SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2012

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Sollers:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Sollers and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

8 April 2013 ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

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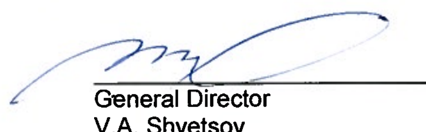
Sollers Group
Consolidated Statement of Financial Position at 31 December 2012
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million		Supplementary information US$ million (Note 2)	
		At 31 December 2012	At 31 December 2011	At 31 December 2012	At 31 December 2011
ASSETS					
Non-current assets					
Property, plant and equipment	7	11,539	12,527	380	389
Goodwill	8	1,484	1,484	49	46
Development costs	9	393	524	13	16
Other intangible assets	10	182	199	6	6
Deferred income tax assets	27	276	874	9	27
Investments in associates and joint ventures	11	14,492	11,921	477	370
Other financial assets		20	22	1	1
Other non-current assets	12	677	596	22	19
Total non-current assets		**29,063**	**28,147**	**957**	**874**
Current assets					
Inventories	13	4,503	6,700	148	208
Trade and other receivables	14	9,816	11,034	323	343
Other current assets		231	256	8	8
Cash and cash equivalents	15	2,560	2,957	84	92
Total current assets		**17,110**	**20,947**	**563**	**651**
TOTAL ASSETS		**46,173**	**49,094**	**1,520**	**1,525**
LIABILITIES AND EQUITY					
Equity					
Share capital	16	530	530	17	16
Treasury shares	16	-	(653)	-	(20)
Share options	16	50	77	2	2
Share premium	16	4,480	4,893	148	152
Additional paid-in capital	16	1,438	1,438	47	45
Retained earnings	16	6,340	1,092	209	34
Equity attributable to the Company's owners		**12,838**	**7,377**	**423**	**229**
Non-controlling interest		7,042	6,177	232	192
Total equity		**19,880**	**13,554**	**655**	**421**
Liabilities					
Non-current liabilities					
Long-term borrowings	17	3,742	5,851	123	182
Deferred income tax liabilities	27	854	1,208	28	38
Other long term liabilities		31	48	1	1
Total non-current liabilities		**4,627**	**7,107**	**152**	**221**
Current liabilities					
Trade accounts payable		10,454	13,104	344	407
Advances received and other payables	18	2,865	1,680	94	52
Taxes payable	19	1,045	2,321	34	72
Warranty and other provisions	20	604	345	20	11
Short-term borrowings	17	6,698	10,983	221	341
Total current liabilities		**21,666**	**28,433**	**713**	**883**
Total liabilities		**26,293**	**35,540**	**865**	**1,104**
TOTAL LIABILITIES AND EQUITY		**46,173**	**49,094**	**1,520**	**1,525**

Approved for issue and signed on behalf of the Board of Directors on 8 April 2013.



General Director
V.A. Shvetsov

Chief Financial Officer
N.A. Sobolev

The accompanying notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Sollers Group
Consolidated Statement of Comprehensive Income for the year ended 31 December 2012
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

		RR million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	**2012**	**2011**	**2012**	**2011**
Sales	21	65,549	69,531	2,108	2,365
Cost of sales	22	(51,475)	(57,319)	(1,656)	(1,949)
Gross profit		**14,074**	**12,212**	**452**	**416**
Distribution costs	23	(2,551)	(2,578)	(82)	(88)
General and administrative expenses	24	(5,205)	(4,982)	(167)	(170)
Net result on formation of joint venture	11	922	4,007	30	136
Other operating income/(expenses), net	25	5	(150)	-	(4)
Operating profit		**7,245**	**8,509**	**233**	**290**
Finance costs, net	26	(810)	(2,281)	(26)	(77)
Share of result of joint ventures and associates	11	1,149	47	37	1
Profit before income tax		**7,584**	**6,275**	**244**	**214**
Income tax expense	27	(1,703)	(1,581)	(55)	(54)
Profit for the year		**5,881**	**4,694**	**189**	**160**
Total comprehensive income for the year		**5,881**	**4,694**	**189**	**160**
Profit is attributable to:					
Owners of the Company		5,843	4,594	188	156
Non-controlling interest		38	100	1	4
Profit for the year		**5,881**	**4,694**	**189**	**160**
Total comprehensive income is attributable to:					
Owners of the Company		5,843	4,594	188	156
Non-controlling interest		38	100	1	4
Total comprehensive income for the year		**5,881**	**4,694**	**189**	**160**
Weighted average number of shares outstanding during the period (in thousands of shares) – basic	28	34,152	33,472	34,152	33,472
Weighted average number of shares outstanding during the period (thousands) – diluted	28	34,275	33,907	34,275	33,907
Profit per share (in RR and US$) – basic	28	171.1	137.2	5.50	4.67
Profit per share (in RR and US$) - diluted	28	170.5	135.5	5.48	4.61

Other than as presented above, the Group did not have any items to be recorded as other comprehensive income in the statement of comprehensive income (2011: no items).

The accompanying notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Sollers Group
Consolidated Statement of Cash Flows for the year ended 31 December 2012
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
		2012	2011	2012	2011
Cash flows from operating activities					
Profit/(loss) before income tax		**7,584**	**6,275**	**244**	**214**
Adjustments for:					
Depreciation		839	1,406	27	48
Amortisation		274	215	9	7
Share options		18	28	1	1
Provision and write-off for impairment of receivables		172	71	6	2
Provision for inventories	13	71	(2)	2	-
Other provision movements		439	477	14	16
Loss on disposal of other non-current assets		28	67	1	2
Amortisation of Government grants		(16)	(20)	(1)	(1)
Development costs write-off		7	5	-	-
Net losses/(gain) on disposal of property, plant and equipment		220	144	7	5
Net result on formation of joint venture	11	(922)	(4,007)	(30)	(136)
Share of result of JV and associates	11	(1,149)	(47)	(37)	(1)
Finance costs, net		1,438	3,031	47	103
Operating cash flows before working capital changes		**9,003**	**7,643**	**290**	**260**
Decrease in inventories		1,424	5,431	46	185
Decrease/(increase) in trade and other receivables		945	(4,260)	30	(145)
Decrease/(increase) in other current assets		25	(212)	1	(7)
(Decrease) in trade accounts payable, advances received and other payables		(584)	(3,806)	(19)	(130)
(Decrease)/increase in taxes payable		(1,200)	2,165	(39)	74
Cash provided from operations		**9,613**	**6,961**	**309**	**237**
Income taxes paid		(1,755)	(640)	(56)	(22)
Interest paid		(1,424)	(2,304)	(46)	(78)
Net cash from operating activities		**6,434**	**4,017**	**207**	**137**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(917)	(1,148)	(30)	(39)
Proceeds from the sale of property, plant and equipment and advances received		1,626	5,593	53	190
Development costs	9	(86)	(157)	(3)	(5)
Purchase of other non-current assets		(52)	(72)	(2)	(2)
Investment in joint venture	11	(951)	(330)	(30)	(11)
Dividends received from participation in joint venture		13	-	-	-
Proceeds from sale of subsidiary net of cash disposed		(320)	-	(10)	-
Net cash (used in)/from investing activities		**(687)**	**3,886**	**(22)**	**133**
Cash flows from financing activities					
Proceeds from borrowings		6,995	13,521	225	460
Repayment of borrowings		(13,305)	(21,414)	(428)	(729)
Dividends paid to the Group's shareholders		(16)	(22)	(1)	(1)
Change in treasury shares		182	(120)	6	(4)
Net cash used in financing activities		**(6,144)**	**(8,035)**	**(198)**	**(274)**
Net decrease in cash and cash equivalents		**(397)**	**(132)**	**(13)**	**(4)**
Effect of exchange rate changes on cash and cash equivalents		-	-	5	(5)
Cash and cash equivalents at the beginning of the year		**2,957**	**3,089**	**92**	**101**
Cash and cash equivalents at the end of the year		**2,560**	**2,957**	**84**	**92**

The accompanying notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Sollers Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2012
(in millions of Russian Roubles)

	Note	Share capital	Treasury shares	Share options	Share premium	Additional paid-in-capital	Retained earnings	Total Attributable to equity holders of the Group	Non-controlling interest	Total equity
Balance at 1 January 2011		**530**	**(724)**	**77**	**5,062**	**1,438**	**(3,144)**	3,239	**5,719**	**8,958**
Profit for the year		-	-	-	-	-	4,594	**4,594**	100	**4,694**
Total comprehensive income for 2011		-	-	-	-	-	**4,594**	**4,594**	**100**	**4,694**
Change of interest in subsidiary	32	-	-	-	-	-	(358)	**(358)**	358	-
Treasury shares acquisition		-	(135)	-	-	-	-	**(135)**	-	**(135)**
Share options	6, 16	-	206	-	(169)	-	-	**37**	-	**37**
Balance at 31 December 2011		**530**	**(653)**	**77**	**4,893**	**1,438**	**1,092**	**7,377**	**6,177**	**13,554**
Profit for the year		-	-	-	-	-	5,843	**5,843**	38	**5,881**
Total comprehensive income for 2012		-	-	-	-	-	**5,843**	**5,843**	**38**	**5,881**
Change of interest in subsidiary	32	-	-	-	-	-	(595)	**(595)**	595	-
Disposal of subsidiary	11	-	-	-	-	-	-	-	232	**232**
Treasury shares disposal		-	559	-	(312)	-	-	**247**	-	**247**
Treasury shares acquisition			(80)	-	-	-	-	**(80)**	-	**(80)**
Share options	6, 16	-	174	(27)	(101)	-	-	**46**	-	**46**
Balance at 31 December 2012		**530**	**-**	**50**	**4,480**	**1,438**	**6,340**	**12,838**	**7,042**	**19,880**

1 The Sollers Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for Sollers OJSC, previously called OAO "Severstal-auto", (the "Company") and its subsidiaries (the "Group"). The Group adopted its new name "Sollers" in 2008.

The Company and the Group's principal activity is the manufacture and sale of vehicles, including automotive components, assembly kits, and engines. The Group's manufacturing facilities are primarily based in Ulyanovsk, the Nizhniy Novgorod region, and Vladivostok in the Russian Federation.

On 1 October 2011 the Group established the joint venture with Ford with production assets located in Vsevolozhsk in the St. Petersburg region, Naberezhnye Chelny and Elabuga in the Republic of Tatarstan. Ford-Sollers joint venture is intended for exclusive production and distribution of Ford branded vehicles in Russia. By the end of 2011 the Group established the joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok, where Toyota vehicles are planned to be produced. During the second half 2012 the Group finalized the foundation of the joint venture with Mazda Motor Corporation in Vladivostok also (Note 11) and launched the production of Mazda SUVs in September 2012. In August 2012 the Group disposed 16% stake in joint venture Sollers-Isuzu and recognised the remained investment as 50%-50% joint venture. The Sollers-Isuzu production of lights-duty trucks is located in Ulyanovsk (Note 11).

In February 2013 the Group relocated SsangYong SUVs' production from the Group's subsidiary site to JV Mazda-Sollers' production facilities. The Group will continue exclusive distribution of the SUVs in future.

The Company was incorporated as an open joint stock company in the Russian Federation in March 2002 by OAO "Severstal" (the predecessor) by contributing its controlling interests in OAO "Ulyanovsky Avtomobilny Zavod" (OAO "UAZ") and OAO "Zavolzhskiy Motor Works" (OAO "ZMZ"), which were acquired through purchases close to the end of 2000, in exchange for the Company's share capital.

The immediate parent company is Newdeal Investments Limited. The ultimate controlling party of the Group is Vadim Shvetsov who is the principal shareholder of the Company.

The Company's shares are listed on MICEX-RTS.

The registered office of the Company is Testovskaya street, 10, Moscow, Russian Federation.

These consolidated financial statements were approved for issue by the General Director and Chief Financial Officer on 8 April 2013.

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. Starting from 2011 the Russian economy demonstrated a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector. In particular, a number of these factors have helped the automotive industry in general to recover and sales of new vehicles in Russia have significantly increased during the years ended 31 December 2011 and 2012 to date compared to the previous periods and in the most of market segments achieved the pre-crisis peak levels.

Further to the negotiations of the Cyprus government with the European Commission, the European Central Bank and the International Monetary Fund for the purpose of obtaining financing, on 25 March 2013 it was agreed that financial assistance will be provided to Cyprus in conjunction with a package of measures to be implemented including the split of Laiki Bank into depositors with amounts up to €100 thousand and depositors with amounts over €100 thousand; and a substantial haircut on Bank of Cyprus deposits with amounts over €100 thousand. As at 31 December 2012 the Group did not hold any bank balances or deposits in the Cypriot banks.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

2 Basis of preparation and significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of available for sale securities. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations). These financial statements are prepared on a going concern basis.

The Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

2.1 Presentation currency

All amounts in these consolidated financial statements are presented in millions of Russian Roubles ("RR millions"), unless otherwise stated.

2.2 Supplementary information

US Dollar ("US$") amounts shown in the consolidated financial statements are translated from the Russian Rouble ("RR") amounts as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2012 of RR 30.3727 = US$1 (31 December 2011: RR 32.1961 = US$1). The consolidated income statement and consolidated statement of cash flows have been translated at the average exchange rates during the years ended 31 December 2012 of RR 31.0930 = US$1 (2011: RR 29.3948 = US$1). The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group.

2.3 Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

2 Basis of preparation and significant accounting policies (continued)

2.4 Purchases and sales of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

2.5 Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to other reserves within equity.

2.6 Associates and jointly controlled entities

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly controlled entities are those enterprises over whose activities the Group has joint control, established by contractual agreement. When a jointly controlled entity is created through loss of control of a subsidiary, the initial carrying amount is recognised at fair value. Subsequently, they are accounted for using the equity method of accounting. The share of jointly controlled entities' results is recognised in the consolidated financial statements from the date that joint control commences until the date at which it ceases.

Unrealised gains on transactions between the Group, its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.7 Disposals of subsidiaries, associates or joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 Basis of preparation and significant accounting policies (continued)

2.8 Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit or loss, sales, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related consolidated balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

2.9 Classification of financial assets

The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Other financial assets at fair value through profit and loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

2 Basis of preparation and significant accounting policies (continued)

2.9 Classification of financial assets (continued)

Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading investments if it has an intention to sell them within a short period after purchase, i.e. within 12 months The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit and loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit and loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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 assets include 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, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2.10 Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in the income statement in the period in which they arise. Other financial liabilities are carried at amortised cost.

2.11 Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit and loss are initially recorded at fair value. All other 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 assets 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 are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of options and bonds that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the options and bonds.

2.12 Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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.

2 Basis of preparation and significant accounting policies (continued)

2.13 Valuation of investments

Available-for-sale investments. The Group classifies investments as available for sale at the time of purchase. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit and loss. Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payment is established and inflow of benefits is probable. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit and loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through current period's profit and loss.

Held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

Trading investments. Trading investments are carried at fair value. Interest earned on trading investments calculated using the effective interest method is presented in the consolidated income statement as finance income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and inflow of benefits is probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit and loss as gains less losses from trading investments in the period in which they arise.

Embedded derivatives. Foreign currency forwards embedded into sales-purchase contracts are separated from the host contracts and accounted for sepparately unless the contract is denominated in the functional currency of any substantial party to the contract or in a currency that is commonly used in the economic environment in which the transaction takes place, such as in US Dollars and Euros for contracts within the Russian Federation.

2.14 Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing or renewing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date, management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, 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 impairment loss is recognised in the consolidated income statement. 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 asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit and loss.

2.15 Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	35 to 45
Plant and machinery	15 to 25
Equipment and motor vehicles	5 to 12

2 Basis of preparation and significant accounting policies (continued)

2.15 Depreciation (continued)

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

2.16 Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit and loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2.17 Finance lease receivables

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at the date from which the lessee is entitled to exercise its right to use the leased asset, using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within sales in the income statement.

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

2.18 Share based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.19 Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

2 Basis of preparation and significant accounting policies (continued)

2.19 Goodwill (continued)

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.20 Other intangible assets

The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, patents, trademarks, licences and clips.

Acquired computer software licenses, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Trademarks	3 to 10
Production licences	5 to 10
Computer software licences	3 to 5

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

2.21 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Inventories at the reporting date include expected sales returns subsequent to the period end, where the related sales, profit margin and receivables balance are reversed. Inventories are initially recognised when the Group has control of the inventory, expects it to provide future economic benefits and the cost of the inventory can be measured reliably. For components imported from outside of the Russian Federation, this is typically at the point of delivery to the Group's warehouse and accepted by the Group.

2.22 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

2 Basis of preparation and significant accounting policies (continued)

2.22 Income taxes (continued)

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

2.23 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method.

2.24 Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment has incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;

- the counterparty considers bankruptcy or a financial reorganisation;

- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or

- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit and loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

2 Basis of preparation and significant accounting policies (continued)

2.25 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit and loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit and loss.

2.26 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

2.27 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

2.28 Treasury shares

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's equity holders until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and are included in equity attributable to the Company's equity holders.

2.29 Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

2.30 Value added tax

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

2.31 Borrowings

Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

2.32 Government grants and subsidies

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets.

Government grants and subsidies relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

2 Basis of preparation and significant accounting policies (continued)

2.33 Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

2.34 Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Group recognises the estimated liability to repair or replace products sold still under warranty at the end of each reporting period. This provision is calculated based on past history of the level of repairs and replacements and recognised in costs of sale.

2.35 Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Group's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit and loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2012, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 30.3727, Euro 1 = RR 40.2286, Japanese yen 100 = RR 35.1516 (2011: US$ 1 = RR 32.1961, Euro 1 = RR 41.6714, Japanese yen 100 = RR 37.3789). The principal average rate of exchange used for translating income and expenses was US$ 1 = RR 31.093 (2011: US$ 1 = RR 29.3948).

2.36 Revenue recognition

Revenues from sales of vehicles, engines and automotive components are recognised at the point of transfer of the major of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The group generally retains physical possession of the vehicle ownership document ("PTS") until cash is collected from the dealer, however, it considers that substantially all risks and rewards are transferred upon shipment.

An estimate is made for vehicles that are returned to the Group subsequent to the period end where a dealer is not able to settle receivables owed to the Group. In such instances, the related sales revenue, profit margin and trade receivable balances are reversed during the period and the vehicles are included as inventories as at the period end date.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the 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.

Sales are shown net of VAT, excise, discounts and other bonuses to dealers.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up. Interest income is recognised on a time-proportion basis using the effective interest method.

2 Basis of preparation and significant accounting policies (continued)

2.37 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, on average over ten years.

2.38 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Labour expenses include state pension contributions of RR 1,670 for the year ended 31 December 2012 (2011: RR 1,812). In addition, labour expenses include payments under share based compensation of RR 18 (2011: RR 19).

2.39 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during period.

If applicable, diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares under the share based compensation programme. For the share options used in the share based compensation programme a calculation is done to determine the number of shares that would have been issued at the balance sheet date if this date was the vesting date.

2.40 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.41 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately where they do not have similar economic characteristics.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

3.1 Remaining useful life of property, plant and equipment

Management has assessed the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.2 Impairment of assets (including goodwill)

Management have used judgement when evaluating any indicators of potential impairment of the Group's non-current assets (including property, plant and equipment, intangibles and goodwill), or, when testing for impairment as at 31 December 2012 as required. Management have determined that there are three cash-generating units ("CGU") within the Group: OAO "UAZ", OAO "ZMZ" and OOO "Sollers-Dal'niy Vostok".

After substantial increase in 2011 supported by government measures the Russian automotive market continued its growth in 2012: according to independent automotive experts the volume of the Russian automotive market for 2012 is amounted to 2,9 mln. units. Hence, the market growth in comparison with 2011 is approximately 11%. Major government support measures i.e. cash-for-clunkers programme and interest subsidy for auto-loans ceased in 2011, but still the market continued to grow in 2012. The market growth is explained by two main factors: stabilization of economic environment and the natural recovery of demand based on fundamental market factors (i.e. low car density per 1000 capita, outdated car park in Russia and growing level of credit sales which is yet to achieve average global levels).

Sales of vehicles grew overall and the Group benefited from strong growth in the SUV and LCV segments in particular. The increase in exchange rate of Russian Rouble to major currencies was also a favourable factor for the Group's results.

Goodwill allocated to OAO "UAZ" and OAO "ZMZ" CGUs have been tested by management for impairment using value-in-use calculations. The calculations use business plans and cash flows projections developed and approved by the management. The discounting rate used for each CGU was estimated based on weighted average cost of capital, which is post-tax and reflects specific risks related to the CGU and time value of money.

The cash flow projections cover an initial five-year period. Cash flows beyond five year period are extrapolated using basic assumptions such as potential sales volumes, EBITDA margin level and discounting rate specific for the particular CGU. Management determined budgeted EBITDA margin on the basis of the past performance of each CGU and its expectations for the market development. For the OAO "UAZ" these include continued strong demand for quality vehicles in the niche markets in which the units operate, and the CGU's sales price advantage over its foreign competition in those markets. For the OAO "ZMZ" these include expansion of its position as a supplier to the Russian market, development further the production of spare parts and components and ability to upgrade its products in line with expected increases in regulations over emission levels.

Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3.5% for both CGUs (31 December 2011: 2% for both CGUs); these growth rates do not exceed the long-term average growth rate for the automotive business in which CGUs operate. The discount rate used of 14.8% for OAO "ZMZ" and 14.9% for OAO "UAZ" (31 December 2011: 12.9% and 12.4% respectively) are pre-tax and reflect specific risks related to the relevant CGU.

The inference of no impairment of OAO "UAZ" CGU is sensitive to the level of future revenues. With all other assumptions held constant, a reduction in revenues of 45% in each future period would result in a need to reduce the carrying value of goodwill by RR 302.

The inference of no impairment of OAO "ZMZ" CGU is sensitive to the level of future revenues. With all other assumptions held constant, a reduction in revenues of 20% in each future period would result in a need to reduce the carrying amount of goodwill by RR 277 and other non-current assets in aggregate by RR 438.

For each of the CGUs identified for impairment testing, management consider that there have not been any significant changes in any of the businesses during the year. For all CGUs, the recoverable amount in the valuation performed as at 31 December 2012 exceeded the carrying amount by a substantial margin and based on an analysis of events, the likelihood that the current recoverable amount would be lower that the carrying amount is remote.

Management believes that any reasonably possible change in the key assumptions described above would not cause the carrying amount of goodwill related to OAO "UAZ" and OAO "ZMZ" to exceed their recoverable amounts.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Tax legislation and deferred income tax recognition

Russian tax, currency and customs legislation is subject to varying interpretations. Related accounting treatment requires the use of estimates and judgements as further detailed in Note 31.

Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on taxable profits earned in the past three-years; the possibility of challenges to the deductibility of expenses; the time period available in order to utilise the losses and expectations of future taxable income that are believed to be reasonable under the circumstances. For details of the deferred tax assets recognised as at 31 December 2012, see Note 27. The balance includes RR 276 (2011: RR 874). Management expects these losses to be utilised in the next few years based on current profit forecasts.

4 Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

"Disclosures – Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment did not have a material impact on these financial statements.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

5 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later and which the Group has not early adopted.

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2010, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not expect any material impact of the new standard on its financial statements.

5 New accounting pronouncements (continued)

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities".

- IFRS 12 "Disclosure of Interests in Other Entities", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

- IFRS 13 "Fair Value Measurement", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which aims to improve disclosures and achieve consistency by providing a revised definition of fair value.

- IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), which were changed by IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements".

- Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), which aim to improve the disclosure of items presented in other comprehensive income.

- Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), which makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

- "Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013), which requires disclosures that will enable users to better evaluate the effect of netting arrangements, including rights of set-off.

- "Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014), which clarifies the meaning of 'currently has a legally enforceable right of set-off'.

- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013), which consists of improvements to five standards.

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013), which clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition.

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014), which introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

6 Balances and transactions with related parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's immediate parent and ultimate controlling party are disclosed in Note 1.

6.1 Balances and transactions with related parties

Balances with related parties of the Group as at 31 December 2012 and 31 December 2011 consist of the following:

Balances

Nature of relationship	Parent company	Other related parties	Associates and joint ventures	Total
As at 31 December 2012				
Accounts receivable	-	-	157	157
Loans issued	-	203	-	203
Advances received	-	-	961	961
Trade and other accounts payable	-	-	553	553
As at 31 December 2011				
Accounts receivable	-	-	414	414
Advances received	-	-	10	10
Trade and other accounts payable	-	-	32	32

Transactions with related parties of the Group for the years ended 31 December 2012 and 31 December 2011 consist of the following:

Transactions

Nature of relationship	Parent company	Other related parties	Associates and joint ventures	Total
Year ended 31 December 2012				
Sales of vehicles and components	-	-	210	210
Sale of non-current assets and services	-	-	195	195
Purchases	-	-	488	488
Capital transaction	247	-	-	247
Year ended 31 December 2011				
Sales of vehicles and components	-	-	313	313
Sale of non-current assets	-	-	5,249	5,249
Purchases	-	-	223	223

6.2 Key management compensation

The compensation paid to the nine members of key management (year ended 31 December 2011: nine people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Each director receives a fee for serving in that capacity and is reimbursed reasonable expenses in conjunction with their duties. No additional fees, compensation or allowances are paid.

Total key management compensation included in expenses in the consolidated income statement for the year ended 31 December 2012 comprises:

- short-term employee benefits amounting to RR 613 (2011: RR 647); and
- expenses recognised under equity-settled, share based compensation amounting to RR 16 (2011: RR 14).

For information on the share based compensation, see Note 16.

During the year ended 31 December 2012, 150,000 options were exercised at an exercise price of US$ 3 (2011: 138,000 options at an exercise price US$ 3) by members of key management.