Independent auditor's report
on the consolidated financial statements of
Public Joint-Stock Company AVTOVAZ
and its subsidiaries
for 2017

February 2018

**Independent auditor's report
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Contents

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Independent auditor's report

To the shareholders of Public Joint-Stock Company AVTOVAZ

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company AVTOVAZ (PJSC AVTOVAZ) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for 2017 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 to the consolidated financial statements, which indicates that the Group incurred a net loss of 9,662 million rubles during the year ended 31 December 2017 and, as of that date, its current liabilities exceeded its current assets by 62,364 million rubles. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How the matter was addressed in the audit
Revenue recognition	
Revenue is the Group's key performance measure, which gives rise to a risk that revenue may be misstated in order to achieve performance targets. In this regard, revenue recognition was one of the key audit matters.	We analysed the Group's accounting policies for revenue recognition, including the criteria for revenue recognition and sales incentives classification. We analysed the contract terms in respect of transfer of significant risks and rewards of ownership to customers. On a sample basis, we compared the date of transfer of risks and rewards with the date of revenue recognition. We performed analytical procedures in respect of revenue that included, among others, the analysis of monthly or quarterly sales to detect unusual fluctuations (by type of goods and services, by geographical areas) and reconciliation with comparative information for prior periods and the anticipated results of the Group. We analysed the terms of dealer agreements covering rewards related to sales incentives. Information regarding revenue is disclosed in Note 22 to the consolidated financial statements.

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Key audit matter	How the matter was addressed in the audit
Impairment of non-financial assets	
At the end of each reporting period management should assess whether there is any indication that assets may be impaired or that an impairment loss recognized in previous periods may no longer exist or may have decreased. As management's assessment of any indication of potential impairment is largely subjective and due to significance of non-financial assets to the consolidated financial statements, the analysis of this assessment is one of the key audit matters.	We analysed management's assessment of whether there was any indication of potential impairment, as well as indication that an impairment loss recognized in previous periods no longer existed or had decreased: among other things, we compared actual results for 2017, market share and car sales volumes to the projected data used in the impairment testing in the previous periods. Information regarding analysis of indication of impairment of non-financial assets is disclosed in Note 5 to the consolidated financial statements.
Covenants on loans and borrowings	
In accordance with terms of agreements for loans and borrowings the Group should maintain and comply with certain financial and non-financial covenants. Analysing compliance with covenants is one of the matters of most significance in our audit because it may have a significant impact on the going concern assumption used in the preparation of the consolidated financial statements and on the classification of liabilities in the consolidated statement of financial position.	We inspected the terms of agreements for loans and borrowings including covenant ratios and event of default definitions. We analysed the terms of waivers provided by lenders. We examined management's calculations of the covenant ratios. We checked mathematical accuracy of covenant calculations and reconciled input data used in the calculations with data in the financial statements prepared in accordance with the rules on the preparation of financial statements established in the Russian Federation. We compared the classification of loans and borrowings as current or non-current liabilities with the results of analysis of compliance with covenants on relevant loans and borrowings. Information regarding covenants on loans and borrowings is disclosed in Note 19 to the consolidated financial statements.

Other information included in the 2017 Annual Report of PJSC AVTOVAZ

Other information consists of the information included in the 2017 Annual Report of PJSC AVTOVAZ, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The 2017 Annual Report of PJSC AVTOVAZ is expected be provided to us after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when provided and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and the Audit Committee of the Board of Directors of PJSC AVTOVAZ for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors of PJSC AVTOVAZ is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors of PJSC AVTOVAZ regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors of PJSC AVTOVAZ with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Audit Committee of the Board of Directors of PJSC AVTOVAZ, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is A.A. Shlenkin.

A.A. Shlenkin
Partner
Ernst & Young LLC

15 February 2018

Details of the audited entity

Name: Public Joint-Stock Company AVTOVAZ
Record made in the State Register of Legal Entities on 23 September 2002, State Registration Number 1026301983113.
Address: Russia 445024, Togliatti, Yuzhnoye Shosse, 36.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

AVTOVAZ GROUP
Consolidated statement of financial position
as at 31 December 2017
(In millions of Russian rubles unless otherwise stated)

	Note	31 December 2017	31 December 2016*
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	8	**6,667**	6,659
Property, plant and equipment	9	**35,004**	35,816
Investments in associates and a joint venture	10	**1,057**	2,606
Non-current financial assets	11	**1**	829
Deferred tax assets	28	**1,423**	1,339
Receivables for jointly-controlled assets	12	**12,932**	14,696
Total non-current assets		**57,084**	61,945
CURRENT ASSETS			
Inventories	13	**23,951**	20,600
Trade receivables	14	**14,815**	15,884
Current financial assets	11	**23**	18
Other current assets	15	**9,664**	8,163
Cash and cash equivalents	16	**8,855**	17,610
Total current assets		**57,308**	62,275
TOTAL ASSETS		**114,392**	124,220
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	17	**53,695**	39,172
Share premium	17	**26,918**	15,300
Shares paid		**-**	26,141
Translation adjustment		**506**	482
Accumulated losses		**(149,017)**	(139,336)
Shareholders' equity – parent company shareholders' share		**(67,898)**	(58,241)
Shareholders' equity – non-controlling interests' share		**659**	662
Total shareholders' equity		**(67,239)**	(57,579)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**2,660**	3,311
Provisions – long-term	18	**1,045**	628
Non-current financial liabilities	19	**56,571**	56,194
Advances received		**1,523**	1,788
Other non-current liabilities		**160**	-
Total non-current liabilities		**61,959**	61,921
CURRENT LIABILITIES			
Provisions – short-term	18	**6,028**	4,989
Current financial liabilities	19	**36,942**	47,986
Trade payables		**55,350**	46,882
Income tax liability		**80**	87
Other tax liabilities	20	**6,866**	6,467
Advances received		**1,878**	1,629
Other current liabilities	21	**12,528**	11,838
Total current liabilities		**119,672**	119,878
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**114,392**	124,220

Nicolas Maure
President, PJSC AVTOVAZ

Natalia Vassilieva
Director, Accounting and Reporting – Chief Accountant

15 February 2018

(In millions of Russian rubles unless otherwise stated)

	Note	Year ended 31 December 2017	2016*
Revenues	22	**225,648**	184,931
Cost of goods and services sold	23	**(209,495)**	(186,828)
Research and development expenses	24	**(1,514)**	(1,593)
Selling, general and administrative expenses	25	**(13,038)**	(12,743)
Operating margin		**1,601**	(16,233)
Other operating income and expenses	26	**(2,244)**	(24,377)
Other operating income		***1,129***	*1,286*
Other operating expenses		***(3,373)***	*(25,663)*
Operating loss		**(643)**	(40,610)
Net interest income and expenses		**(7,268)**	(10,014)
Interest income		***1,753***	*682*
Interest expenses		***(9,021)***	*(10,696)*
Other financial income and expenses	27	**(592)**	1,935
Net financial income/(expenses)		**(7,860)**	(8,079)
Share in net (loss)/income of associates and a joint venture	10	**(1,560)**	632
Loss before taxation		**(10,063)**	(48,057)
Current and deferred taxes	28	**401**	3,278
Loss for the year		**(9,662)**	(44,779)
(Loss)/profit attributable to:			
Parent company shareholders' share		**(9,681)**	(45,008)
Non-controlling interests' share		**19**	229
		(9,662)	(44,779)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent year:			
Translation adjustment		**13**	(214)
Total other comprehensive income/(loss) for the period to be reclassified to profit or loss in subsequent year, net of taxes		**13**	(214)
Total comprehensive loss for the year, net of taxes		**(9,649)**	(44,993)
Total comprehensive (loss)/income attributable to:			
Parent company shareholders' share		**(9,657)**	(45,180)
Non-controlling interests' share		**8**	187
Total comprehensive loss for the year, net of taxes		**(9,649)**	(44,993)
Loss per share (in RUB):			
Basic/diluted, loss for the year attributable to ordinary/preference equity holders of the Company	30	**(1.87)**	(18.42)

* classification of certain comparatives was changed to ensure consistency with current year presentation. Please refer to Note 3.6 to these consolidated financial statements for details of these changes

(In millions of Russian rubles unless otherwise stated)

		Year ended 31 December	
	Note	**2017**	2016
Cash flows from operating activities:			
Loss before taxation		**(10,063)**	(48,057)
Adjustments for:			
Depreciation and amortisation	23-25	**6,824**	8,044
Impairment loss	26	**-**	18,017
Charge to provision for individual non-current assets	26	**370**	6,072
Write-off of capitalised development costs and other intangible assets	8	**4**	128
Charge to provision for impairment of financial assets		**812**	757
Movements in provisions	18	**1,456**	2,885
Interest income		**(1,753)**	(682)
Interest expenses		**9,021**	11,503
Share in net loss/(income) of associates and a joint venture	10	**1,560**	(632)
Gain on disposal of property, plant and equipment	26	**(144)**	(244)
Gain on disposal of subsidiaries and associates	26	**(100)**	(144)
Gain on derecognition of financial liability and liability on promissory notes	27	**-**	(128)
Loss on sale of financial assets	27	**-**	2
Foreign exchange effect		**743**	(1,784)
Operating cash flows before working capital changes		**8,730**	(4,263)
Net change in inventories		**(3,369)**	3,502
Net change in trade receivables		**1,431**	(6,779)
Net change in other assets		**(1,415)**	1,607
Net change in trade payables and other liabilities		**9,841**	4,932
Net change in other tax liabilities		**422**	1,611
Net change in advances received		**371**	(1,490)
Cash generated from/(used in) operations		**16,011**	(880)
Income tax paid		**(414)**	(146)
Interest received		**1,723**	807
Interest paid		**(8,215)**	(11,040)
Net cash generated from/(used in) operating activities		**9,105**	(11,259)
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets		**(7,205)**	(14,093)
Proceeds from sale of property, plant and equipment and jointly-controlled assets		**1,912**	385
Purchase of financial assets		**(17)**	(40)
Proceeds from sale of financial assets		**19**	61
Proceeds from sale of subsidiaries less cash disposed of		**51**	120
Dividends received		**5**	14
Net cash used in investing activities		**(5,235)**	(13,553)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**13,837**	41,334
Repayment of loans and borrowings		**(26,460)**	(30,004)
Shares paid		**-**	26,141
Dividends paid to non-controlling interests		**(7)**	-
Net cash (used in)/generated from financing activities		**(12,630)**	37,471
Effect of exchange rate changes		**5**	(36)
Net (decrease)/increase in cash and cash equivalents		**(8,755)**	12,623
Cash and cash equivalents at the beginning of the year	16	**17,610**	4,987
Cash and cash equivalents at the end of the year	16	**8,855**	17,610

(In millions of Russian rubles unless otherwise stated)

	Shareholders' equity – parent company shareholders' share							
	Share capital	Share premium	Shares paid	Translation adjustment	Accumu-lated losses	Total	Shareholders' equity – non-controlling interests' share	Total shareholders' equity
Balance at 31 December 2015	**39,172**	**15,300**	**-**	**654**	**(94,328)**	**(39,202)**	**475**	**(38,727)**
Profit/(loss) for the year	-	-	-	-	(45,008)	(45,008)	229	(44,779)
Other comprehensive loss	-	-	-	(172)	-	(172)	(42)	(214)
Total comprehensive income/(loss)	**-**	**-**	**-**	**(172)**	**(45,008)**	**(45,180)**	**187**	**(44,993)**
Shares paid	-	-	26,141	-	-	26,141	-	26,141
Balance at 31 December 2016	**39,172**	**15,300**	**26,141**	**482**	**(139,336)**	**(58,241)**	**662**	**(57,579)**
Profit/(loss) for the year	-	-	-	-	(9,681)	(9,681)	19	(9,662)
Other comprehensive income/(loss)	-	-	-	24	-	24	(11)	13
Total comprehensive income/(loss)	**-**	**-**	**-**	**24**	**(9,681)**	**(9,657)**	**8**	**(9,649)**
Dividends	-	-	-	-	-	-	(11)	(11)
Shares registered (Note 17)	14,523	11,618	(26,141)	-	-	-	-	-
Balance at 31 December 2017	**53,695**	**26,918**	**-**	**506**	**(149,017)**	**(67,898)**	**659**	**(67,239)**

1. Corporate information

Public Joint-Stock Company AVTOVAZ ("the Company" or "PJSC AVTOVAZ") and its subsidiaries' ("the Group") principal activities include the manufacture and sale of passenger automobiles. The Group's manufacturing facilities are 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, PJSC AVTOVAZ, was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. The registered office of PJSC AVTOVAZ is in Yuzhnoye Shosse, 36, Togliatti, Samara region, 445024, the Russian Federation.

In December 2012 major shareholders of the Company signed a partnership agreement. According to this agreement a new entity Alliance Rostec Auto B.V. was created. As at 31 December 2017 82.45% of equity interest in Alliance Rostec Auto B.V. belonged to Renault s.a.s. and 17.55% to the Rostec State Corporation. As at 31 December 2017 64.60% of total equity shares of the Company belonged to Alliance Rostec Auto B.V., 24.09% to Renaissance Securities (Cyprus) Limited and 11.31% to other shareholders.

These consolidated financial statements were authorized for issue by the president of PJSC AVTOVAZ on 15 February 2018.

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 Note 19 and 31.6 below. In 2017 the Group incurred a net loss for the year in the amount of RUB 9,662 (2016: RUB 44,779). As at 31 December 2017 the Group's current liabilities exceeded its current assets by RUB 62,364 (31 December 2016: RUB 57,603).

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

The Group is currently negotiating various financing options for the current activity, including the following:

- refinancing current loan portfolio;
- obtaining additional loans from shareholders;
- obtaining new loans from banks;
- signing additional factoring agreements for accounts receivable and payable.

Significant dependence on the shareholders' support, financial and market conditions discussed in Notes 19 and 31.6 below create a material uncertainty that may cast significant doubt on 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 ordinary course of business.

The management of the Group is confident that the Group will receive 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 its activities.

3. Significant accounting policies

3.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

PJSC AVTOVAZ and its subsidiaries located in the Russian Federation, which account for over 99% of assets and liabilities of the Group, maintain their accounting records in Russian rubles ("RUB") 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 located in the Russian Federation.

The consolidated financial statements have been prepared under the historical cost convention. 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 Group's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Notes 4 and 5.

3. Significant accounting policies (continued)

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.3 Summary of significant accounting policies

(a) 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, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree 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.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the consolidated statement of comprehensive income in accordance with IAS 39. Other contingent consideration that is not within the scope of IAS 39 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

3. Significant accounting policies (continued)
3.3 Summary of significant accounting policies (continued)
(a) Business combinations and goodwill (continued)

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 has been allocated a cash-generating unit (CGU) 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. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(b) Investments in associates and a joint venture

Investments in associates

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 consolidated 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 consolidated 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 or loss of an associate is shown on the face of the consolidated statement of comprehensive income. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss 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 consolidated statement of comprehensive income in the Share in net (loss)/income of associates and a joint venture line.

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.

Investment 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.

Joint operations

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 recognises its share in assets, liabilities, revenue and expenses in relation to its interest in joint operations.

3. Significant accounting policies (continued)

3.3 Summary of significant accounting policies (continued)

(c) Current versus non-current classification

The Group presents assets and liabilities in the consolidated 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.

(d) Financial assets

Classification of financial assets

The Group classifies its financial assets into the following measurement categories: loans and receivables, held to maturity and available-for-sale.

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.

Initial recognition of financial instruments

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

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

Impairment of financial assets

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

Financial assets carried at 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.

3. Significant accounting policies (continued)
3.3 Summary of significant accounting policies (continued)
(d) Financial assets (continued)

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.

(e) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other liabilities, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied.

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.

3. Significant accounting policies (continued)
3.3. Summary of significant accounting policies (continued)
(e) Financial liabilities (continued)

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 current loans and borrowings except for interest on restructured tax liabilities, which is recorded within the respective financial liabilities.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

(f) 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.

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.

(g) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and include value added tax. Receivables assigned to third parties (through securitization or discounting) are removed from Group assets when the associated risks and benefits are also substantially transferred to the third parties in question. 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 consolidated statement of comprehensive income.

(h) 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.

(In millions of Russian rubles unless otherwise stated)

3. Significant accounting policies (continued)

3.3 Summary of significant accounting policies (continued)

(i) Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of raw materials is determined on the weighted average basis. The costs of finished goods (based on factual value) and work in progress (based on normal operating capacity) comprise material, direct labour and the appropriate indirect manufacturing costs. 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.

(j) Cash and cash equivalents

Cash comprises demand deposits held with banks 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.

(k) 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 Russian ruble 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	2 to 13

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the 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.

(l) Intangible assets

Research and development costs

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.

3. Significant accounting policies (continued)
3.3 Summary of significant accounting policies (continued)
(l) Intangible assets (continued)

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 capitalised 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.

(m) 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 10 years. A long-term growth rate is calculated and applied to project future cash flows after the tenth year.

Management of the Group annually reviews and impairs property, plant and equipment and intangible assets that are not expected to be used in operational activity.

Impairment losses are recognised in the consolidated statement of comprehensive income in Other operating income and expenses line.

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 recognised in the consolidated statement of comprehensive income.

(n) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3. Significant accounting policies (continued)

3.3 Summary of significant accounting policies (continued)

(n) Taxes (continued)

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 a 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 utilised except:
- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a 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 utilised.

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 utilised.

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.

(o) 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 subsidy 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.

(p) 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 rubles, 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 2017 of RUB 57.6002 = USD 1 (31 December 2016: RUB 60.6569 = USD 1), RUB 68.8668 = EUR 1 (31 December 2016: RUB 63.8111 = EUR 1) and RUB 0.511479 = JPY 1 (31 December 2016: RUB 0.518324 = JPY 1).

3. Significant accounting policies (continued)

3.3 Summary of significant accounting policies (continued)

(q) Employee benefits

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 goods and services sold in the consolidated statement of comprehensive income.

(r) 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.

(s) Earnings/(loss) per share

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

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

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

(t) Leases

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

3. Significant accounting policies (continued)

3.3 Summary of significant accounting policies (continued)

(u) 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.

(v) 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.

Warranty provisions

The Group recognises a provision 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.

Restructuring provisions

The Group recognises a provision for termination indemnities as soon as a detailed plan has either been announced or in progress.

Provision for lawsuits and claims

Provision for lawsuits and claims is recognised when the Group has present legal obligations as a result of any breach of the contract conditions.

3.4 New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment are disclosed below:

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for the current period in Note 19.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no significant effect on the Group's financial position and performance.

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Amendments to IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements* in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

3. Significant accounting policies (continued)

3.5 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 consolidated 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 phases of the accounting for financial instruments project: classification and measurement, impairment and 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 has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity.

Classification and measurement

The Group does not expect a significant impact on its consolidated statement of financial position and equity on applying the classification and measurement requirements of IFRS 9.

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 model

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

The Group performed detailed analysis and has not determined significant effects from moving from an incurred loss model under IAS 39 to an expected loss model as required by IFRS 9. The analysis is still in progress.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and amended in April 2016, 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. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

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 preparing to adopt IFRS 15, the Group is considering 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 and updated thereafter.

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 as compared with current IFRS.

3. Significant accounting policies (continued)

3.5 Standards issued but not yet effective (continued)

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 under IFRS 15, which will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* consistent with its current practice.

Rendering of services

The Group recognised service revenue 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.

Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. Main issue for the Group is disclosure of amount of sales to partners. The group analyzed partners whose information needs to be disclosed and concluded that transactions with all major partners are disclosed in Note 7 such as companies directly or indirectly controlled by the Russian Government and shareholders.

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. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. Group will apply these amendments when they become effective.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not relevant to the Group.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

3. Significant accounting policies (continued)
3.5 Standards issued but not yet effective (continued)

IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach);
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

- an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- if an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Group.

3. Significant accounting policies (continued)

3.5 Standards issued but not yet effective (continued)

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:
(i) the beginning of the reporting period in which the entity first applies the interpretation;
or
(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:
- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group mainly operates in the Russian tax environment, the Group expects no significant impact on its consolidated financial statements.

3.6 Change in presentation of the consolidated statement of financial position and the consolidated statement of comprehensive income

Presentation of the consolidated statement of financial position and the consolidated statement of comprehensive income was changed to achieve consistency with financial statements of a major shareholder:
- Assets and liabilities were presented in the consolidated statement of financial position from the least realisable to the most realisable;
- Distribution costs and Administrative expenses lines were merged into a single line Selling, general and administrative expenses. As a result of the merger, the comparative figures for the year ended 31 December 2016 were changed and Distribution costs and Administrative expenses decreased by RUB 4,779 and RUB 7,964, respectively, and Selling, general and administrative expenses increased by RUB 12,743;
- Other operating income and expenses and Impairment provisions and restructuring costs lines were merged into a single line Other operating income and expenses. As a result of the merger, the comparative figures for the year ended 31 December 2016 were changed and Impairment provisions and restructuring costs decreased by RUB 24,991 and Other operating income and expenses increased by RUB 24,991.

4. Significant accounting judgements, estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may not 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 risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. Significant accounting judgements, estimates and assumptions (continued)

4.1 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.

4.2 Warranty provisions

The Group recognises a provision 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/(loss). Adjustments to the Group's profit/(loss) have not been historically material.

During 2017 the Group recognised an additional provision for recall campaigns on LADA cars in the amount of RUB 458 and an additional provision for potential expenses for defects identified in other cars produced by the Group in the amount of RUB 129.

4.3 Provision for annual bonuses

During 2017 the Group made a decision to establish a provision for annual bonuses in the amount of RUB 636. A major part of the provision was calculated based on assumption that KPIs assigned are fully met.

4.4 Taxation

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

4.5 Recognition of deferred tax assets

According to recent changes in the Russian tax legislation effective from 1 January 2017, the existing 10-year limit on loss recognition has been eliminated, and tax losses can be used to reduce profit tax base indefinitely. In addition, between 2017 and 2020, only a 50 percent reduction of the tax base for the current period is allowed.

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, mid-term operational plans 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 2017 deferred tax asset in respect of tax losses carried forward in the amount of RUB 115,695 has not been recognised (31 December 2016: RUB 110,205).

4.6 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.

5. Impairment of non-financial 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. As a result of impairment test performed as at 31 December 2015 and 30 June 2016 the Group recognised an impairment loss in the amount of RUB 32,094 and RUB 18,017, respectively. In December 2016 management approved an updated business plan. As at 31 December 2016 the Group performed an impairment test. The recoverable amount of non-financial assets was determined based on a value in use calculation using cash flow projections from new financial budgets approved in December 2016. Following the impairment testing, the Group concluded that the assets were not impaired.

In 2017 the Group did not update its mid-term plan which was approved in December 2016. The current economic situation and the Russian automotive market conditions slightly improved compared to the previous year. In this case the Group determined there were no indicators of impairment of non-financial assets, as well as indications that an impairment loss recognised in previous periods no longer existed or had decreased at the end of the reporting period ended 31 December 2017. As a result, the Group decided not to perform an impairment test as at 31 December 2017.

(In millions of Russian rubles unless otherwise stated)

6. Principal subsidiaries, associates and joint venture

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

Entity	Country of incorporation	Activity	**31 December 2017 % share**	31 December 2016 % share
LADA Izhevsk Automobile Plant (LADA Izhevsk)	Russia	Manufacture and sale of passenger automobiles	**100**	100
LADA-Service	Russia	Subsidiaries management	**100**	100
LADA-Image	Russia	Spare parts distribution	**100**	100
Lada International Ltd.	Cyprus	Subsidiaries management	**100**	100
63 technical service centres	Russia, CIS, EU Countries	Car distribution and service	**50.1-100**	50.1-100

A principal joint venture of the Group and the share held by the Group are as follows:

Entity	Country of incorporation	Activity	**31 December 2017 % share**	31 December 2016 % share
GM-AVTOVAZ	Russia	Manufacture and sale of passenger automobiles	**50**	50

The Group holds investments in a number of associates which activities do not have a significant effect on the Group.

7. 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 2017 and 2016 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, the Rostec State Corporation, is owned by the Russian Government.

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

As at 31 December 2017 and 31 December 2016 the Group had balances with the companies controlled by the Russian Government, which are detailed below.

	31 December 2017	31 December 2016
Prepayments for PPE before provision charge	**105**	198
Provision for impairment of prepayments for PPE	**(4)**	(4)
Non-current financial assets before provision charge	**-**	899
Provision for impairment of non-current financial assets	**-**	(70)
Trade receivables before provision charge	**4,700**	4,145
Provision for impairment of trade receivables	**(3,679)**	(2,183)
Current financial assets before provision charge	**3,218**	2,318
Provision for impairment of current financial assets	**(3,201)**	(2,301)
Other current assets before provision charge	**3,529**	2,573
Provision for impairment of other current assets	**(662)**	(591)
Cash and cash equivalents	**7,961**	13,966
Total assets	**11,967**	18,950
Financial liabilities	**80,961**	89,482
Other non-current liabilities	**160**	-
Provisions – short-term	**332**	1,190
Trade payables	**2,869**	2,618
Short-term advances received	**7**	80
Other current liabilities	**62**	36
Total liabilities	**84,391**	93,406

(In millions of Russian rubles unless otherwise stated)

7. Balances and transactions with related parties (continued)

7.1 Balances and transactions with companies directly or indirectly controlled by the Russian Government (continued)

As at 31 December 2017 the Group pledged assets with the carrying value of RUB 10,866 (31 December 2016: RUB 15,613) and 100% shares of subsidiaries Lada-Service and ZAK as collateral to the companies controlled by the Russian Government.

As at 31 December 2017 the amount of collateral received by the Group from companies controlled by the Russian Government, in the form of pledges of property and property rights for loans issued amounted to RUB 839 (31 December 2016: RUB 834), in the form of banks garanties amounted to RUB 35 (31 December 2016: RUB 6).

In 2017 and 2016 the Group entered into transactions with the companies controlled by the Russian Government, which are detailed below.

	2017	2016
Sales	**3,074**	3,342
Purchases of goods, equipment and services	**(25,930)**	(23,521)
Interest income	**1,171**	482
Interest expenses	**(8,892)**	(9,116)
Charge to provision for impairment of trade receivables	**(1,497)**	(1,615)
Charge to provision for impairment of other current assets	**(60)**	(432)
Charge to provision for impairment of prepayments for PPE	**-**	(4)
Charge to provision for impairment of current financial assets	**(829)**	(703)
Charge to provision for impairment of non-current financial assets	**-**	(70)
Charge to provision for lawsuits, claims and warranty	**(16)**	(178)

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 Antimonopoly Service. Bank loans are obtained based on the market interest rates. Taxes are accrued and paid in accordance with the applicable tax law.

7.2 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 2017 and 31 December 2016, except for companies directly or indirectly controlled by the Russian Government, are detailed below.

	Relationship	**31 December 2017**	31 December 2016
Prepayments for PPE before provision charge	Associates	**-**	3
Prepayments for PPE before provision charge	Significant influence via shareholder	**20**	20
Receivables for jointly-controlled assets	Significant influence via shareholder	**12,932**	14,696
Trade receivables before provision charge	Associates	**1**	197
Provision for impairment of trade receivables	Associates	**(1)**	-
Trade receivables before provision charge	Joint venture	**676**	505
Trade receivables before provision charge	Significant influence via shareholder	**5,432**	6,013
Provision for impairment of trade receivables	Significant influence via shareholder	**(4)**	-
Other current assets before provision charge	Associates	**3**	1
Provision for impairment of other current assets	Associates	**(2)**	-
Other current assets before provision charge	Joint venture	**-**	1
Other current assets before provision charge	Significant influence via shareholder	**320**	221
Provision for impairment of other current assets	Significant influence via shareholder	**(1)**	(1)
Total assets		**19,376**	21,656
Financial liabilities	Significant influence via shareholder	**9,432**	8,875
Long-term advances received	Significant influence via shareholder	**1,523**	1,788
Provisions – short-term	Associates	**44**	-
Provisions – short-term	Significant influence via shareholder	**1,147**	792
Trade payables	Associates	**111**	143
Trade payables	Joint venture	**35**	38
Trade payables	Significant influence via shareholder	**26,359**	27,601
Short-term advances received	Associates	**-**	1
Short-term advances received	Joint venture	**-**	16
Short-term advances received	Significant influence via shareholder	**428**	468
Other current liabilities	Associates	**-**	18
Other current liabilities	Significant influence via shareholder	**3,500**	3,198
Total liabilities		**42,579**	42,938

As at 31 December 2017 the amount of collateral received by the Group from associates in the form of pledges of commercial vehicles for trade receivables, amounted to nil (31 December 2016: RUB 197).

(In millions of Russian rubles unless otherwise stated)

7. Balances and transactions with related parties (continued)
7.2 Balances and transactions with other related parties (continued)

The income and expense items with related parties for the year ended 31 December 2017 and 31 December 2016 were as follows:

	Relationship	**2017**	2016
Sales	Joint venture	**5,915**	5,513
Sales	Associates	**2,351**	2,809
Sales	Significant influence via shareholder	**47,955**	44,209
Purchases of goods and services	Joint venture	**(433)**	(152)
Purchases of goods and services	Associates	**(1,129)**	(1,093)
Purchases of goods, services, equipment and intangible assets	Significant influence via shareholder	**(33,386)**	(35,544)
Charge to provision for impairment of trade receivables	Significant influence via shareholder	**(4)**	(2)
Reversal of provision for impairment of other current assets	Significant influence via shareholder	**-**	34
Charge to provision for restructuring	Associates	**(44)**	-
Charge to provision for claims and warranty	Significant influence via shareholder	**(359)**	(792)
Interest expenses	Significant influence via shareholder	**(341)**	(1,202)
Administrative expenses	Short-term benefits - compensation of the Key Management	**(588)**	(261)

8. Intangible assets

Intangible assets consisted of the following:

	Right to use licenses	Development costs	Other intangible assets	Total
Cost				
At 31 December 2015	9,158	14,365	944	24,467
Additions	-	999	321	1,320
Disposals	-	(25)	(389)	(414)
At 31 December 2016	**9,158**	**15,339**	**876**	**25,373**
Accumulated amortisation and impairment				
At 31 December 2015	(4,960)	(6,529)	(310)	(11,799)
Amortisation charge	(564)	(1,028)	(406)	(1,998)
Disposals	-	15	271	286
Impairment	(2,076)	(3,126)	(1)	(5,203)
At 31 December 2016	**(7,600)**	**(10,668)**	**(446)**	**(18,714)**
Cost				
At 31 December 2016	9,158	15,339	876	25,373
Additions	-	1,095	498	1,593
Joint operations (Note 12)	-	(114)	-	(114)
Disposals	-	(1,032)	(285)	(1,317)
At 31 December 2017	**9,158**	**15,288**	**1,089**	**25,535**
Accumulated amortisation and impairment				
At 31 December 2016	(7,600)	(10,668)	(446)	(18,714)
Amortisation charge	(262)	(851)	(392)	(1,505)
Disposals	-	1,032	281	1,313
Impairment	-	64	(26)	38
At 31 December 2017	**(7,862)**	**(10,423)**	**(583)**	**(18,868)**
Net book value				
At 31 December 2016	**1,558**	**4,671**	**430**	**6,659**
At 31 December 2017	**1,296**	**4,865**	**506**	**6,667**

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 2017 intangible assets included licenses for production, assembling and sale of cars with the net book value of RUB 1,021 and engines with the net book value of RUB 275, with the residual useful life of 72 and 36 months, respectively.

As at 31 December 2017 development costs were mainly represented by projects LADA XRAY, LADA Vesta, LADA Vesta SW/SW-Cross with the net book value of RUB 1,756, RUB 767 and RUB 735, respectively and with the residual useful life of 60, 57 and 81 months, respectively.

(In millions of Russian rubles unless otherwise stated)

8. Intangible assets (continued)

For the year ended 31 December 2017 there was a reversal of impairment of individual assets in the amount of RUB 38 (2016: accrual of impairment in the amount of RUB 1,701). For the year ended 31 December 2017 there were no accruals or reversal of impairment of cash-generating units (2016: accrual of impairment in the amount of RUB 3,502).

The amount of borrowing costs capitalised during 2017 was nil (2016: RUB 115). The rate used for the capitalization in 2017 was nil (2016: 11.82%).

9. 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					
At 31 December 2015	83,122	153,138	4,892	23,390	264,542
Additions	-	-	-	6,741	6,741
Joint operations (Note 12)	-	-	-	(405)	(405)
Disposals	(319)	(2,504)	(227)	(99)	(3,149)
Transfers	1,179	9,897	493	(11,569)	-
At 31 December 2016	**83,982**	**160,531**	**5,158**	**18,058**	**267,729**
Accumulated depreciation and impairment					
At 31 December 2015	(65,538)	(130,017)	(4,098)	(10,182)	(209,835)
Depreciation charge	(968)	(4,599)	(577)	-	(6,144)
Disposals	309	2,390	224	29	2,952
Impairment	(5,580)	(9,728)	(166)	(3,412)	(18,886)
At 31 December 2016	**(71,777)**	**(141,954)**	**(4,617)**	**(13,565)**	**(231,913)**
Cost					
At 31 December 2016	83,982	160,531	5,158	18,058	267,729
Additions	-	-	-	5,140	5,140
Joint operations (Note 12)	-	-	-	(76)	(76)
Disposals	(283)	(1,531)	(375)	(36)	(2,225)
Transfers	1,590	7,369	387	(9,346)	-
At 31 December 2017	**85,289**	**166,369**	**5,170**	**13,740**	**270,568**
Accumulated depreciation and impairment					
At 31 December 2016	(71,777)	(141,954)	(4,617)	(13,565)	(231,913)
Depreciation charge	(709)	(4,413)	(250)	-	(5,372)
Disposals	237	1,495	361	36	2,129
Transfers	(1,325)	(2,131)	(7)	3,463	-
Impairment	(121)	(313)	28	(2)	(408)
At 31 December 2017	**(73,695)**	**(147,316)**	**(4,485)**	**(10,068)**	**(235,564)**
Net book value					
At 31 December 2016	**12,205**	**18,577**	**541**	**4,493**	**35,816**
At 31 December 2017	**11,594**	**19,053**	**685**	**3,672**	**35,004**

For the year ended 31 December 2017 there was accrual of impairment of individual assets in the amount of RUB 408 (2016: RUB 4,371). For the year ended 31 December 2017 there were no accruals or reversal of impairment of cash-generating units (2016: accrual of impairment in the amount of RUB 14,515).

The amount of borrowing costs capitalised during 2017 was RUB 164 (2016: RUB 644). The rate used for the capitalization in 2017 was 10% (2016: 11.82%).

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

	31 December 2017	31 December 2016
Cost – finance leases capitalised	**511**	511
Accumulated depreciation and impairment	**(378)**	(342)
Net book value	**133**	169

(In millions of Russian rubles unless otherwise stated)

10. Investments in associates and a joint venture

Movements in investments in associates were as follows:

Balance at 31 December 2015	**292**
Share of loss of associates	(1)
Translation adjustment	(49)
Disposal of investments	(35)
Dividends	(14)
Balance at 31 December 2016	**193**
Share of profit of associates	2
Translation adjustment	16
Dividends	(5)
Balance at 31 December 2017	**206**

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

Balance at 31 December 2015	**1,780**
Share of profit of the joint venture	633
Balance at 31 December 2016	**2,413**
Share of loss of the joint venture	(1,562)
Balance at 31 December 2017	**851**

The Group’s interest in GM-AVTOVAZ is accounted for using the equity method in the consolidated financial statements. Summarised financial information of the joint venture and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	31 December 2017	31 December 2016
Assets:		
Non-current assets	**2,015**	5,309
Current assets, including cash and cash equivalents of RUB 1,698 (31 December 2016: RUB 1,150)	**4,092**	3,175
Liabilities:		
Non-current liabilities	**(959)**	(37)
Current liabilities	**(3,446)**	(3,621)
Net assets	**1,702**	4,826
Share of the Group in the joint venture	**851**	2,413
Revenue	**16,833**	15,500
Depreciation and amortisation	**(102)**	(123)
Interest income	**176**	136
Current and deferred taxes	**245**	(82)
(Loss)/profit after taxation	**(3,124)**	1,266
Total comprehensive (loss)/income	**(3,124)**	1,266
Share of the Group of (loss)/profit of the joint venture	**(1,562)**	633

In 2017 due to significant uncertainty in relation to obtaining financing for the New Chevrolet NIVA project, GM-AVTOVAZ made a decision to impair the assets related to the project in the amount of RUB 4,253, of which AVTOVAZ Group’s share was RUB 2,126.

As at 31 December 2017 GM-AVTOVAZ had contractual commitments of RUB 3,331 to purchase equipment from third parties (31 December 2016: RUB 3,642).

11. Financial assets

Financial assets consisted of the following:

	31 December 2017	31 December 2016
Loans issued less provision	**6**	830
Other	**18**	17
	24	847
Total non-current financial assets	**1**	829
Total current financial assets	**23**	18
	24	847

(In millions of Russian rubles unless otherwise stated)

11. Financial assets (continued)

As at 31 December 2017 loans issued by the Group were secured by property and property rights in the amount of RUB 857 (31 December 2016: RUB 852).

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

Balance at 31 December 2015	**2,449**
Charge/(unused amounts reversed)	757
Utilised	(83)
Disposal of subsidiaries	(11)
Balance at 31 December 2016	**3,112**
Charge/(unused amounts reversed)	1,249
Utilised	(3)
Balance at 31 December 2017	**4,358**

12. Receivables for jointly-controlled assets

Assembly agreements with Nissan and Renault s.a.s. contain characteristics of joint arrangements and have been classified as joint operations in accordance with IFRS 11. Receivables for jointly-controlled assets as at 31 December 2017 amounted to RUB 12,932 (31 December 2016: RUB 14,696). During 2017 Nissan and Renault s.a.s.'s shares in additions to property, plant and equipment in the amount of RUB 76 (2016: RUB 405) and intangible assets in the amount of RUB 114 (2016: nil) were classified as long-term receivables under IFRS 11. During 2017 the Group received RUB 1,954 (2016: RUB 1,796) of cash from Nissan and Renault s.a.s. to redeem a part of these receivables.

13. Inventories

Inventories consisted of the following:

	31 December 2017	31 December 2016
Raw materials	**11,598**	12,127
Work in progress	**3,468**	2,800
Finished goods (at lower of cost and net realisable value)	**8,885**	5,673
	23,951	20,600

During 2017 RUB 1,073 (2016: RUB 1,472) was recognised as an expense for slow-moving inventories and inventories carried at net realisable value. This was recognised in cost of goods and services sold.

14. Trade receivables

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
2017	**14,815**	**14,325**	**358**	**132**	**-**
2016	15,884	15,253	424	207	-

As at 31 December 2017 trade receivables were secured by vehicles (with total selling price of RUB 5,448) as collateral (31 December 2016: RUB 5,987).

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

Balance at 31 December 2015	**1,043**
Charge/(unused amounts reversed)	1,661
Utilised	(135)
Disposal of subsidiaries	(35)
Balance at 31 December 2016	**2,534**
Charge/(unused amounts reversed)	1,566
Utilised	(21)
Disposal of subsidiaries	(15)
Balance at 31 December 2017	**4,064**

(In millions of Russian rubles unless otherwise stated)

15. Other current assets

Other current assets consisted of the following:

	31 December 2017	31 December 2016
Other receivables less provision	**5,720**	5,054
Assets of a non-state pension fund	**2,453**	1,450
Value added tax	**690**	672
Prepayments less provision	**660**	919
Other tax receivables	**141**	68
	9,664	8,163

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

Balance at 31 December 2015	**728**
Charge/(unused amounts reversed)	457
Utilised	(96)
Disposal of subsidiaries	(20)
Balance at 31 December 2016	**1,069**
Charge/(unused amounts reversed)	125
Utilised	(9)
Disposal of subsidiaries	(11)
Balance at 31 December 2017	**1,174**

16. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	31 December 2017	31 December 2016
Short-term deposits	**7,011**	15,882
Cash at banks	**1,844**	1,728
	8,855	17,610

As at 31 December 2017 cash at banks denominated in euro amounted to RUB 128, in US dollar to RUB 51, in other foreign currencies to nil (31 December 2016: in euro – RUB 302, in US dollar – RUB 3, in other foreign currencies – RUB 1).

As at 31 December 2017 cash deposits denominated in rubles were RUB 7,011 (31 December 2016: RUB 15,882) and bore interests ranging from 6.3% to 13.0% (31 December 2016: 7.95% - 10.6%).

17. Shareholders' equity

The carrying value of share capital and the legal share capital value issued and fully paid up related to the following classes of shares:

	31 December 2017			31 December 2016		
	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	**4,726,988,118**	**23,635**	**44,460**	1,822,463,131	9,112	29,937
Total outstanding share capital	**5,188,752,418**	**25,944**	**53,695**	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 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 2017 the Annual Shareholders' Meeting made a decision not to pay dividends on ordinary and preference shares of the Company in respect of 2016 (2016: a decision not to pay dividends in respect of 2015). As a result, preference shareholders obtained voting rights for the next shareholders meeting.

(In millions of Russian rubles unless otherwise stated)

17. Shareholders' equity (continued)

Movements in share premium were as follows:

Balance at 31 December 2016	**15,300**
Shares registered	11,618
Balance at 31 December 2017	**26,918**

At the end of 2016 the Company placed via an open subscription 2,904,524,987 ordinary shares with par value of 5 Russian rubles at price of 9 Russian rubles per share. As at 31 December 2016 these shares were paid. All registration procedures were completed in February 2017.

18. Provisions

Movements in provisions were as follows:

	Lawsuits and claims	Restructuring	Warranty	Other	Total
Balance at 31 December 2016	**2,824**	**527**	**2,266**	**-**	**5,617**
Charge	1,190	2,226	2,196	193	5,805
Utilised	(1,048)	(1,202)	(1,303)	-	(3,553)
Unused amounts reversed	(749)	(59)	(102)	-	(910)
Unwinding of discount	-	-	114	-	114
Balance at 31 December 2017	**2,217**	**1,492**	**3,171**	**193**	**7,073**
Non-current	-	246	799	-	1,045
Current	2,217	1,246	2,372	193	6,028
	2,217	**1,492**	**3,171**	**193**	**7,073**

As at 31 December 2017 the Group was in dispute with several suppliers over claims and lawsuits received in total amount of RUB 2,109 and recognised a related provision.

The management expects that the non-current part of provisions will be utilised during the next 3 years and the current part of provisions will be utilised during the next 12 months.

19. Financial liabilities

Current financial liabilities consisted of the following:

	31 December 2017	31 December 2016
Ruble-denominated interest-bearing loans and borrowings	**36,840**	47,427
Foreign currency denominated interest-bearing loans and borrowings	**102**	559
	36,942	47,986

Non-current financial liabilities consisted of the following:

	31 December 2017	31 December 2016
Ruble-denominated interest-bearing loans and borrowings	**39,451**	40,853
Ruble-denominated interest-free borrowings	**9,301**	8,260
Ruble-denominated interest-free promissory notes	**987**	806
Foreign currency denominated interest-bearing loans and borrowings	**6,832**	6,275
	56,571	56,194

Average interest rate was 11.10% for outstanding ruble-denominated bank loans (31 December 2016: 12.25%) and 3.00% for foreign currency denominated bank loans (31 December 2016: 4.97%). Foreign currency denominated bank loans are in euro. As at 31 December 2017 the Group had RUB 13,396 (31 December 2016: RUB 3,256) of bank loans with floating interest rate.

Ruble-denominated interest-free borrowings and promissory notes consisted of the following liabilities:

			31 December 2017	
	Original date	Maturity date	Nominal value	Carrying value
Ruble-denominated interest-free borrowings	5 June 2009	5 June 2032	25,000	4,506
	29 April 2010	29 April 2032	26,282	4,795
			51,282	**9,301**
Ruble-denominated interest-free promissory notes	23 April 2001	7 March 2020	1,481	987

(In millions of Russian rubles unless otherwise stated)

19. Financial liabilities (continued)

In 2017 the Company and Vnesheconombank signed addendum to the agreement on opening a credit line, which increased the limit from RUB 45,142 to RUB 51,883.The loan can be used only to finance investment projects of the Company. The loan is repayable by equal quarterly instalments from 2017 to 2026. As at 31 December 2017 outstanding principal balance under this credit line amounted to RUB 33,177 (31 December 2016: RUB 32,902).

In 2017 LADA Izhevsk and Vnesheconombank signed addendum to the agreement on opening a credit line, which decreased the limit from RUB 14,857 to RUB 8,116. The loan can be used only to finance investment projects of LADA Izhevsk. The loan is repayable by equal quarterly instalments from 2018 to 2024. As at 31 December 2017 outstanding principal balance under this credit line amounted to RUB 7,327 (31 December 2016: RUB 7,179).

As at 31 December 2017 the Group was not in compliance with covenants set by loan agreements with banks, which include gearing, EBITDA, profitability and liquidity ratios and cross-default, as well as maximum amount of all claims, for which the Company is a defendant. As at 31 December 2017 the Group had RUB 28,077 of bank loans with breached covenants (31 December 2016: RUB 38,664) including RUB 1,096 of long-term debt (31 December 2016: RUB 15,841).

As at 31 December 2017 the Group received waivers provided by lenders for loans with breached covenants in the amount of RUB 28,077 (31 December 2016: RUB 18,159) including RUB 1,096 of long-term debt (31 December 2016: RUB 7,989). The grace period of these waivers related to financial liabilities as at 31 December 2017 was more than one year.

As at 31 December 2017 the Company had an overdue borrowing payable to Renault s.a.s. in the amount of RUB 2,600 (31 December 2016: 2,602).

Non-current financial liabilities are repayable as follows:

	31 December 2017	31 December 2016
Current portion of financial liabilities	**27,991**	22,474
1 to 5 years	**34,100**	45,749
> 5 years	**64,946**	69,983
Total non-current financial liabilities	**127,037**	138,206
Less current portion of financial liabilities	**(27,991)**	(22,474)
Less loans with breached covenants	**-**	(15,841)
Less adjustments for discounting liabilities	**(42,475)**	(43,697)
Non-current portion of financial liabilities	**56,571**	56,194

As at 31 December 2017 the Group had available RUB 18,167 (31 December 2016: RUB 20,045) of undrawn committed borrowing facilities, of which RUB 115 was available for operating activities and RUB 18,052 was available for investment activities.

As at 31 December 2017 the Group's loans and borrowings of RUB 50,277 (31 December 2016: RUB 61,231) were secured with property, plant and equipment with the carrying value of RUB 11,399 (31 December 2016: RUB 15,298), finished goods with the carrying value of RUB 1,299 (31 December 2016: RUB 2,488) and 100% shares of subsidiaries Lada-Service and ZAK.

Finance lease liabilities were included in ruble-denominated loans and borrowings. Finance lease liabilities - minimum lease payments were as follows:

	31 December 2017	31 December 2016
Not later than one year	**113**	113
1 to 5 years	**305**	375
> 5 years	**21**	63
	439	551
Finance lease servicing	**(101)**	(145)
Present value of finance lease liabilities	**338**	406

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

	31 December 2017	31 December 2016
Not later than one year	**76**	68
1 to 5 years	**243**	282
> 5 years	**19**	56
	338	406

The Group purchases machinery and equipment under finance lease arrangements.

(In millions of Russian rubles unless otherwise stated)

19. Financial liabilities (continued)

Changes in liabilities arising from financing activities were as follows:

	31 December 2016	Changes in cash flows	Foreign exchange changes	Amortization of discounting liabilities	Changes due to covenants compliance	Other changes	31 December 2017
Current interest-bearing loans and borrowings	47,986	(16,534)	16	-	(1,096)	6,570	36,942
Non-current interest-bearing loans and borrowings	47,128	3,911	505	44	1,096	(6,401)	46,283
Non-current interest-free borrowings	8,260	-	-	1,041	-	-	9,301
Non-current interest-free promissory notes	806	-	-	181	-	-	987
Total liabilities from financing activities	**104,180**	**(12,623)**	**521**	**1,266**	**-**	**169**	**93,513**

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings to current due to the passage of time, disposal of subsidiaries and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The Group classifies interest paid as cash flows from operating activities.

20. Other tax liabilities

Other tax liabilities consisted of the following:

	31 December 2017	31 December 2016
Utilisation fee	**4,007**	3,213
Value added tax	**1,564**	1,795
Property and other taxes	**661**	862
Social taxes	**634**	597
	6,866	6,467

21. Other current liabilities

Other current liabilities consisted of the following:

	31 December 2017	31 December 2016
Liabilities for PPE and intangible assets	**4,179**	4,610
Salaries payable, vacation and other accruals	**3,080**	2,914
Liabilities of a non-state pension fund	**2,685**	1,761
Dealer bonuses	**1,638**	1,256
Deferred income on government subsidy	**520**	1,039
Other	**426**	258
	12,528	11,838

22. Revenues

Components of sales revenue were as follows:

	2017	2016
Sales of goods	**222,637**	182,758
Sales of services	**3,011**	2,173
	225,648	184,931

	2017	2016
Domestic sales	**212,958**	176,375
Export sales to CIS countries	**8,622**	4,768
Export sales to EU countries	**3,201**	2,478
Other export sales	**867**	1,310
	225,648	184,931

Geographical information is presented based on the location of customers.

(In millions of Russian rubles unless otherwise stated)

23. Cost of goods and services sold

Cost of goods and services sold comprised expenses incurred in the manufacturing of vehicles, assembly kits and spare parts, mainly the cost of materials and components. The remaining costs in 2017 principally included labour costs in the amount of RUB 22,365 (2016: RUB 20,686), as well as depreciation and amortisation in the amount of RUB 5,316 (2016: RUB 6,251).

In 2017 based on Government regulations on utilisation fee the Group incurred costs of utilisation fee in the amount of RUB 14,703 (2016: RUB 12,185).

24. Research and development expenses

Components of research and development expenses were as follows:

	2017	2016
Depreciation and amortisation	**877**	1,070
Labour costs	**318**	341
Third parties' services	**210**	46
Materials	**57**	91
Other	**52**	45
	1,514	1,593

25. Selling, general and administrative expenses

Components of selling, general and administrative expenses were as follows:

Selling expenses:	2017	2016
Advertising	**2,352**	2,196
Labour costs	**1,403**	1,254
Third parties' services	**208**	25
Depreciation and amortisation	**196**	268
(Reversal of)/charge to provision for impairment of trade receivable and other current assets	**(33)**	119
Other	**777**	917
	4,903	4,779

General and administrative expenses:	2017	2016
Labour costs	**5,038**	4,873
Third parties' services	**1,410**	1,413
Transportation	**441**	388
Depreciation and amortisation	**435**	455
Maintenance and servicing of office buildings	**285**	319
Other	**526**	516
	8,135	7,964
	13,038	12,743

26. Other operating income and expenses

Components of other operating income and expenses were as follows:

	2017	2016
Gain on disposal of property, plant and equipment	**144**	244
Gain on disposal of subsidiaries and associates	**100**	144
Charge to provision for termination payments to employees	**(1,903)**	(942)
Charge to provision for individual non-current assets	**(370)**	(6,072)
(Charge to)/reversal of provision for restructuring	**(264)**	46
Impairment loss	**-**	(18,017)
Other	**49**	220
	(2,244)	(24,377)

27. Other financial income and expenses

Components of other financial income and expenses were as follows:

	2017	2016
Foreign exchange (loss)/gain	**(521)**	1,820
Gain on derecognition of financial liability and liability on promissory notes	**-**	128
Loss on sale of financial assets	**-**	(2)
Other	**(71)**	(11)
	(592)	1,935

(In millions of Russian rubles unless otherwise stated)

28. Current and deferred taxes

	2017	2016
Income tax expense – current	**(334)**	(172)
Deferred tax benefit	**735**	3,450
	401	3,278

The tax benefit of the Group is reconciled as follows:

	2017	2016
Loss before taxation	**(10,063)**	(48,057)
Theoretical tax expenses at statutory rate of 20%	**2,013**	9,611
Unrecognised tax losses carried forward	**(1,098)**	(4,795)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	**7**	54
Non-deductible expenses	**(521)**	(1,592)
	401	3,278

During 2017 and 2016 most of the Group's entities were subject to tax rate of 20% on taxable profits.

Deferred tax assets and liabilities:

	31 December 2015	Movement for 2016	31 December 2016	Movement for 2017	31 December 2017
Tax effects of temporary differences:					
Provision for impairment of trade receivables	186	429	615	116	731
Provision for impairment of other assets	365	199	564	359	923
General and overhead expenses allocation on inventories	(317)	24	(293)	(94)	(387)
Provision for inventories	523	300	823	152	975
Difference in depreciation and provision for impairment of PPE	2,540	1,743	4,283	(1,363)	2,920
Difference in amortisation and provision for impairment of intangible assets	(1,578)	648	(930)	(80)	(1,010)
Accounts payable and provisions	1,062	547	1,609	935	2,544
Discounting of loans and borrowings	(8,977)	238	(8,739)	244	(8,495)
Other temporary differences	335	(239)	96	466	562
	(5,861)	3,889	(1,972)	735	(1,237)
Tax losses carried forward	17,685	4,356	22,041	1,098	23,139
Unrecognised tax losses carried forward	(17,246)	(4,795)	(22,041)	(1,098)	(23,139)
Deferred tax assets/(liabilities), net	**(5,422)**	**3,450**	**(1,972)**	**735**	**(1,237)**
Reflected in the consolidated statement of financial position:					
Deferred tax assets	1,301		1,339		1,423
Deferred tax liabilities	(6,723)		(3,311)		(2,660)
Deferred tax liabilities, net	**(5,422)**		**(1,972)**		**(1,237)**

The temporary differences associated with investments in subsidiaries amounted to RUB 7,585 and RUB 11,417 as of 31 December 2017 and 31 December 2016, respectively. A deferred tax asset in respect of temporary difference related to the Group's investments in subsidiaries was not recognised as it is not probable that taxable profit will be available in the foreseeable future against which the temporary difference can be utilised.

(In millions of Russian rubles unless otherwise stated)

29. Government grants

Movements in government grants were as follows:

	2017	2016
Balance at 31 December(receivable)/liability	**(2,797)**	**(1,836)**
Received during the year	19,023	17,237
Released to the consolidated statement of comprehensive income	(20,440)	(18,198)
Balance at 31 December (receivable)/liability	**(4,214)**	**(2,797)**

In 2017 the Group recognised income on the following subsidies:

- compensation of manufacturing costs in the amount of RUB 19,488 (2016: RUB 17,735), recorded within cost of goods and services sold;
- compensation of interest expenses on investment loans in the amount of RUB 952 (2016: RUB 463) recorded within net interest income and expenses.

30. Loss per share

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

	31 December 2017	31 December 2016
Weighted average number of ordinary and preference shares outstanding (thousands)	**5,188,753**	2,442,831
Loss attributable to ordinary/preference equity holders of the Company	**(9,681)**	(45,008)
Loss per share (in rubles):		
Basic/diluted, loss for the year attributable to ordinary/preference equity holders of the Company	**(1.87)**	(18.42)

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

31. Contingencies, commitments and guarantees

31.1 Contractual commitments and guarantees

As at 31 December 2017 the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets from third parties in the amount of RUB 4,687 (31 December 2016: RUB 4,024).

31.2 Legal claims contingencies and legal proceedings

During 2017, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. At the date of issuing of these consolidated financial statements, the Group was in dispute with several suppliers in relation to claims received in total amount of RUB 2,561 and estimated as contingent liabilities.

In the opinion of management, the Group's liability, if any, in all pending litigations or other legal proceedings would not have a material effect upon the financial condition, results of operations or liquidity of the Group.

31.3 Operating lease commitments

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

	31 December 2017	31 December 2016
Not later than 1 year	**108**	101
Later than 1 year and not later than 5 years	**418**	385
Later than 5 years	**3,372**	3,061
	3,898	3,547

The amount of lease payments recognised as an expense for the year ended 31 December 2017 was RUB 117 (2016: RUB 98).

31. Contingencies, commitments and guarantees (continued)

31.4 Taxation

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

In 2017, mechanisms were further implemented to counter the tax evasion using low tax jurisdictions and aggressive tax planning structures. In particular, these changes included the definition of beneficial ownership, tax residence of legal entities at the place of actual activity, as well as the approach to taxation of controlled foreign companies in the Russian Federation.

In addition, the tax benefit concept was legislatively established for all taxes levied on the territory of the Russian Federation, with a focus on:

- existence of a business purpose in business transactions,
- fulfilment of contract obligations by parties to the contract.

At the same time, a practical mechanism for applying this concept has not yet been fully established, and court practice on the changes introduced has not been formed yet.

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 2017 its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.

31.5 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.

31.6 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.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, 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.

32. 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, LADA Izhevsk, PSA VIS-AVTO and LADA Sport;
- dealership network - sales of vehicles and spare parts 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 ordinary commercial terms and conditions.

(In millions of Russian rubles unless otherwise stated)

32. 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	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Revenues										
Sales to external customers	**189,596**	157,932	**15,395**	12,190	**20,657**	14,809	**-**	-	**225,648**	184,931
Inter-segment sales	**18,574**	13,592	**557**	764	**1,284**	3,696	**(20,415)**	(18,052)	**-**	-
Intra-segments sales	**72,109**	60,138	**13**	22	**3**	3	**(72,125)**	(60,163)	**-**	-
Total revenue	**280,279**	231,662	**15,965**	12,976	**21,944**	18,508	**(92,540)**	(78,215)	**225,648**	184,931
Results										
Depreciation and amortisation	**(6,545)**	(7,635)	**(117)**	(168)	**(162)**	(241)	**-**	-	**(6,824)**	(8,044)
Impairment of assets	**(3,754)**	(27,117)	**(276)**	(86)	**(436)**	(1,339)	**-**	-	**(4,466)**	(28,542)
Interest expenses	**(8,964)**	(10,298)	**(52)**	(62)	**(5)**	(336)	**-**	-	**(9,021)**	(10,696)
Interest income	**1,685**	607	**42**	63	**26**	12	**-**	-	**1,753**	682
Share in net (loss)/income of associates and a joint venture	**(1,560)**	632	**-**	-	**-**	-	**-**	-	**(1,560)**	632
Current and deferred taxes	**614**	3,378	**(38)**	(86)	**(175)**	(14)	**-**	-	**401**	3,278
IFRS (loss)/profit for the year	**(8,867)**	(43,539)	**137**	(56)	**(932)**	(1,184)	**-**	-	**(9,662)**	(44,779)

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

In 2017 the Company had one major customer, revenue from sales to which amounted to RUB 32,070 and related to the automotive segment (2016: RUB 28,399).

	Automotive		Dealership network		Other segments		Total	
	31 December		31 December		31 December		31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Segment assets	**123,028**	141,098	**4,466**	4,821	**10,616**	9,407	**138,110**	155,326
Intra-segment eliminations	**(13,472)**	(16,738)	**(508)**	(689)	**(19)**	(18)	**(13,999)**	(17,445)
Inter-segment eliminations	**(8,281)**	(11,128)	**(712)**	(683)	**(726)**	(1,850)	**(9,719)**	(13,661)
Total assets	**101,275**	113,232	**3,246**	3,449	**9,871**	7,539	**114,392**	124,220
Segment liabilities	**(186,739)**	(191,738)	**(2,452)**	(2,724)	**(7,591)**	(5,633)	**(196,782)**	(200,095)
Intra-segment eliminations	**9,911**	13,177	**299**	420	**4**	5	**10,214**	13,602
Inter-segment eliminations	**960**	2,082	**1,211**	1,231	**2,766**	1,381	**4,937**	4,694
Total liabilities	**(175,868)**	(176,479)	**(942)**	(1,073)	**(4,821)**	(4,247)	**(181,631)**	(181,799)

Major part of non-current assets is located in the Russian Federation.

33. Financial risk management objectives and policies

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

In accordance with the Group's policy no trading in derivatives was undertaken in 2017 or 2016. 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 22). As a result, the Group has currency exposures. Such exposure arises from sales in currencies other than Group's functional currency. Almost 98% of sales are denominated in the functional currency, whilst approximately 6% of costs are denominated in currencies other than rubles. As at 31 December 2017 the Group had RUB 179 of cash and cash equivalents, RUB 454 of trade and other receivables, RUB 6,934 of loans and borrowings, RUB 6,171 of trade and other liabilities denominated in currencies other than Group's functional currency. Risk management is carried out by the Company's 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 rubles unless otherwise stated)

33. Financial risk management objectives and policies (continued)

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

	Increase/decrease in exchange rate, %	Effect on profit before tax
2017		
EUR/RUB	12.80	(1,397)
JPY/RUB	13.50	(168)
USD/RUB	10.00	(31)
EUR/RUB	-12.80	1,397
JPY/RUB	-13.50	168
USD/RUB	-10.00	31
2016		
EUR/RUB	20.20	(2,235)
JPY/RUB	24.00	(322)
USD/RUB	19.00	(34)
EUR/RUB	-20.20	2,235
JPY/RUB	-24.00	322
USD/RUB	-19.00	34

Credit risk

As at 31 December 2017 the Group had RUB 8,855 (31 December 2016: RUB 17,610) in cash and cash equivalents, RUB 23 (31 December 2016: RUB 18) of current financial assets, RUB 24,479 of trade receivables and other current assets (31 December 2016: RUB 24,047) and RUB 1 (31 December 2016: RUB 829) of non-current 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 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 a liquidity 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 borrowings.

The table below summarizes the maturity of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted payments.

	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Year ended 31 December 2017					
Financial liabilities	**9,509**	**33,935**	**43,458**	**67,552**	**154,454**
Trade payables and other liabilities	**67,818**	**60**	**160**	**-**	**68,038**
Year ended 31 December 2016					
Financial liabilities	4,331	9,896	41,799	73,707	129,733
Trade payables and other liabilities	58,670	50	-	-	58,720
Loans with breached covenants	2,103	24,404	17,028	-	43,535

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 rubles unless otherwise stated)

33. 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		Fair values of assets and liabilities (Level 2)	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
FINANCIAL ASSETS:				
Non-current financial assets	**1**	829	**1**	829
Receivables for jointly-controlled assets	**12,932**	14,696	**12,932**	14,696
Trade receivables	**14,815**	15,884	**14,815**	15,884
Current financial assets	**23**	18	**23**	18
Short-term assets of a non-state pension fund – deposit accounts	**1,425**	1,100	**1,425**	1,100
Short-term assets of a non-state pension fund at fair value through profit or loss	**1,028**	350	**1,028**	348
Other current assets	**5,720**	5,054	**5,720**	5,054
Cash and cash equivalents	**8,855**	17,610	**8,855**	17,610
Total	**44,799**	55,541	**44,799**	55,539
FINANCIAL LIABILITIES:				
Non-current financial liabilities	**56,571**	56,194	**58,913**	58,506
Other non-current liabilities	**160**	-	**160**	-
Current financial liabilities	**36,942**	47,986	**36,942**	47,986
Trade payables	**55,350**	46,882	**55,350**	46,882
Other current liabilities	**12,528**	11,838	**12,528**	11,838
Total	**161,551**	162,900	**163,893**	165,212

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 2017, 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% (2016: 11%).

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

During the year ended 31 December 2017, 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.

33. Financial risk management objectives and policies (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains an acceptable credit rating and 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 2017 and 2016.

34. Events after the reporting period

On 27 January 2018 the Government of the Russian Federation issued an order adjusting the procedure for providing financing from the Rostec State Corporation to AVTOVAZ. This order allows AVTOVAZ to proceed with its capital restructuring plan.