**	**(38,727)**

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 cities of Togliatti and Izhevsk of the Russian Federation. The Group has a sales and service network spanning the Commonwealth of Independent States ("CIS") and some other countries. The parent company, JSC AVTOVAZ ("the Company" or JSC AVTOVAZ), was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. The registered office of JSC AVTOVAZ is in Yuzhnoye Shosse, 36, Togliatti, Samara region, 445024, the Russian Federation.

In December 2012 the major shareholders of the Company signed a partnership agreement. This agreement created an entity named Alliance Rostec Auto B.V. This entity was formed to hold all the interests in the Company owned by Renault s.a.s., Nissan International Holding B.V. and State Corporation Rostec. As a result of transactions with equity shares of the Company among the shareholders that took place in 2013, Alliance Rostec Auto B.V. held 74.51% of total equity shares of the Company. As at 31 December 2015 50% less one share of equity interest in Alliance Rostec Auto B.V. belonged to Renault s.a.s., 32.87% to State Corporation Rostec and 17.13% to Nissan International Holding B.V.

In 2015 the Group launched the production of new LADA models (LADA Vesta and LADA XRAY), in 2014 – Renault (Logan and Sandero) and Datsun (mi-DO) models.

These consolidated financial statements were authorized for issue by the president of JSC AVTOVAZ on 11 February 2016.

2. Going concern

The operating performance of the Group as well as its liquidity position was affected by economic conditions and other business factors described in the Notes 21 and 35.6 below. In 2015 the Group incurred losses of RR 73,851 (2014: RR 25,050). As at 31 December 2015 the Group's current liabilities exceeded its current assets by RR 67,780 (31 December 2014: RR 36,597).

To address the current economic and market environment and to improve the Group's performance management is implementing an anti-crisis plan, including revenue improvements, cost reduction measures and sales of non-core assets.

In the second half of 2015 the Group started production of LADA Vesta and LADA XRAY models. The Group is confident that it will have sufficient funds to finance capital expenditure for new projects.

The Group is currently in the process of negotiations on the various financing options for the current activity, including the following:
- obtaining additional loans from shareholders;
- negotiating deferrals of payments to related suppliers;
- obtaining additional factoring agreements for accounts receivables.

Without continued support of the shareholders to assist in facilitating the refinancing of the Group's debt obligations and securing additional borrowings, the financial and market conditions discussed in Notes 21 and 35.6 below create a material uncertainty that gives rise to significant doubt about the Group's ability to continue as a going concern and, therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The management of the Group is confident that the Group will receive the support from the shareholders at a level required to finance its operations in the foreseeable future and will continue as a going concern in the foreseeable future and has no plans to discontinue or significantly reduce the activities.

3. Basis of preparation of the consolidated financial statements

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

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

The consolidated financial statements have been prepared under the historical cost convention except equity investments and bank promissory notes, which are accounted at fair value (Note 4.4). 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 5 and 6.

4. Summary of significant accounting policies

4.1 Adopted accounting standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle
With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 *Share-based Payment*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014 and 2015. Thus, these amendments did not impact the Group's financial statements or accounting policies.

IFRS 3 *Business Combinations*
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

IFRS 8 *Operating Segments*
The amendments are applied retrospectively and clarify that:
- an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 36 in these consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. These amendments have no impact on the Group.

IAS 24 *Related Party Disclosures*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

4. Summary of significant accounting policies (continued)

4.1 Adopted accounting standards and interpretations (continued)

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

This amendment is not relevant for the Group.

IFRS 13 *Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

IAS 40 *Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

4.2 Standards issued but not yet effective

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

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment a hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity.

Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification a measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in other comprehensive income ("OCI"), and, therefore, believes the application of IFRS 9 would not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

Impairment

The Group will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

4. Summary of significant accounting policies (continued)
4.2 Standards issued but not yet effective (continued)

IFRS 14 *Regulatory Deferral Accounts*
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

Sale of goods
Contracts with customers in which vehicle sale is the only performance obligation are not expected to have any impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In applying IFRS 15, the Group considered the following:

Variable consideration
Some contracts with customers provide a right of return and discounts. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances and discounts. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contact inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration a related constraint. The Group expects that application of the constraint will not have a significant impact on revenue recognition under current IFRS.

Warranty obligations
The Group provides warranties for general repairs and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group determines that such warranties are assurance type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

4. Summary of significant accounting policies (continued)

4.2 Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 *Financial Instruments: Disclosures*

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

4. Summary of significant accounting policies (continued)
4.2 Standards issued but not yet effective (continued)

IAS 34 *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 *Disclosure Initiative*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

4.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015.

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

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

Business combinations and goodwill

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

4. Summary of significant accounting policies (continued)

4.3 Basis of consolidation (continued)

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

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

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

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

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

Investment in an associate

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

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

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

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

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

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 (loss)/profit of associates and a joint venture' in the consolidated statement of comprehensive income.

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

Interest in a joint venture

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

4. Summary of significant accounting policies (continued)
4.3 Basis of consolidation (continued)
Joint operation
A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group recognizes its share in assets, liabilities, revenue and expenses in relation to its interest in a joint operation.

Current versus non-current classification
The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:
- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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

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

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

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

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

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

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded within net interest and expenses 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 amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized 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.

4.5 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, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, taxes and 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.

(In millions of Russian Roubles unless otherwise stated)

4. Summary of significant accounting policies (continued)

4.5 Revenue recognition (continued)

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

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

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

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

4.6 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.

4.7 Value added tax

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

4.8 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.

4.9 Cash and cash equivalents

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

4.10 Property, plant and equipment

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

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

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

4. Summary of significant accounting policies (continued)

4.10 Property, plant and equipment (continued)

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

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

Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss as incurred.

Assets under construction owned by the Group are not depreciated.

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

Development costs with a finite useful life that have been capitalised are amortized from the commencement of the commercial production of the new vehicles. They are amortized on a straight-line basis from the date of approval for production, over the expected market life of the vehicle or part, which is initially no longer than seven years.

Other intangible assets

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

The right to use the license for production, assembling and sale of licensed cars and engines is amortized from the date of start of production using a straight-line method during a period from 7 to 12 years.

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

4.12 Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of eight years. A long-term growth rate is calculated and applied to project future cash flows after the eight year.

Impairment losses are recognised in the consolidated statement of comprehensive income in a separate line "Impairment provisions and restructuring costs".

4. Summary of significant accounting policies (continued)

4.12 Impairment of assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in consolidated statement of comprehensive income.

4.13 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, associates and joint venture where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

4.14 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 consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

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

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

Interest expense, which is currently due, is recorded within short-term loans and borrowings except for interest on restructured tax liabilities, which is recorded within the respective financial liabilities.

4. Summary of significant accounting policies (continued)

4.15 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. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant. The loan or assistance is initially recognised and measured at fair value and the government grant is measured as the difference between the initial carrying value of the loan and the proceeds received. The loan is subsequently measured as per the accounting policy in Note 4.14.

4.16 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 consolidated statement of financial position have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2015 of RR 72.8827 = USD 1 (31 December 2014: RR 56.2584 = USD 1), RR 79.6972 = EUR 1 (31 December 2014: RR 68.3427 = EUR 1) and RR 0.605087 = JPY 1 (31 December 2014: RR 0.470644 = JPY 1).

4.17 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.

4.18 Employee benefits

Social costs

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

4.19 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.

4.20 Earnings per share

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

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

4. Summary of significant accounting policies (continued)

4.20 Earnings per share (continued)

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

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

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

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

4.21 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.

4.22 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.

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.

4.23 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.

4.24 Comparatives

In order to achieve consistency of presentation with the current reporting period, changes have been made to the comparative figures in the consolidated statement of comprehensive income related to rental income, transportation costs, expenses on taxes, restructuring costs and other income and expenses. As a result of reclassifications comparative figures for year ended 31 December 2014 were changed and sales increased by RR 994, cost of sales increased by RR 6,410, administrative expenses decreased by RR 1,161, distribution costs decreased by RR 3,050, research and development expenses increased by RR 541, other operating income and expenses decreased by RR 4,133, impairment provisions and restructuring costs increased by RR 2,225, finance income and expenses increased by RR 162.

In order to achieve consistency of presentation with the current reporting period, changes have been made to the comparative figures related to certain captions in the consolidated statement of financial position related to classification of prepayments for long-term assets, payables for fixed assets and construction in progress, interest payable, contingent liability provision and liability for government grants. As a result of reclassifications comparative figures as of 31 December 2014 were changed and property, plant and equipment increased by RR 3,300, intangible assets increased by RR 1, other long-term assets decreased by RR 3,498, trade payables decreased by RR 7,891, other payables increased by RR 7,333, provisions increased by RR 127, loans and borrowings increased by RR 234.

5. 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.

5.1 Fair values

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each reporting date.

5.2 Remaining useful life of property, plant and equipment

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.

If the estimated remaining useful life of buildings had been 5% higher or lower than management's estimates, then the carrying value of buildings would have been RR 3,118 higher or RR 3,446 lower respectively. If the estimated remaining useful life of equipment had been 5% higher or lower than management's estimates, then the carrying value of equipment would have been RR 6,386 higher or RR 7,059 lower respectively.

5.3 Warranties

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

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

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

6. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flows model ("DCF model"). The cash flows are derived from the budget for the next eight years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for non-financial assets, including a sensitivity analysis, are disclosed and further explained below.

The Group performed its annual impairment test in December 2015 and 2014. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2014, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of non-financial assets. During 2015 the overall decline in Russian economy, as well as the ongoing economic uncertainty, have led to a decreased demand in automotive market in Russia.

The recoverable amount of non-financial assets has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a eight-year period. The projected cash flows have been updated to reflect the decreased demand for vehicles. The discount rate applied to cash flow projections is 15.9% and cash flows beyond the eight-year period are extrapolated using a 3.0% growth rate that is the same as the long-term average growth rate for the automotive industry. It was concluded that the fair value less costs of disposal is less than the value in use. As a result of this analysis, management has recognised an impairment charge of RR 32,094 in the current year. The impairment charge is recorded in a separate line "Impairment provisions and restructuring costs" in the consolidated statement of comprehensive income.

6. Impairment of non-financial assets (continued)

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

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

- Market share and sales volume during the forecast period;
- Receipt of government subsidies;
- Discount rate;
- Raw materials and components price inflation.

Market share and sales volume during the forecast period – This assumption is based on the forecast of increase of sales volume of LADA brand vehicles by 54% from 2015 to 2018. The Company's market share projections do not exceed 21.1% of total Russian automotive market.

Receipt of government subsidies – In accordance with Government resolutions ## 29, 30, 31, 32 issued in 2014 and # 244 issued in 2015, automotive manufacturers may apply for the subsidies to compensate expenses for personnel, electricity, research and development and other production costs. Receipt of the subsidies is subject to approval of a budget for the purposes set out in the Government resolutions by the Ministry of Industry and Trade of the Russian Federation for each financial year. The management made an assumtion that the Group will continue to receive government subsidies during the forecast period and included cash inflows from subsidies in DCF model.

Discount rate – Discount rate of 15.9% represent the current market assessment of the risks specific to cash-generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Raw materials and components price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material and components price movements are used as an indicator of future price movements.

Sensitivity to changes in assumptions

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

Market share and sales volume during the forecast period – With all other assumptions held constant, if the Group fails to fulfil the planned increase in sales volume of LADA brand vehicles by 5%, a further impairment loss will be approximately RR 12,489.

Receipt of government subsidies – If the Group does not continue to receive subsidies, it would lead to further significant impairment loss.

Discount rate – With all other assumptions held constant, a decrease in the discount rate by 0.9% (discount rate equal to 15.0%) would lead to reversal of impairment loss of approximately RR 5,113 and increase in the discount rate by 1.1% (discount rate equal to 17.0%) would lead to further impairment loss of approximately RR 5,814.

Raw materials and components price inflation – Management has considered the possibility of greater-than-forecast increases in raw material and components price inflation. This may occur if Russian economy will continue to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble. Forecast price inflation depends on the country from which materials and components are purchased. If prices of raw materials and components increase by 1% greater than the forecast price inflation and the Group is unable to pass on or absorb these increases through efficiency improvements, then the Group will have a further impairment in amount of RR 26,483.

(In millions of Russian Roubles unless otherwise stated)

7. Significant accounting judgements

7.1 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.

7.2 Recognition of deferred tax assets

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

As at 31 December 2015 deferred tax asset in respect of tax losses of RR 86,230 carried forward (31 December 2014: RR 18,025) has not been recognised as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses.

7.3 Development costs

Development costs are capitalised in accordance with the Group's accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

8. Principal subsidiaries, associates and joint venture

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

Entity	Country of incorporation	Activity	**31 December 2015 % share**	31 December 2014 % share
LLC United Automobile Group (OOO OAG)	Russia	Vehicle manufacture and sale	**100**	100
AO LADA-Service	Russia	Subsidiaries management	**100**	100
AO LADA-Image	Russia	Spare parts distribution	**100**	100
Lada International Ltd.	Cyprus	Subsidiaries management	**99.9**	99.9
OAO Piter- LADA	Russia	Car distribution and service	**90**	90
95 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 2015 % share**	31 December 2014 % share
Ferro VAZ GmbH	Germany	Export and import of machinery, equipment and spare parts	**50**	50

The principal joint venture of the Group and the share held by the Group is as follows:

Entity	Country of incorporation	Activity	**31 December 2015 % share**	31 December 2014 % share
ZAO GM-AVTOVAZ	Russia	Vehicle manufacture and sale	**50**	50

(In millions of Russian Roubles unless otherwise stated)

9. Balances and transactions with related parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In 2014 and 2015 the Group entered into transactions with the following related parties: associates, a joint venture, companies that exercise significant influence via shareholders and key management.

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

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

As at 31 December 2015 and 31 December 2014 the Group had balances with the companies controlled by the Russian Government, which are detailed below.

	31 December 2015	31 December 2014
Cash and cash equivalents	**3,893**	4,350
Trade receivables before provision charge	**2,112**	565
Provision for impairment of trade receivables	**(600)**	(2)
Other current assets before provision charge	**2,455**	927
Provision for impairment of other current assets	**(193)**	(88)
Current financial assets before provision charge	**2,309**	1,941
Provision for impairment of current financial assets	**(1,598)**	-
Long-term financial assets before provision charge	**894**	-
Prepayments for PPE before provision charge	**530**	352
Total assets	**9,802**	8,045
Trade payables	**2,072**	2,654
Other payables	**37**	41
Advances received short-term	**77**	19
Advances received long-term	**87**	-
Provision for lawsuits and claims	**1,065**	52
Loans and borrowings	**71,089**	44,542
Loans received from State Corporation Rostec	**7,333**	6,513
Total liabilities	**81,760**	53,821

As at 31 December 2015 collateral issued by the Group to the companies controlled by the Russian Government was RR 12,770 (31 December 2014: RR 12,983).

In 2015 and 2014 the Group entered into transactions with the companies controlled by the Russian Government, which are detailed below.

	2015	2014
Sales	**1,987**	1,140
Purchases of services, equipment, goods and inventory	**(23,978)**	(25,446)
Interest income	**1,090**	306
Interest expenses	**(6,867)**	(3,167)
Charge of provision for impairment of trade receivables	**(598)**	(2)
Charge of provision for impairment of other current assets	**(89)**	(86)
Charge of provision for impairment of current financial assets	**(1,598)**	-
Charge of provision for lawsuits and claims	**(1,064)**	(52)

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

(In millions of Russian Roubles unless otherwise stated)

9. Balances and transactions with related parties (continued)

9.2 Balances and transactions with other related parties

The nature of the related party relationships for those related parties with whom the Group entered into transactions or had balances outstanding at 31 December 2015 and 31 December 2014, except for companies directly or indirectly controlled by the Russian Government, are detailed below.

	Relationship	**31 December 2015**	31 December 2014
Trade receivables before provision charge	Associates	**27**	-
Provision for impairment of trade receivables	Associates	**(1)**	-
Trade receivables before provision charge	Joint venture	**507**	782
Trade receivables before provision charge	Significant influence via shareholder	**2,869**	10,104
Other current assets before provision charge	Associates	**14**	1
Provision for impairment of other current assets	Associates	**(1)**	-
Other current assets before provision charge	Joint venture	**5**	-
Other current assets before provision charge	Significant influence via shareholder	**659**	289
Provision for impairment of other current assets	Significant influence via shareholder	**(35)**	-
Receivables for jointly-controlled assets	Significant influence via shareholder	**16,087**	14,038
Prepayments for PPE before provision charge	Associates	**3**	5
Prepayments for PPE before provision charge	Significant influence via shareholder	**48**	-
Total assets		**20,182**	25,219
Trade payables	Associates	**122**	320
Trade payables	Joint venture	**15**	23
Trade payables	Significant influence via shareholder	**27,391**	9,016
Other payables	Associates	**21**	-
Other payables	Significant influence via shareholder	**1,111**	810
Loans and borrowings	Significant influence via shareholder	**7,978**	7,594
Advances received short-term	Associates	**4**	-
Advances received short-term	Joint venture	**13**	2
Advances received short-term	Significant influence via shareholder	**498**	602
Advances received long-term	Significant influence via shareholder	**2,155**	2,368
Total liabilities		**39,308**	20,735

As at 31 December 2015 the Company had interest-free advance payments of RR 2,524 (31 December 2014: RR 2,736) from Nissan Manufacturing RUS LLC (“Nissan”). According to the terms of the advance payments, proceeds from these advances can be used only to finance purchase of equipment. In exchange for the advances JSC AVTOVAZ agrees to make available to Nissan the reserved capacity on a new production line. During 2015 the Company offset trade receivables in amount of RR 387 (2014: RR 334) against interest-free advances received from Nissan.

The income and expense items with related parties for the year ended 31 December 2015 and 31 December 2014 were as follows:

	Relationship	**2015**	2014
Sales	Joint venture	**5,397**	6,664
Sales	Associates	**492**	1
Sales	Significant influence via shareholder	**54,195**	45,468
Purchases of goods, inventory and services	Associates	**(1,031)**	(1,417)
Purchases of goods, inventory and services	Joint venture	**(708)**	(754)
Purchases of equipment	Associates	**(24)**	(26)
Purchases of equipment	Significant influence via shareholder	**(1,190)**	(1,711)
Purchases of services	Significant influence via shareholder	**(4,730)**	(2,136)
Purchases of inventory	Significant influence via shareholder	**(34,632)**	(31,852)
Purchases of intangible assets	Significant influence via shareholder	**(229)**	(2,288)
Interest expenses	Significant influence via shareholder	**(380)**	(93)
Dividends	Associates	**-**	51
Administrative expenses	Short-term employee benefits - compensation of the Key Management	**(318)**	(318)
Administrative expenses	Short-term employee benefits - one-time termination payment to previous Key Management	**(66)**	(196)

(In millions of Russian Roubles unless otherwise stated)

10. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	31 December 2015	31 December 2014
Cash on hand and balances with banks	**4,272**	3,133
Short-term deposits	**715**	5,665
	4,987	8,798

As at 31 December 2015 cash on balances with banks denominated in Euro was RR 217, in US dollar was RR 46, in other foreign currency was RR 4 (31 December 2014: in Euro – RR 237, in US dollar – RR 41).

As at 31 December 2015 cash deposits denominated in roubles were RR 715 (31 December 2014: RR 5,665) and bear interest of 8.21% - 13% (2014: 7% - 27.45%). The Group’s balances with bank are not interest-bearing.

11. Trade receivables

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

			Past due but not impaired		
31 December	Trade receivables	Neither past due nor impaired	< 3 months	3 to 6 months	6 to 12 months
2015	**9,173**	**8,568**	**419**	**172**	**14**
2014	16,548	16,163	171	43	171

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

Balance at 31 December 2013	**1,197**
Charge/(unused amounts reversed)	65
Utilized	(859)
Disposal of subsidiary	(19)
Balance at 31 December 2014	**384**
Charge/(unused amounts reversed)	718
Utilized	(19)
Disposal of subsidiary	(40)
Balance at 31 December 2015	**1,043**

12. Financial assets

Financial assets consisted of the following:

	31 December 2015	31 December 2014
Loans issued less provision	**1,602**	1,991
Other	**24**	15
	1,626	2,006
Short-term	**717**	1,954
Long-term	**909**	52
	1,626	2,006

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

Balance at 31 December 2013	**1,120**
Charge/(unused amounts reversed)	(38)
Utilized	(229)
Balance at 31 December 2014	**853**
Charge/(unused amounts reversed)	1,596
Balance at 31 December 2015	**2,449**

(In millions of Russian Roubles unless otherwise stated)

13. Inventories

Inventories consisted of the following:

	31 December 2015	31 December 2014
Raw materials	**13,851**	13,749
Work in progress	**2,706**	2,704
Finished goods	**7,680**	4,708
	24,237	21,161

As at 31 December 2015 inventories are recorded net of obsolescence and net realisable value provision of RR 2,614 (31 December 2014: RR 1,458). As at 31 December 2015 the carrying amount of inventories recorded at net realisable value was RR 1,331 (31 December 2014: RR 193).

For the year ended 31 December 2015 the cost of write-down of inventories recognised as an expense was RR 394 (2014: RR 191).

The provision for inventories recognised as an expense for the year ended 31 December 2015 was RR 1,156 (2014: RR 839).

14. Other current assets

Other current assets consisted of the following:

	31 December 2015	31 December 2014
Prepayments and other receivables less provision	**4,877**	4,545
Value added tax	**2,291**	2,023
Assets of the Pension Fund	**1,247**	-
	8,415	6,568

In 2015 Non-profit organization NPF AVTOVAZ (“the Pension Fund”) was transformed into Joint-stock Company NPF AVTOVAZ, with the result that the Group obtained a control over the Pension Fund.

As at 31 December 2015 due to the acquisition of control over the Pension Fund, the Group's current assets included deposits in the amount of RR 938, as well as financial instruments at fair value through profit or loss, in the amount of RR 309 intended exclusively for pension savings and reserves.

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

Balance at 31 December 2013	**696**
Charge/(unused amounts reversed)	(184)
Utilized	(70)
Disposal of subsidiary	(9)
Balance at 31 December 2014	**433**
Charge/(unused amounts reversed)	367
Utilized	(70)
Disposal of subsidiary	(2)
Balance at 31 December 2015	**728**

(In millions of Russian Roubles unless otherwise stated)

15. Property, plant and equipment

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

	Buildings and land	Manufacturing equipment, machinery, specific tools	Office and other equipment	Construction in progress	Total
Cost					
Balance at 31 December 2013	80,523	139,656	5,858	21,380	247,417
Additions	-	-	-	22,202	22,202
Effect of OOO VMZ return	-	-	-	345	345
Joint operations (Note 18)	(3,849)	(9,292)	(210)	(2,391)	(15,742)
Disposals	(217)	(3,205)	(457)	(409)	(4,288)
Transfers	5,088	11,276	157	(16,521)	-
Balance at 31 December 2014	**81,545**	**138,435**	**5,348**	**24,606**	**249,934**
Accumulated depreciation and impairment					
Balance at 31 December 2013	(52,142)	(107,078)	(5,205)	(2,307)	(166,732)
Depreciation charge	(1,225)	(7,238)	(237)	-	(8,700)
Joint operations (Note 18)	24	742	19	-	785
Disposals	133	2,903	430	232	3,698
Reversal of impairment provision	-	-	115	682	797
Impairment charge	(1,307)	(1,194)	-	(236)	(2,737)
Balance at 31 December 2014	**(54,517)**	**(111,865)**	**(4,878)**	**(1,629)**	**(172,889)**
Net book value					
Balance at 31 December 2014	**27,028**	**26,570**	**470**	**22,977**	**77,045**
Cost					
Balance at 31 December 2014	81,545	138,435	5,348	24,606	249,934
Additions	-	-	-	23,181	23,181
Joint operations (Note 18)	(287)	(639)	(17)	(1,509)	(2,452)
Disposals	(288)	(4,791)	(889)	(153)	(6,121)
Transfers	2,152	20,133	450	(22,735)	-
Balance at 31 December 2015	**83,122**	**153,138**	**4,892**	**23,390**	**264,542**
Accumulated depreciation and impairment					
Balance at 31 December 2014	(54,517)	(111,865)	(4,878)	(1,629)	(172,889)
Depreciation charge	(1,170)	(7,457)	(300)	-	(8,927)
Disposals	174	4,822	648	36	5,680
Reversal of impairment provision	-	-	-	89	89
Impairment charge	(10,025)	(15,076)	(9)	(8,678)	(33,788)
Balance at 31 December 2015	**(65,538)**	**(129,576)**	**(4,539)**	**(10,182)**	**(209,835)**
Net book value					
Balance at 31 December 2015	**17,584**	**23,562**	**353**	**13,208**	**54,707**

The Group performed its annual impairment test in December 2015. As a result of impairment test management has recognised an impairment charge of RR 32,094. Impairment loss of RR 25,266 was allocated to property, plant and equipment. Key assumptions applied to the value in use calculations see in Note 6.

Construction in progress includes the cost of property, plant and equipment which have not yet been put into operation. Management annually reviews specific fixed assets and assets under construction and impairs those objects that are unlikely to be completed or used in future. Additional expenses for impairment of these assets of RR 8,522 were recorded in the consolidated statement of comprehensive income for the year ended 31 December 2015 (2014: RR 689) and relate to the automotive segment.

The amount of borrowing costs capitalised during 2015 was RR 1,201 (2014: RR 701). The rate used to determine the amount of borrowing costs eligible for capitalization in 2015 was 9.37% (2014: 6.29%).

As at 31 December 2015 and 31 December 2014, the gross book value of fully depreciated property, plant and equipment was RR 65,896 and RR 55,897, respectively.

(In millions of Russian Roubles unless otherwise stated)

15. Property, plant and equipment (continued)

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

	31 December 2015	31 December 2014
Cost – finance leases capitalised	**511**	2,059
Accumulated depreciation	**(219)**	(1,716)
Net book value	**292**	343

16. Intangible assets

Intangible assets consisted of the following:

	Right to use licenses	Development costs	Other intangible assets	Total
Cost				
Balance at 31 December 2013	9,158	4,947	991	15,096
Additions	-	3,175	461	3,636
Joint operations (Note 18)	-	(429)	-	(429)
Disposals	-	-	(454)	(454)
Balance at 31 December 2014	**9,158**	**7,693**	**998**	**17,849**
Amortisation and impairment				
Balance at 31 December 2013	(160)	(638)	(365)	(1,163)
Additions to accumulated amortization	(1,116)	(541)	(413)	(2,070)
Disposals	-	-	454	454
Impairment charge	(218)	(174)	(137)	(529)
Balance at 31 December 2014	**(1,494)**	**(1,353)**	**(461)**	**(3,308)**
Net book value at 31 December 2014	**7,664**	**6,340**	**537**	**14,541**
Cost				
Balance at 31 December 2014	9,158	7,693	998	17,849
Additions	-	6,806	458	7,264
Joint operations (Note 18)	-	(50)	-	(50)
Disposals	-	(84)	(512)	(596)
Balance at 31 December 2015	**9,158**	**14,365**	**944**	**24,467**
Amortisation and impairment				
Balance at 31 December 2014	(1,494)	(1,353)	(461)	(3,308)
Additions to accumulated amortisation	(1,084)	(730)	(361)	(2,175)
Disposals	-	-	512	512
Impairment charge	(2,382)	(4,446)	-	(6,828)
Balance at 31 December 2015	**(4,960)**	**(6,529)**	**(310)**	**(11,799)**
Net book value at 31 December 2015	**4,198**	**7,836**	**634**	**12,668**

In 2008 the Group and Renault s.a.s. signed license agreements in relation to production, assembling and sale of licensed cars and engines. As at 31 December 2015 intangible assets included licenses for production, assembling and sale of cars with net book value of RR 1,985 and engines with net book value of RR 2,213.

The Group performed its annual impairment test in December 2015. As a result of impairment test management has recognised an impairment charge of RR 32,094. Impairment loss of RR 6,828 was allocated to intangible assets. Key assumptions applied to the value in use calculations see in Note 6.

(In millions of Russian Roubles unless otherwise stated)

17. Investments in associates and a joint venture

Movements in investments in associates were as follows:

Balance at 31 December 2013	**238**
Share of profit of associates	31
Currency translation adjustment	119
Dividends received	(51)
Balance at 31 December 2014	**337**
Share of profit of associates	6
Currency translation adjustment	(12)
Disposal of investment	(39)
Balance at 31 December 2015	**292**

Interest in a joint venture consisted of investment in a joint venture ZAO GM-AVTOVAZ located in Togliatti, the Samara region of the Russian Federation. ZAO GM-AVTOVAZ produces the Chevrolet NIVA vehicles from the assembly kits supplied by the Group. JSC AVTOVAZ and GM Auslandsprojekte GMBH equally hold 50% in share capital of ZAO GM-AVTOVAZ.

Balance at 31 December 2013	**2,865**
Share of profit from joint venture	227
Balance at 31 December 2014	**3,092**
Share of loss from joint venture	(1,312)
Balance at 31 December 2015	**1,780**

The following amounts represent assets and liabilities, sales and financial results of the joint venture, which have been consolidated using the equity method:

	31 December 2015	31 December 2014
Assets:		
Long-term assets	**4,073**	4,017
Current assets, including cash and cash equivalents of RR 1,399 (2014: RR 2,632)	**3,331**	4,992
Liabilities:		
Long-term liabilities	**(38)**	(59)
Current liabilities	**(3,806)**	(2,766)
Net assets	**3,560**	6,184
Share of the Group in a joint venture	**1,780**	3,092
Revenue	**15,643**	19,020
Depreciation and amortisation	**(156)**	(186)
Interest income	**223**	245
Income tax benefit/(expense)	**172**	(128)
(Loss)/profit after income tax	**(2,624)**	454
Total comprehensive (loss)/income	**(2,624)**	454
Share of the Group of (loss)/profit from joint venture	**(1,312)**	227

18. Receivables for jointly-controlled assets

In 2014 JSC AVTOVAZ signed an assembly agreement with Renault s.a.s. In addition, the terms of the assembly agreement with Nissan were changed in the second half of 2014. The agreements with Nissan and Renault s.a.s. contain the characteristics of joint arrangements and were classified as joint operations in accordance with IFRS 11. In 2015 as a result, fixed assets in the amount of RR 2,452 (2014: RR 14,957) previously recognized in accordance with IAS 16 and intangible assets in the amount of RR 50 (2014: RR 429) previously recognized in accordance with IAS 38 and related to Nissan and Renault's share of fixed assets and intangible assets held jointly were reclassified to long-term receivables under IFRS 11. During 2015 the Group received RR 453 (2014: RR 1,348) cash from Renault and Nissan to redeem part of these receivables.

(In millions of Russian Roubles unless otherwise stated)

19. Other payables and accrued expenses

Other payables and accrued expenses consisted of the following:

	31 December 2015	31 December 2014
Payables for fixed assets and construction in progress	**7,349**	7,891
Salaries payable, vacation and other accruals	**2,621**	2,962
Liabilities of the Pension Fund	**1,558**	-
Other	**1,738**	1,500
	13,266	12,353

20. Provisions

Movements in provisions were as follows:

	Lawsuits and claims	**Restructuring**	**Warranty**	**Total**
Balance at 31 December 2013	**-**	**-**	**1,937**	**1,937**
Charge	127	-	1,310	1,437
Utilized	-	-	(1,436)	(1,436)
Balance at 31 December 2014	**127**	**-**	**1,811**	**1,938**
Short-term portion	127	-	1,111	1,238
Long-term portion	-	-	700	700
	127	**-**	**1,811**	**1,938**
Charge	1,094	193	924	2,211
Utilized	(127)	-	(1,290)	(1,417)
Balance at 31 December 2015	**1,094**	**193**	**1,445**	**2,732**
Short-term portion	1,094	193	924	2,211
Long-term portion	-	-	521	521
	1,094	**193**	**1,445**	**2,732**

In December 2015 the Company accrued provisions for legal claims received from OOO RT-Energotrading in the amount of RR 475 and for contingent liability to OOO Avtograd-Vodokanal for water pollution in the amount of RR 589 (2014: RR 52).

In December 2015 the Group accrued provisions for the costs of restructuring of its Prototype Production Division in the amount of RR 87 and OOO VMZ in the amount of RR 106.

21. Loans and borrowings

Short-term loans and borrowings consisted of the following:

	31 December 2015	31 December 2014
Rouble-denominated bank loans	**40,822**	29,682
Foreign currency denominated bank loans	**2,860**	8,655
Rouble-denominated other loans	**62**	272
Foreign currency denominated other loans and borrowings	**1,120**	873
	44,864	39,482

Long-term loans and borrowings consisted of the following:

	31 December 2015	31 December 2014
Rouble-denominated bank loans	**33,483**	12,970
Rouble-denominated interest-free loans	**7,333**	6,513
Rouble-denominated interest-free promissory notes	**658**	2,185
Foreign currency denominated bank loans	**156**	260
Rouble-denominated other loans	**406**	468
Foreign currency denominated other loans and borrowings	**6,857**	6,720
	48,893	29,116

Average interest rate for outstanding rouble-denominated bank loans was 12.55% (31 December 2014: 11.51%) and foreign currency denominated bank loans was 4.83% (31 December 2014: 5.22%). Foreign currency denominated bank loans are in Euro and Yen. As at 31 December 2015 the Group had RR 630 (31 December 2014: RR 1,295) of bank loans with floating interest rate.

(In millions of Russian Roubles unless otherwise stated)

21. Loans and borrowings (continued)

As at 31 December 2015 the Company had an open credit line in Vnesheconombank with limit of RR 45,142. The loan can be used only to finance investment projects of the Company. The loan is repayable by equal quarterly instalments from 2017 to 2023. As at 31 December 2015 outstanding principal balance under this credit line amounted to RR 25,114 (31 December 2014: RR 9,653).

In April 2015 the OOO OAG and Vnesheconombank signed agreement on opening a credit line with the limit of RR 14,857, maturity date in 2024. As at 31 December 2015 outstanding principal balance under this credit line amounted to RR 6,836.

As at 31 December 2015 the Company was not in compliance with financial covenants set by loan agreements with banks, which include gearing, EBITDA, profitability and liquidity ratios. As at 31 December 2015, the Company had RR 36,579 of bank loans with breached covenants. Credit institutions are able to claim for early repayments of the debts. Therefore RR 24,394 of long-term debt with breached covenants was classified as short-term liabilities. As at 31 December 2015 the Company received waivers in the amount of RR 2,711 from Rosbank, Garanti Bank-Moscow and Societe Generale in relation to breached loan covenants. As of the date of approval of these financial statements credit institutions have brought no claims to the Company to demand early payment of the debt.

Long-term loans and borrowings are repayable as follows:

	31 December 2015	31 December 2014
Current portion of loans and borrowings	**11,614**	7,794
1 to 5 years	**50,338**	34,752
> 5 years	**22,949**	16,711
Total long-term loans and borrowings	**84,901**	59,257
Less current portion of loans and borrowings	**(11,614)**	(7,794)
Less loans with breached covenants	**(24,394)**	(22,347)
Long-term portion of loans and borrowings	**48,893**	29,116

As at 31 December 2015 the Group had available RR 38,591 (31 December 2014: RR 42,701) of undrawn committed borrowing facilities, in which RR 263 are available for future operating activities and RR 38,328 are available for investment activities.

As at 31 December 2015 and 31 December 2014 the Group's loans and borrowings of RR 51,700 and RR 20,999, respectively, including short-term loans and borrowings, were guaranteed of mainly fixed assets in the amount of RR 12,953 (31 December 2014: RR 12,707).

Finance lease liabilities were included in rouble-denominated other loans. Finance lease liabilities - minimum lease payments were as follows:

	31 December 2015	31 December 2014
Not later than one year	**113**	113
1 to 5 years	**460**	451
> 5 years	**91**	213
	664	777
Finance lease servicing	**(196)**	(253)
Present value of finance lease liabilities	**468**	524

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

	31 December 2015	31 December 2014
Not later than one year	**62**	56
1 to 5 years	**331**	290
> 5 years	**75**	178
	468	524

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

(In millions of Russian Roubles unless otherwise stated)

22. Other taxes

Other taxes payable – current

Current taxes payable were as follows:

	31 December 2015	31 December 2014
Utilization fee	**1,720**	1,875
Social taxes	**1,032**	885
Value added tax	**843**	606
Property and other taxes	**945**	927
	4,540	4,293

Other taxes payable – long-term

Long-term taxes payable comprise various taxes payable to the Russian Government which were previously past due and which have been restructured.

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

	31 December 2015	31 December 2014
Current portion of restructured taxes	**412**	251
1 to 2 years	**312**	413
2 to 3 years	**-**	314
Total restructured taxes	**724**	978
Less current portion of restructured taxes	**(412)**	(251)
Long-term portion of restructured taxes	**312**	727

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 2015			31 December 2014		
	No. of shares	**Legal statutory value**	**Carrying amount**	No. of shares	Legal statutory value	Carrying amount
Class A preference	**461,764,300**	**2,309**	**9,235**	461,764,300	2,309	9,235
Ordinary	**1,822,463,131**	**9,112**	**29,937**	1,822,463,131	9,112	29,937
Total outstanding share capital	**2,284,227,431**	**11,421**	**39,172**	2,284,227,431	11,421	39,172

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

Class A preference shares 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.

In June 2015 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2014 (2014: a decision not to pay dividends in respect of 2013). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

(In millions of Russian Roubles unless otherwise stated)

24. Sales

The components of sales revenue were as follows:

	2015	2014
Vehicles and assembly kits	**156,025**	172,083
Automotive components	**13,264**	11,205
Dealership sales of other producers' vehicles	**1,121**	1,144
Other sales	**6,072**	7,296
	176,482	191,728

	2015	2014
Domestic sales	**164,254**	174,878
Export sales in CIS countries	**9,373**	15,420
Export sales in EU countries	**1,466**	713
Other export sales	**1,389**	717
	176,482	191,728

Geographical information is presented based on the location of customers.

25. Cost of sales

Cost of sales comprises expenses incurred in the manufacturing of vehicles, assembly kits and spare parts, mainly the cost of materials and components. The remaining costs in 2015 principally include labor costs in amount of RR 23,646 (2014: RR 25,777) as well as depreciation and amortisation amounted to RR 9,497 (2014: RR 9,509).

In 2015 based on Government regulations on utilization fee the Group incurred costs of utilization fee in amount of RR 8,053 (2014: RR 9,580).

26. Administrative expenses

The components of administrative expenses were as follows:

	2015	2014
Labour costs	**5,632**	6,392
Third parties' services	**3,127**	1,273
Depreciation and amortisation	**534**	538
Transportation	**497**	547
Maintenance and servicing of office buildings	**370**	389
Local and regional taxes	**311**	407
Bank services	**304**	329
Other	**432**	404
	11,207	10,279

27. Distribution costs

The components of distribution costs were as follows:

	2015	2014
Labour costs	**1,747**	1,785
Advertising	**1,432**	1,616
Charge to provision for impairment of trade receivables	**718**	65
Charge to/(reversal of) provision for impairment of other current assets	**367**	(184)
Depreciation and amortisation	**296**	137
Materials	**110**	148
Other	**1,003**	1,286
	5,673	4,853

(In millions of Russian Roubles unless otherwise stated)

28. Research and development expenses

The components of research and development expenses were as follows:

	2015	2014
Depreciation and amortisation	**775**	586
Labour costs	**417**	190
Third parties' services	**377**	380
Materials	**277**	87
Write-off of capitalised development costs	**84**	-
Other	**159**	125
	2,089	1,368

29. Other operating income and expenses

The components of other operating income and expenses were as follows:

	2015	2014
Gain/(loss) on disposal of property, plant and equipment	**173**	(85)
Gain on disposal of subsidiaries and associates	**128**	118
Loss on consolidation of the Pension Fund	**(197)**	-
Other income and expenses	**1**	(31)
	105	2

30. Impairment provisions and restructuring costs

The components of impairment provisions and restructuring costs were as follows:

	2015	2014
Impairment loss (Note 6)	**(32,094)**	(2,577)
Provision for impairment of idle assets	**(8,433)**	(645)
Termination payments to employees	**(1,327)**	(1,466)
Restructuring costs	**(241)**	-
	(42,095)	(4,688)

31. Other finance income and expenses

The components of other finance income and expenses were as follows:

	2015	2014
Gain on derecognition of the liability on promissory notes	**1,837**	-
Gain on derecognition of financial liability	**91**	213
Gain on sale of financial assets	**80**	-
Foreign exchange loss	**(1,823)**	(6,398)
Loss from VMZ return	**-**	(1,314)
Other income and expenses	**32**	3
	217	(7,496)

32. Government subsidies

In 2015 the Group recognised income on the following subsidies from the federal budget:

- compensation of costs for vehicle manufacturers and compensation of costs under the program of vehicle park renewal in the amount of RR 13,289 (2014: RR 12,385), recorded within cost of sales;
- compensation of interest on investment loans in the amount of RR 1,619 (2014: RR 936) recorded within net interest income and expenses.

(In millions of Russian Roubles unless otherwise stated)

33. Income tax (expenses)/benefit

	2015	2014
Income tax expense – current	**(71)**	(89)
Deferred tax (expenses)/benefit	**(737)**	345
	(808)	256

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

	2015	2014
Loss before taxation	**(73,043)**	(25,306)
Theoretical tax expenses at statutory rate of 20%	**14,609**	5,061
Unrecognised tax losses carried forward	**(13,641)**	(3,364)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	**6**	49
Non-deductible expenses	**(1,782)**	(1,490)
	(808)	256

During 2015 most of the Group's entities were subject to tax rate of 20% on taxable profits.

Deferred tax assets and liabilities:

	31 December 2013	**Movement for 2014**	**31 December 2014**	**Movement for 2015**	**31 December 2015**
Tax effects of temporary differences:					
Provision for impairment of receivables	226	(168)	58	128	186
General and overhead expenses allocation on inventories	(478)	385	(93)	(95)	(188)
Effect of inflation, different depreciation rates and provision for impairment of PPE	(3,022)	189	(2,833)	5,373	2,540
Difference in depreciation and provision for impairment of intangible assets	(2,123)	(367)	(2,490)	912	(1,578)
Accounts payable and provisions	1,089	201	1,290	166	1,456
Discounting of loans and borrowings	(10,572)	229	(10,343)	1,366	(8,977)
Other temporary differences	1,209	(1,138)	71	629	700
	(13,671)	(669)	(14,340)	8,479	(5,861)
Tax losses carried forward	8,882	4,378	13,260	4,425	17,685
Unrecognised tax losses carried forward	(241)	(3,364)	(3,605)	(13,641)	(17,246)
Deferred tax assets/(liabilities), net	**(5,030)**	**345**	**(4,685)**	**(737)**	**(5,422)**
Reflected in the statement of financial position:					
Deferred tax assets	566		553		1,301
Deferred tax liabilities	(5,596)		(5,238)		(6,723)
Deferred tax liabilities, net	**(5,030)**		**(4,685)**		**(5,422)**

As at 31 December 2015 cumulative tax loss in the amount of RR 2,195 (31 December 2014: RR 48,275), for which deferred tax asset was recognised, is available for offset against future taxable profit during successive 7-10 years.

The temporary differences associated with investments in subsidiaries amount to RR 9,013 and RR 9,311 as of 31 December 2015 and 31 December 2014, respectively. A deferred tax asset in respect of temporary difference related to the Group's investments in subsidiaries was not recognized as it is not probable that taxable profit will be available in the foreseeable future against which the temporary difference can be utilized.

(In millions of Russian Roubles unless otherwise stated)

34. Loss per share

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

	31 December 2015	31 December 2014
Weighted average number of ordinary and preference shares outstanding (thousands)	**2,284,227**	2,284,227
Loss attributable to ordinary/preference equity holders of the Company	**(73,940)**	(25,111)
Loss per share (in Roubles):		
- basic/diluted for loss for the year attributable to ordinary/preference equity holders of the Company	**(32.37)**	(10.99)

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

35. Contingencies, commitments and guarantees

35.1 Contractual commitments and guarantees

As at 31 December 2015 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 13,308 (31 December 2014: RR 30,411).

35.2 Operating lease commitments

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

	31 December 2015	31 December 2014
Not later than 1 year	**72**	71
Later than 1 year and not later than 5 years	**281**	282
Later than 5 years	**2,526**	2,611
	2,879	2,964

The amount of lease payments recognised as an expense for the year ended 31 December 2015 was RR 72 (2014: RR 71).

35.3 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.

In 2015, tax law was amended to counter the use of low tax jurisdictions and aggressive tax planning structures. These amendments are effective from 2016.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. It is therefore possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, the tax authorities may review earlier tax periods.

Management believes that at 31 December 2015 its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.

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

The Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market level of prices. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions.

For domestic transactions the transfer pricing rules apply only if the amount of all transactions with related party exceeds RR 1 billion in 2015. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

35. Contingencies, commitments and guarantees (continued)

35.3 Taxation (continued)

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

35.4 Environmental matters

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

35.5 Legal proceedings

During 2015, 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 unrecorded claims outstanding which could have a material effect on the result of operations or financial position of the Group.

35.6 Operating environment in Russia

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

In 2015 the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries in 2014. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects.

The management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances and offset expected further negative effects by the anti-crisis plan containing a series of measures to optimize production costs, restructure the supply base and support sales in and outside Russia.

36. Segment information

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

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

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on financial information prepared in accordance with IFRS.

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

(In millions of Russian Roubles unless otherwise stated)

36. Segment information (continued)

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

	Automotive		Dealership network		Other segments		Eliminations		Total	
Year ended 31 December	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue										
Sales to external customers	**150,551**	159,846	**10,872**	18,948	**15,059**	12,934	**-**	-	**176,482**	191,728
Inter-segment sales	**13,866**	21,639	**922**	454	**5,786**	4,273	**(20,574)**	(26,366)	**-**	-
Intra-segments sales	**35,183**	29,874	**5**	58	**24**	182	**(35,212)**	(30,114)	**-**	-
Total revenue	**199,600**	211,359	**11,799**	19,460	**20,869**	17,389	**(55,786)**	(56,480)	**176,482**	191,728
Results										
Depreciation and amortisation	**(10,710)**	(10,427)	**(225)**	(93)	**(167)**	(250)	**-**	-	**(11,102)**	(10,770)
Impairment of assets	**(44,762)**	(3,264)	**(41)**	(69)	**(145)**	(115)	**-**	-	**(44,948)**	(3,448)
Interest expense	**(6,269)**	(3,825)	**(69)**	(100)	**(1)**	(10)	**-**	-	**(6,339)**	(3,935)
Interest income	**1,114**	550	**58**	28	**31**	15	**-**	-	**1,203**	593
Income tax (expense)/ benefit	**(802)**	367	**(87)**	(140)	**81**	29	**-**	-	**(808)**	256
Share of (loss)/profit of associates and a joint venture	**(1,306)**	258	**-**	-	**-**	-	**-**	-	**(1,306)**	258
IFRS loss for the year	**(72,857)**	(21,850)	**272**	160	**(1,266)**	(3,360)	**-**	-	**(73,851)**	(25,050)

Inter-segment and intra-segments sales revenue are eliminated on consolidation.

	Automotive		Dealership network		Other segments		Total	
	31 December		31 December		31 December		31 December	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Segment assets	**151,610**	187,183	**6,129**	6,023	**11,290**	7,485	**169,029**	200,691
Intra-segment eliminations	**(15,074)**	(17,351)	**(1,521)**	(1,499)	**(28)**	(228)	**(16,623)**	(19,078)
Inter-segment eliminations	**(13,332)**	(15,206)	**(800)**	(660)	**(3,001)**	(1,051)	**(17,133)**	(16,917)
Total assets	**123,204**	154,626	**3,808**	3,864	**8,261**	6,206	**135,273**	164,696
Segment liabilities	**(182,811)**	(140,513)	**(3,776)**	(4,756)	**(8,272)**	(7,861)	**(194,859)**	(153,130)
Intra-segment eliminations	**11,512**	13,790	**1,288**	1,154	**13**	213	**12,813**	15,157
Inter-segment eliminations	**3,153**	1,311	**1,250**	1,846	**3,643**	5,041	**8,046**	8,198
Total liabilities	**(168,146)**	(125,412)	**(1,238)**	(1,756)	**(4,616)**	(2,607)	**(174,000)**	(129,775)

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

37. 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 2015 and 2014 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 (Note 24). As a result the Group has currency exposures. Such exposure arises from sales in currencies other than Group's functional currency. Almost 99% of sales are denominated in the functional currency, whilst approximately 15% of costs are denominated in currencies other than Roubles. As at 31 December 2015 the Group had RR 267 of cash and cash equivalents, RR 576 of trade and other receivables, RR 10,993 of loans and borrowings, RR 12,553 of trade and other payables denominated in currencies other than Group's functional currency. Risk management is carried out by JSC AVTOVAZ Finance Department, which identifies, evaluates and manages foreign exchange risks by analysing the net position in each foreign currency. The Group is not exposed to equity securities price risk. The Group has not entered into any hedging arrangements in respect of its foreign currency exposure.

(In millions of Russian Roubles unless otherwise stated)

37. Financial risk management objectives and policies (continued)

The following table demonstrates the sensitivity to a change in the US dollar, Euro, Japanese Yen, Chinese Yuan and British Pound Sterling exchange rate of the Group's profit before tax.

	Increase/decrease in exchange rate, %	Effect on profit before tax
2015		
EUR/RR	**43.00**	**(8,803)**
JPY/RR	**47.00**	**(820)**
USD/RR	**40.00**	**(52)**
CNY/RR	**35.00**	**(26)**
GBP/RR	**37.00**	**(19)**
EUR/RR	**-15.00**	**3,071**
JPY/RR	**-11.00**	**192**
USD/RR	**-13.00**	**17**
CNY/RR	**-22.00**	**16**
GBP/RR	**-17.00**	**9**
2014		
EUR/RR	29.58	(6,719)
JPY/RR	31.09	(250)
USD/RR	28.54	(25)
EUR/RR	-29.58	6,719
JPY/RR	-31.09	250
USD/RR	-28.54	25

Credit risk

As at 31 December 2015 the Group has RR 4,987 (31 December 2014: RR 8,798) in cash and cash equivalents, RR 717 (31 December 2014: RR 1,954) of current financial assets and RR 909 (31 December 2014: RR 52) 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 and bonds.

The table below summarizes the maturity of the Group's financial liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted payments.

	Less than three months	3 to 12 months	1 to 5 years	> 5 years	Total
Year ended 31 December 2015					
Loans and borrowings	**3,900**	**9,003**	**32,766**	**78,221**	**123,890**
Trade and other payables	**57,221**	**3,345**	**-**	**-**	**60,566**
Loans with breached covenants	**4,631**	**11,317**	**27,298**	**-**	**43,246**
Year ended 31 December 2014					
Loans and borrowings	1,825	3,598	18,828	69,014	93,265
Trade and other payables	41,494	3,352	-	-	44,846
Loans with breached covenants	1,245	15,505	25,785	-	42,535

Cash flow and fair value interest rate risk

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

(In millions of Russian Roubles unless otherwise stated)

37. Financial risk management objectives and policies (continued)

Financial instruments and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	Carrying amount		Assets and liabilities for which fair values are disclosed (Level 2)		Assets measured at fair value (Level 2)	
	31 December 2015	31 December 2014	**31 December 2015**	31 December 2014	**31 December 2015**	31 December 2014
FINANCIAL ASSETS:						
Cash and cash equivalents	**4,987**	8,798	**4,987**	8,798	**-**	-
Trade receivables	**9,173**	16,548	**9,173**	16,548	**-**	-
Short-term assets of the Pension Fund – deposit accounts	**938**	-	**938**	-	**-**	-
Short-term assets of the Pension Fund at fair value through profit or loss	**309**	-	**-**	-	**308**	-
Financial assets – current	**717**	1,954	**717**	1,954	**-**	-
Financial assets – long-term	**894**	37	**894**	37	**-**	-
Other current assets	**7,168**	6,568	**7,168**	6,568	**-**	-
FINANCIAL LIABILITIES:						
Short-term loans and borrowings	**44,864**	39,482	**44,864**	39,482	**-**	-
Long-term loans and borrowings	**48,893**	29,116	**51,150**	32,789	**-**	-
Trade payables	**47,300**	32,493	**47,300**	32,493	**-**	-
Other payables and accrued expenses	**13,266**	12,353	**13,266**	12,353	**-**	-
Other taxes – long-term	**312**	727	**315**	746	**-**	-

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 2015, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

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

Discount rate used for assessment of fair value of long-term borrowings was 11% (2014: 11%). To assess the fair value of long-term taxes liabilities they were discounted at 8.25% rate (2014: 8.25%).

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

During the year ended 31 December 2015, 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.

37. Financial risk management objectives and policies (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during 2015 and 2014.