AVTOVAZ GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

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Совершенствуя бизнес,
улучшаем мир

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Report on review of interim condensed consolidated financial statements

To the shareholders of JSC AVTOVAZ

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC AVTOVAZ and its subsidiaries ("the Group"), comprising the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

30 September 2014

AVTOVAZ GROUP
Interim Consolidated Statement of Financial Position
as at 30 June 2014
(In millions of Russian Roubles)

	Note	30 June 2014 Unaudited	31 December 2013 Audited
ASSETS			
Current assets:			
Cash and cash equivalents	4, 29	**5,899**	3,384
Trade receivables	5, 29	**14,053**	5,848
Financial assets	6, 29	**65**	176
Inventories	7	**25,810**	28,233
Other current assets	8	**7,052**	5,326
		52,879	42,967
Long-term assets:			
Property, plant and equipment	9	**80,258**	77,713
Financial assets	11, 29	**49**	90
Investments in associates	12	**232**	238
Interest in a joint venture	13	**3,047**	2,865
Intangible assets	10	**14,601**	13,296
Deferred tax assets		**701**	566
Other long-term assets	14	**5,086**	4,519
		103,974	99,287
Total assets		**156,853**	142,254
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	29	**23,010**	16,954
Other payables and accrued expenses	15	**5,964**	4,891
Income tax liability		**36**	45
Taxes other than income tax	17	**4,953**	1,657
Provisions		**1,142**	1,130
Loans and borrowings	16, 29	**27,852**	23,247
Advances from customers		**1,356**	1,000
		64,313	48,924
Long-term liabilities:			
Loans and borrowings	16, 29	**28,659**	23,404
Taxes other than income tax	29	**854**	978
Provisions		**790**	807
Deferred tax liabilities		**4,746**	5,596
Advances received		**2,572**	2,785
		37,621	33,570
Total liabilities		**101,934**	82,494
Equity attributable to equity holders of the Company			
Share capital	18	**39,172**	39,172
Share premium		**15,300**	15,300
Currency translation adjustment		**292**	257
(Accumulated losses)/retained earnings		**(140)**	4,723
		54,624	59,452
Non-controlling interests		**295**	308
Total equity		**54,919**	59,760
Total liabilities and equity		**156,853**	142,254

E.S.Belinin
Acting President, JSC AVTOVAZ

30 September 2014

S.A.Kochetkova
Chief Accountant, JSC AVTOVAZ

The accompanying notes on pages 6 to 20 are an integral part of these consolidated financial statements.

AVTOVAZ GROUP
Interim Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2014
(In millions of Russian Roubles except for earnings per share)

	Note	Six months ended 30 June Unaudited 2014	2013
Sales	19	**90,427**	82,980
Cost of sales	20	**(83,735)**	(77,167)
Gross profit		**6,692**	5,813
Administrative expenses	21	**(5,962)**	(6,556)
Distribution costs	22	**(3,451)**	(3,628)
Research expenses		**(430)**	(963)
Share of profit from joint venture	13	**182**	848
Share of associates' loss	12	**(6)**	(10)
Other operating income	23	**1,098**	3,236
Other operating expenses	24	**(1,603)**	(860)
Operating loss		**(3,480)**	(2,120)
Finance income		**324**	168
Finance costs		**(2,674)**	(1,770)
Loss before taxation		**(5,830)**	(3,722)
Income tax benefit	25	**954**	1,104
Loss for the period		**(4,876)**	(2,618)
Loss attributable to:			
Equity holders of the Company		**(4,863)**	(2,579)
Non-controlling interests		**(13)**	(39)
		(4,876)	(2,618)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation adjustment		**35**	46
Total other comprehensive income for the period to be reclassified to profit or loss in subsequent periods, net of taxes		**35**	46
Total comprehensive loss for the period, net of taxes		**(4,841)**	(2,572)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(4,828)**	(2,533)
Non-controlling interests		**(13)**	(39)
Total comprehensive loss for the period, net of taxes		**(4,841)**	(2,572)
Weighted average number of shares outstanding during the period (thousands)		**2,284,227**	2,284,227
Loss per share, basic/diluted (in RR):			
- loss for the period attributable to ordinary/preference equity holders of the Company		**(2.13)**	(1.13)

The accompanying notes on pages 6 to 20 are an integral part of these consolidated financial statements.

(In millions of Russian Roubles)

	Note	Six months ended 30 June Unaudited 2014	Six months ended 30 June Unaudited 2013
Cash flows from operating activities:			
Loss before taxation		**(5,830)**	(3,722)
Adjustments for:			
Depreciation and amortization	9, 10	**5,607**	4,796
Charge to provision for impairment of trade receivables	21	**122**	42
(Reversal of)/charge to provision for impairment of other current assets	21	**(237)**	41
Charge to/(reversal of) provision for impairment of current financial assets	23, 24	**39**	(257)
Reversal of provision for impairment of long-term financial assets	23	**-**	(5)
Reversal of provision for impairment of other long-term assets	21	**(83)**	-
Interest expense		**2,370**	1,139
Provision for impairment of property, plant and equipment	24	**136**	119
Gain on disposal of property, plant and equipment	23	**(1)**	(62)
Share of associates' loss	12	**6**	10
Share of profit from joint venture	13	**(182)**	(848)
Gain on derecognition of financial liability	23	**(205)**	(2,276)
Gain on disposal of subsidiaries and other investments	23	**(109)**	(48)
Foreign exchange effect on non-operating balances		**307**	593
Operating cash flows before working capital changes		**1,940**	(478)
Change in trade receivables		**(8,398)**	353
Change in other assets		**(1,804)**	(76)
Change in inventories		**2,331**	(612)
Change in trade payables and other payables and accrued expenses		**7,433**	(5,321)
Change in tax liabilities other than income tax		**3,146**	222
Change in advances from customers		**262**	558
Cash generated from/(used in) operations		**4,910**	(5,354)
Income tax paid		**(40)**	(73)
Interest received		**298**	285
Interest paid		**(1,927)**	(905)
Net cash generated from/(used in) operating activities		**3,241**	(6,047)
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets		**(10,046)**	(7,519)
Proceeds from the sale of property, plant and equipment		**186**	321
Purchase of financial assets		**(51)**	(150)
Proceeds from the sale of financial assets		**146**	1,581
Proceeds from the sale of subsidiaries less cash disposed of		**51**	15
Dividends received		**-**	865
Net cash used in investing activities		**(9,714)**	(4,887)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**14,828**	12,895
Repayment of loans and borrowings		**(5,837)**	(2,443)
Long-term advances received		**-**	748
Net cash generated from financing activities		**8,991**	11,200
Effect of exchange rate changes		**(3)**	38
Net increase in cash and cash equivalents		**2,515**	304
Cash and cash equivalents at the beginning of the period	4	**3,384**	8,398
Cash and cash equivalents at the end of the period	4	**5,899**	8,702

(In millions of Russian Roubles)

	Equity attributable to equity holders of the Company						
	Share capital	Share premium	Currency translation adjustment	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2012	**39,172**	**15,300**	**106**	**12,413**	**66,991**	**515**	**67,506**
Loss for the period	-	-	-	(2,579)	(2,579)	(39)	(2,618)
Other comprehensive income	-	-	46	-	46	-	46
Total comprehensive income/(loss)	**-**	**-**	**46**	**(2,579)**	**(2,533)**	**(39)**	**(2,572)**
Balance at 30 June 2013 (Unaudited)	**39,172**	**15,300**	**152**	**9,834**	**64,458**	**476**	**64,934**
Balance at 31 December 2013	**39,172**	**15,300**	**257**	**4,723**	**59,452**	**308**	**59,760**
Loss for the period	-	-	-	(4,863)	(4,863)	(13)	(4,876)
Other comprehensive income	-	-	35	-	35	-	35
Total comprehensive income/(loss)	**-**	**-**	**35**	**(4,863)**	**(4,828)**	**(13)**	**(4,841)**
Balance at 30 June 2014 (Unaudited)	**39,172**	**15,300**	**292**	**(140)**	**54,624**	**295**	**54,919**

1. Corporate information

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 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 singed 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 Rostechnologii. 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 30 June 2014 50% less one share of equity interest in Alliance Rostec Auto B.V. belonged to Renault s.a.s., 32.87% to State Corporation Rostechnologii and 17.13% to Nissan International Holding B.V.

In 2013 JSC AVTOVAZ launched the production of Nissan model and in 2014 - Renault and Datsun models.

These interim condensed consolidated financial statements were authorised for issue by the Acting President of JSC AVTOVAZ on 30 September 2014.

2. Basis of preparation of the interim condensed consolidated financial statements and changes to significant accounting policies and estimates

2.1 Basis of preparation of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with AVTOVAZ Group's annual consolidated financial statements as at 31 December 2013.

2.2 Adopted accounting standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations as of 1 January 2014, noted below.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the Group's entities qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has no derivatives in the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on the Group.

IFRIC 21 Levies
IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation.

2. Basis of preparation of the interim condensed consolidated financial statements and changes to significant accounting policies and estimates (continued)

2.2 Adopted accounting standards and interpretations (continued)

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements.

The adoption of above amendments and interpretations has no significant impact on financial position and performance of the Group.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In May 2014, the IASB issued an amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires application of IFRS 3 *Business Combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Company is currently assessing the impact of the amendment on the consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled *Clarification of Acceptable Methods of Depreciation and Amortization*. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In November 2013, the IASB issued amendments to IAS 19 *Employee Benefits*, entitled *Defined Benefit Plans*: *Employee Contributions*. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after 1 July 2014 with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2.3 Impairment of non-financial assets

As at 31 December 2013 the Group assesses whether there is any indication that non-financial assets may be impaired. The Group identified that certain indicators of impairment existed at that date and performed impairment test in accordance with IAS 36. As a result of impairment test made as at 31 December 2013, no impairment provision was recognised.

Based on the assessment of developments in the Groups' operating and financial performance since 31 December 2013, stock price fluctuations and future projections made by management, the Group concluded that there are no new indicators of impairment and no objective evidence of impairment affecting non-financial assets. During the six months ended 30 June 2014 the following improvements were achieved: revenue of the Group increased, the Group was able to cut certain expenses and improve its operating cash flow. The Group launched new models in line with the time schedule used in the business plan. As a result, there are no indicators of decline in the recoverable amount of non-financial assets tested for impairment since 31 December 2013. The book value of non-financial assets tested for impairment did not change significantly from 31 December 2013. As a result, no impairment provision was recognized at 30 June 2014.

2.4 Changes in accounting estimates

In 2008 the Group and Renault s.a.s. signed license agreements in relation to production, assembling and sale of licensed cars and engines. From 1 January 2014 the Group changed amortization method for the license for production, assembling and sale of cars from the unit-of-production method to the straight-line method because based on the new long-term production plan this method better reflects the expected usage of the license. The change in amortization method resulted in additional amortization charge for six months ended 30 June 2014 in the amount of RR 106 and was accounted for as changes in accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Note 10).

(In millions of Russian Roubles)

3. Balances and transactions with related parties

For the purpose of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. The Group entered into transactions with the following related parties: shareholders, associates, a joint venture, significant influence via shareholder 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 Rostechnologii is owned by the Russian Government.

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

As at 30 June 2014 and 31 December 2013 the Company had balances with the companies controlled by the Russian Government, which are detailed below.

	Unaudited 30 June 2014	31 December 2013
Cash and cash equivalents	**3,456**	1,157
Trade receivables before provision charge	**1,252**	1,465
Provision for impairment of trade receivables	**(861)**	(823)
Other current assets before provision charge	**1,468**	1,434
Provision for impairment of other current assets	**(4)**	(2)
Other long-term assets before provision charge	**955**	1,334
Provision for impairment of other long-term assets	**(522)**	(605)
Current financial assets before provision charge	**57**	-
Provision for impairment of current financial assets	**(9)**	-
Trade payables	**2,284**	1,234
Advances received short-term	**43**	-
Other payables	**1,887**	2,470
Loans and borrowings	**36,414**	24,596
Collateral issued by the Group	**15,919**	10,285
Loans received from State Corporation Rostechnologii	**6,135**	5,784

During the six months ended 30 June 2014 and 30 June 2013 the Company entered into transactions with the companies controlled by the Russian Government, which are detailed below.

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Sales	**434**	387
Purchases of services, goods and inventory	**12,756**	12,598
Interest income	**94**	93
Interest expenses	**1,447**	746
Reversal of provision for impairment of current financial assets	**-**	250
Charge of provision for impairment of current financial assets	**9**	-
Charge of provision for impairment of trade receivables	**38**	-
Reversal of provision for impairment of other long-term assets	**83**	-
Charge of provision for impairment of other current assets	**2**	-

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 provided based on the market interest rates. Taxes are accrued and paid in accordance with the applicable tax law.

(In millions of Russian Roubles)

3. Balances and transactions with related parties (continued)

3.2 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 30 June 2014 and 31 December 2013, except for companies directly or indirectly controlled by the Russian Government, are detailed below.

	Relationship	**Unaudited** **30 June 2014**	31 December 2013
Trade receivables before provision charge	Joint venture	**780**	882
Trade receivables before provision charge	Significant influence via shareholder	**4,201**	1,855
Other current assets before provision charge	Significant influence via shareholder	**43**	12
Other current assets before provision charge	Associates	**2**	-
Other long-term assets before provision charge	Associates	**5**	-
Other long-term assets before provision charge	Significant influence via shareholder	**5**	637
Trade payables	Associates	**208**	318
Trade payables	Joint venture	**65**	34
Trade payables	Significant influence via shareholder	**4,360**	1,719
Other payables	Associates	**1**	13
Other payables	Joint venture	**-**	2
Other payables	Significant influence via shareholder	**158**	125
Loans and borrowings	Significant influence via shareholder	**5,351**	5,528
Advances received short-term	Significant influence via shareholder	**529**	285
Advances received long-term	Significant influence via shareholder	**2,572**	2,785

The transactions with related parties for the six months ended 30 June 2014 and 30 June 2013 were as follows:

	Relationship	**Unaudited** **Six months ended 30 June 2014**	Six months ended 30 June 2013
Sales	Joint venture	**3,249**	3,727
Sales	Associates	**-**	1
Sales	Significant influence via shareholder	**14,442**	2,431
Purchases of goods, inventory and services	Associates	**679**	622
Purchases of equipment	Associates	**26**	2
Purchases of inventory	Significant influence via shareholder	**13,687**	526
Purchases of equipment	Significant influence via shareholder	**637**	341
Purchases of services	Significant influence via shareholder	**267**	186
Purchases of intangible assets	Significant influence via shareholder	**1,483**	-
Purchases of goods, inventory and services	Joint venture	**374**	353
Purchases of goods and inventory	Shareholder	**-**	6,720
Other services	Shareholder	**-**	552
Administrative expenses	Short-term employee benefits - compensation of the Key Management	**160**	78

(In millions of Russian Roubles)

4. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Short-term deposits and bank promissory notes	**3,026**	1,738
Rouble-denominated cash on hand and balances with banks	**2,873**	1,646
	5,899	3,384

5. Trade receivables

The ageing analysis of trade receivables is as follows:

	Trade receivables	Neither past due nor impaired	Past due but not impaired: < 3 months	Past due but not impaired: 3 to 6 months	Past due but not impaired: 6 to 12 months
31 December 2013	5,848	5,723	102	15	8
30 June 2014 (unaudited)	**14,053**	**13,664**	**277**	**83**	**29**

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

	Unaudited
Balance at 31 December 2012	1,125
Charge	69
Unused amounts reversed	(27)
Utilized	(13)
Transfer to assets of disposal group classified as held for sale	(243)
Balance at 30 June 2013	**911**
Balance at 31 December 2013	1,197
Charge	136
Unused amounts reversed	(14)
Utilized	(13)
Disposal of subsidiary	(19)
Reclassification to provision for impairment of other current assets	(44)
Balance at 30 June 2014	**1,243**

6. Financial assets – current

Current financial assets consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Deposit accounts	**52**	152
Rouble-denominated loans less provision	**13**	14
Available-for-sale financial assets (bank promissory notes with original maturities of more than three months)	**-**	10
	65	176

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

	Unaudited
Balance at 31 December 2012	3,017
Unused amounts reversed	(257)
Utilized	(28)
Transfer to assets of disposal group classified as held for sale	(759)
Balance at 30 June 2013	**1,973**
Balance at 31 December 2013	892
Charge	96
Unused amounts reversed	(57)
Utilized	(1)
Balance at 30 June 2014	**930**

(In millions of Russian Roubles)

7. Inventories

Inventories consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Raw materials	**13,997**	14,484
Work in progress	**3,530**	3,549
Finished goods	**8,283**	10,200
	25,810	28,233

As at 30 June 2014 inventories are recorded net of obsolescence provision of RR 581 (31 December 2013: RR 619). As at 30 June 2014 the carrying amount of inventories recorded at net realisable value was RR 700 (31 December 2013: RR 1,534).

During the six months ended 30 June 2014 the cost of write-down of inventories recognised as an expense was RR 30 (for the six months ended 30 June 2013: RR 5).

The reversal of obsolescence provision of inventories recognised as an income for the six months ended 30 June 2014 was RR 38 (for the six months ended 30 June 2013 the accrual of provision for inventories recognised as an expense was RR 82).

8. Other current assets

Other current assets consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Prepaid expenses and other receivables less provision	**5,008**	2,704
Value added tax	**2,044**	2,622
	7,052	5,326

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

	Unaudited
Balance at 31 December 2012	2,392
Charge	92
Unused amounts reversed	(51)
Utilized	(123)
Transfer to assets of disposal group classified as held for sale	(1,304)
Balance at 30 June 2013	**1,006**
Balance at 31 December 2013	696
Charge	39
Unused amounts reversed	(276)
Utilized	(24)
Reclassification from provision for impairment of trade receivable	44
Disposal of subsidiary	(9)
Balance at 30 June 2014	**470**

9. Property, plant and equipment

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

	Unaudited
Balance at 31 December 2012	71,183
Additions	5,340
Assets of disposal group classified as held for sale	(13)
Disposals	(259)
Depreciation and impairment	(4,494)
Balance at 30 June 2013	**71,757**
Balance at 31 December 2013	77,713
Additions	7,529
Disposals	(235)
Depreciation and impairment	(4,749)
Balance at 30 June 2014	**80,258**

(In millions of Russian Roubles)

10. Intangible assets

Intangible assets included development costs and licenses and consisted of the following:

	Unaudited
Balance at 31 December 2012	12,533
Additions	604
Amortization	(421)
Balance at 30 June 2013	**12,716**
Balance at 31 December 2013	13,296
Additions	2,299
Amortization	(994)
Balance at 30 June 2014	**14,601**

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 30 June 2014 intangible assets included licenses for production, assembling and sale of cars with net book value of RR 3,801 and engines with net book value of RR 4,639.

From 2014 the Group started the production of engines under the above mentioned license. The Group amortizes the engine license from the date of start of production during 7 years using the straight-line method.

11. Financial assets – long-term

Long-term financial assets consisted of the following:

	Unaudited **30 June 2014**	31 December 2013
Loans issued	**34**	42
Available-for-sale financial assets	**15**	15
Financial assets held to maturity	**-**	33
	49	90

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

	Unaudited
Balance at 31 December 2012	443
Unused amounts reversed	(5)
Transfer to assets of disposal group classified as held for sale	(216)
Balance at 30 June 2013	**222**
Balance at 31 December 2013	228
Utilized	(228)
Balance at 30 June 2014	**-**

12. Investments in associates

	Unaudited
Balance at 31 December 2012	267
Share of loss	(10)
Transfer to assets of disposal group classified as held for sale	(18)
Balance at 30 June 2013	**239**
Balance at 31 December 2013	238
Share of associates' loss	(6)
Balance at 30 June 2014	**232**

(In millions of Russian Roubles)

13. Interest in a joint venture

ZAO GM-AVTOVAZ produces the Chevrolet NIVA vehicles from the assembly kits supplied by the Group. JSC AVTOVAZ and GM Auslandsprojekte GMBH each hold 50% of shares in ZAO GM-AVTOVAZ.

	Unaudited
Balance at 31 December 2012	3,264
Share of profit from the joint venture	848
Dividends received	(865)
Balance at 30 June 2013	**3,247**
Balance at 31 December 2013	2,865
Share of profit from the joint venture	182
Balance at 30 June 2014	**3,047**

14. Other long-term assets

Other long-term assets consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Prepayments for long-term assets	**4,246**	3,654
Long-term rent of property	**737**	747
Long-term receivables	**103**	118
	5,086	4,519

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

	Unaudited
Balance at 31 December 2012	847
Transfer to assets of disposal group classified as held for sale	(847)
Balance at 30 June 2013	**-**
Balance at 31 December 2013	605
Unused amounts reversed	(83)
Balance at 30 June 2014	**522**

15. Other payables and accrued expenses

Other payables and accrued expenses consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Salaries payable and vacation accrual	**4,841**	3,710
Accrued interest	**203**	192
Government grants	**170**	172
Other	**750**	817
	5,964	4,891

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

16. Loans and borrowings

Loans and borrowings consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Short-term loans and borrowings	**27,852**	23,247
Long-term loans and borrowings	**28,659**	23,404
	56,511	46,651

In 2013 the Company and Sberbank of Russia signed agreements on opening credit lines with the limit of RR 7,700, maturity dates in 2014-2018 and annual interest rates ranging between 8.9% and 10.71%. During the six months ended 30 June 2014 the Company received cash of RR 3,876 under terms of these loan agreements.

(In millions of Russian Roubles)

16. Loans and borrowings (continued)

In January 2014 the Company reached an agreement with Vnesheconombank to increase the credit line limit from RR 25,225 up to RR 32,038 with annual interest rate 10.92%. The loan can be used only to finance certain investment projects of the Group. The loan is repayable by equal quarterly instalments from 2017 to 2023. During the six months ended 30 June 2014 the Company received cash of RR 2,717 under this loan agreement.

During the six months ended 30 June 2014 the Company and VTB Bank signed loan agreements with the limit of RR 1,800, maturity dates in 2015-2019 and annual interest rates ranging between 9.45% and 10.75%. During the six months ended 30 June 2014 the Company received cash of RR 1,800 under terms of these agreements.

During the six months ended 30 June 2014 the Company and Novikombank signed loan agreements with the limit of RR 1,700, maturity dates in 2015 and annual interest rate of 9.75%. During the six months ended 30 June 2014 the Company received cash of RR 1,207 under terms of these agreements.

In 2013 the Company signed agreements with financial institutions for factoring of trade receivables. During the six months ended 30 June 2014 the Company received cash from the financial institutions in the amount of RR 13,580 and debtors of the Company remitted cash in the amount of RR 14,361 directly to the financial institutions. As at 30 June 2014 the liability under the factoring agreements is nil. Cash flows raised on factoring of receivables are reported net of cash remitted by debtors directly to the financial institutions in the consolidated statement of cash flows as proceeds from loans and borrowings under financing activities. The amount of cash paid by debtors directly to the financial institutions is included as cash inflow in net change in trade receivables in the consolidated statement of cash flows under operating activities.

As at 30 June 2014 the Company was not in compliance with financial covenants set by loan agreements with certain banks which include EBITDA to short-term debt service ratio, ratio of current assets to current liabilities, EBITDA to interest expense ratio, reported losses for the past 12 months and cross-default.

As at 30 June 2014 the Company received waivers for loan agreements in the amount of RR 13,515 including RR 9,054 of long-term debt. However period of grace of these waivers is less than twelve months after the reporting period. Therefore RR 9,054 of long-term debt was classified as short-term liabilities.

As at 30 June 2014 the Company had RR 4,112 of bank loans with breached covenants without waivers including RR 1,522 of long-term debt which was classified as short-term liabilities as at that date because of the covenant violations.

As at 30 June 2014 the Group had available RR 34,344 (31 December 2013: RR 32,743) of undrawn committed borrowing facilities.

17. Taxes other than income tax

Current taxes payable consisted of the following:

	Unaudited 30 June 2014	31 December 2013
Property and other taxes	**3,274**	580
Value added tax	**960**	450
Social taxes	**715**	624
Penalties and interest on taxes	**4**	3
	4,953	1,657

18. Share capital

The carrying value and the legal value of share capital subscribed, authorised, issued and fully paid up, as represented by classes of shares, were as follows:

	Unaudited 30 June 2014			31 December 2013		
	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

In June 2014 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2013.

(In millions of Russian Roubles)

19. Sales

The components of sales revenue were as follows:

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Vehicles and assembly kits	**81,633**	71,789
Dealership sales of other producers' vehicles	**525**	671
Automotive components	**5,531**	6,171
Other sales	**2,738**	4,349
	90,427	82,980

20. Cost of sales

The components of cost of sales were as follows:

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Materials and components, goods for resale	**60,022**	55,693
Related government subsidies	**(1,047)**	-
Labour and social expenses	**12,508**	12,647
Related government subsidies	**(4,000)**	-
Depreciation and amortization	**5,137**	4,500
Production overheads and other expenses	**4,132**	4,043
Related government subsidies	**(500)**	-
Changes in inventories of finished goods and work in progress	**1,936**	284
Utilisation duty	**5,547**	-
	83,735	77,167

In accordance with the Russian government's resolutions as part of the government program "Development of industry and increasing its competitiveness", for the six months ended 30 June 2014 the Group obtained subsidies to compensate salary expenses, energy supplies and a part of car production and warranty expenses of RR 5,547.

21. Administrative expenses

The components of administrative expenses were as follows:

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Labour costs	**3,589**	3,501
Local and regional taxes	**644**	921
Third parties' services	**526**	623
Depreciation	**415**	219
Transportation	**271**	289
Charge to provision for impairment of trade receivables (Note 5)	**122**	42
Materials	**193**	343
(Reversal of)/charge to provision for impairment of other current assets (Note 8)	**(237)**	41
Reversal of provision for impairment of other long-term assets (Note 14)	**(83)**	-
Bank services	**131**	68
Other	**391**	509
	5,962	6,556

(In millions of Russian Roubles)

22. Distribution costs

The components of distribution costs were as follows:

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Transportation	**1,324**	1,675
Labour costs	**829**	882
Advertising	**510**	207
Materials	**264**	377
Depreciation	**55**	77
Other	**469**	410
	3,451	3,628

23. Other operating income

The components of other operating income were as follows:

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Government grants received	**569**	299
Gain on derecognition of financial liability	**205**	2,276
Gain on disposal of subsidiaries and other investments	**109**	48
Rental income	**46**	68
Gain on disposal of property, plant and equipment	**1**	62
Reversal of provision for impairment of current financial assets (Note 6)	**-**	257
Reversal of provision for impairment of long-term financial assets (Note 11)	**-**	5
Other	**168**	221
	1,098	3,236

24. Other operating expenses

The components of other operating expenses were as follows:

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Restructuring costs and termination payments to employees	**1,194**	-
Provision for impairment of property, plant and equipment	**136**	119
Foreign exchange loss	**53**	143
Provision for impairment of current financial assets (Note 6)	**39**	-
Provision for and write-off of cash and cash equivalents held in Cypriot banks	**-**	405
Other	**181**	193
	1,603	860

25. Income tax benefit

	Unaudited	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Income tax expense – current	**31**	54
Deferred tax benefit	**(985)**	(1,158)
	(954)	(1,104)

(In millions of Russian Roubles)

26. Contingencies, commitments and guarantees

26.1 Contingencies, commitments and guarantees

As at 30 June 2014 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 21,419 (31 December 2013: RR 11,827). In addition, the Group issued financial guarantees to third parties in the amount of RR 90 (31 December 2013: RR 1,051). There are no other commitments and guarantees in favour of third parties or related companies that are not disclosed in these consolidated financial statements.

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

	Unaudited	
	30 June 2014	31 December 2013
Not later than 1 year	**50**	61
Later than 1 year and not later than 5 years	**198**	244
Later than 5 years	**1,583**	1,950
	1,831	2,255

The amount of lease payments recognised as an expense for the six months ended 30 June 2014 was RR 25 (for the six months ended 30 June 2013: RR 25).

26.2 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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

27. Segment information

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

- automotive - production and sale of vehicles, assembly kits and automotive components produced by the Company and OOO OAG;
- dealership network - sales and services provided by technical centres; and
- other segments - information about other business activities and operating segments that are not reportable based on quantitative thresholds, which 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 business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on financial information prepared in accordance with statutory accounting rules, which in a number of respects, as explained in the table below, differs from the consolidated financial statements.

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

(In millions of Russian Roubles)

27. Segment information (continued)

The following table represents information about revenue, profit and assets of the Group's operating segments:

Unaudited	Automotive		Dealership network		Other segments		Eliminations		Total	
Six months ended 30 June	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Revenue										
Sales to external customers	74,200	63,632	9,340	11,430	6,887	7,918	-	-	90,427	82,980
Inter-segment sales	13,246	14,632	274	400	1,997	3,549	(15,517)	(18,581)	-	-
Intra-segment sales	10,464	9,699	46	26	146	144	(10,656)	(9,869)	-	-
Total revenue	97,910	87,963	9,660	11,856	9,030	11,611	(26,173)	(28,450)	90,427	82,980
Results										
Depreciation and amortization	(4,833)	(3,806)	(65)	(82)	(163)	(347)	-	-	(5,061)	(4,235)
Impairment of assets	113	148	-	(433)	(41)	(37)	-	-	72	(322)
Interest expense	(1,786)	(991)	(96)	(103)	(15)	(39)	-	-	(1,897)	(1,133)
Income tax benefit/ (expense)	600	1,015	16	7	92	(36)	-	-	708	986
Statutory loss for the period	(3,163)	(4,082)	(174)	(538)	(499)	(143)	-	-	(3,836)	(4,763)
IFRS adjustments										
Adjustments related to restructuring costs and termination payments to employees									(894)	-
Adjustments attributable to loan received from State Corporation Rostechnologii									(305)	(245)
Adjustments attributable to property, plant and equipment									(207)	(318)
Provision for impairment of assets									(10)	(18)
Adjustment attributable to deferred tax									243	134
Gain on derecognition of financial liability									205	2,276
Other									(72)	316
IFRS loss for the period									**(4,876)**	**(2,618)**

Inter-segment revenues are eliminated on consolidation.

	Automotive		Dealership network		Other segments		Eliminations		Total	
	Unaudited		**Unaudited**		**Unaudited**		**Unaudited**		**Unaudited**	
	30 June 2014	**31 December 2013**	**30 June 2014**	**31 December 2013**	**30 June 2014**	**31 December 2013**	**30 June 2014**	**31 December 2013**	**30 June 2014**	**31 December 2013**
Segment assets	175,802	158,106	6,627	6,924	8,944	8,525	(20,533)	(16,608)	170,840	156,947
IFRS adjustments										
Adjustments attributable to property, plant and equipment									(5,691)	(5,539)
Adjustments related to deferred tax assets									(5,027)	(4,437)
Adjustment on value of consideration received for OOO VMZ									(4,398)	(4,433)
Charge to provision for impairment of assets									(962)	(852)
Adjustments attributable to intangible assets									834	241
Others									1,257	327
IFRS total assets									**156,853**	**142,254**

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

28. Going concern

During the first half of 2014 the decline of Russian automotive market continued. In the first half of 2014 the Group generated loss of RR 4,876 and its short-term liabilities exceeded its current assets by RR 11,434.

As at 30 June 2014 the Group was not in compliance with covenants set in loan agreements with a number of banks (Note 16).

In spite of the situation on the Russian car market and other factors, management believes that the Group will continue as a going concern in the foreseeable future.

In 2014 the Group continued modernizing its production facilities aimed at the model range upgrade. As a result, during 2014 the Group successfully launched the production of new LADA models including LADA Granta liftback. Besides, the Group launched three new models of Renault and Datsun brands. In autumn 2014 the Group plans to start the production and sale of new LADA and Nissan models including LADA Largus Cross, LADA Kalina Cross and Lada 4x4 Urban.

Management believes that recently announced government incentive for the scrappage and trade-in of vehicles will help to stop the market slide and Group will be one of the most significant beneficiaries of the scrappage program.

In January 2014 Bo Inge Andersson was appointed a president of the Group and brought in a new team of experienced professionals. To ensure sustainable profitability the new management team is currently implementing a number of urgent measures to improve the Company's economy, including the following actions:

- optimize the model range and configuration of cars produced;
- control and manage stocks of finished goods;
- work with suppliers to decrease purchasing prices;
- increase creditor days for suppliers;
- cut overhead expenses; and
- optimize head count.

As a result of above measures, during the first half of 2014 revenue of the Group increased, administrative expenses decreased and the Group achieved positive cash flow from operating activities.

During the first half of 2014 the Group received loans amounted to RR 14,828 including RR 12,363 that can be used to finance investing activities. As at 30 June 2014 total unused credit facilities amounted to RR 34,344. The Company is currently negotiating changes in terms of loan agreements with credit institutions to ensure that the banks will not claim for accelerated repayment of loans due to non-compliance of covenants.

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

29. 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.

(In millions of Russian Roubles)

29. Financial instruments and fair value hierarchy (continued)

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)	
	30 June 2014	31 December 2013	**30 June 2014**	31 December 2013	**30 June 2014**	31 December 2013
FINANCIAL ASSETS:						
Cash and cash equivalents	**5,899**	3,384	**5,899**	3,384	**-**	-
Financial assets – current	**65**	166	**65**	166	**-**	-
Available-for-sale current financial assets - Bank promissory notes (Note 6)	**-**	10	**-**	-	**-**	10
Financial assets – long-term	**34**	75	**34**	75	**-**	-
Trade receivables	**14,053**	5,848	**14,053**	5,848	**-**	-
FINANCIAL LIABILITIES:						
Short-term loans and borrowings	**27,852**	23,247	**27,852**	23,247	**-**	-
Long-term loans and borrowings	**28,659**	23,404	**30,146**	24,891	**-**	-
Trade payables	**23,010**	16,954	**23,010**	16,954	**-**	-
Long-term taxes other than income tax	**854**	978	**887**	1,298	**-**	-

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 30 June 2014, 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 12.6% (31 December 2013: 12.6%). To assess the fair value of long-term tax liabilities they were discounted at 8.25% rate (31 December 2013: 8.25%).

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

For the six months ended 30 June 2014, 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.

30. Events after the reporting period

In 2013 the Company signed an agreement to provide technologies for new car production to AO Azia Avto Kazakhstan. In the third quarter of 2014 the Company contributed intangible assets in exchange for a blocking share of 25% plus 1 share in the share capital of AO Azia Avto Kazakhstan.