SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2011

CONTENTS

Independent Auditor's Report

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

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company Sollers and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2011 and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 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

3 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.

4 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.

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

Opinion

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

27 April 2012
Moscow, Russia

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Sollers Group
Consolidated Balance Sheet at 31 December 2011
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

		RR million		Supplementary information US$ million (Note 2)	
	Note	**At 31 December 2011**	**At 31 December 2010**	**At 31 December 2011**	**At 31 December 2010**
ASSETS					
Non-current assets					
Property, plant and equipment	7	12,527	23,223	389	762
Goodwill	8	1,484	1,484	46	49
Development costs	9	524	775	16	25
Other intangible assets	10	199	787	6	26
Deferred income tax assets	27	874	1,489	27	49
Investments in associates and joint ventures	11	11,943	304	371	10
Other non-current assets	12	596	1,425	19	47
Total non-current assets		**28,147**	**29,487**	**874**	**968**
Current assets					
Inventories	13	6,700	13,334	208	438
Trade and other receivables	14	11,034	7,458	343	245
Other current assets		256	45	8	1
Cash and cash equivalents	15	2,957	3,089	92	101
Total current assets		**20,947**	**23,926**	**651**	**785**
TOTAL ASSETS		**49,094**	**53,413**	**1,525**	**1,753**
LIABILITIES AND EQUITY					
Equity					
Share capital	16	530	530	16	17
Treasury shares	16	(653)	(724)	(20)	(24)
Share options	16	77	77	2	3
Share premium	16	4,893	5,062	152	166
Additional paid-in capital	16	1,438	1,438	45	47
Retained earnings	16	1,092	(3,144)	34	(103)
Total capital and reserves attributable to the Company's equity holders		**7,377**	**3,239**	**229**	**106**
Non-controlling interest		6,177	5,719	192	188
Total equity		**13,554**	**8,958**	**421**	**294**
Liabilities					
Non-current liabilities					
Long-term borrowings	17	5,851	17,053	182	560
Trade accounts payable		-	1,318	-	43
Deferred income tax liabilities	27	1,208	997	38	33
Other long term liabilities		48	68	1	2
Total non-current liabilities		**7,107**	**19,436**	**221**	**638**
Current liabilities					
Trade accounts payable		13,104	14,684	407	482
Advances received and other payables	18	1,680	1,940	52	64
Taxes payable	19	2,321	576	72	19
Warranty and other provisions	20	345	341	11	11
Short-term borrowings	17	10,983	7,478	341	245
Total current liabilities		**28,433**	**25,019**	**883**	**821**
Total liabilities		**35,540**	**44,455**	**1,104**	**1,459**
TOTAL LIABILITIES AND EQUITY		**49,094**	**53,413**	**1,525**	**1,753**

Approved for issue and signed on behalf of the Board of Directors on 27 April 2012.

General Director
V.A. Shvetsov

Chief Financial Officer
N.A. Sobolev

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

		RR million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	**2011**	**2010**	**2011**	**2010**
Sales	21	69,531	55,266	2,365	1,828
Cost of sales	22	(57,319)	(46,314)	(1,949)	(1,532)
Gross profit		**12,212**	**8,952**	**416**	**296**
Distribution costs	23	(2,578)	(2,176)	(88)	(72)
General and administrative expenses	24	(4,982)	(4,509)	(170)	(149)
Net result on formation of joint venture	11	4,007	-	136	-
Other operating expenses, net	25	(103)	-	(3)	-
Operating profit		**8,556**	**2,267**	**291**	**75**
Finance costs, net	26	(2,281)	(2,994)	(77)	(99)
Profit/(loss) before income tax		**6,275**	**(727)**	**214**	**(24)**
Income tax expense	27	(1,581)	(514)	(54)	(17)
Profit/(loss) for the year		**4,694**	**(1,241)**	**160**	**(41)**
Profit/(loss) is attributable to:					
Equity holders of the Company		4,594	(1,815)	156	(60)
Non-controlling interest		100	574	4	19
Profit/(loss) for the year		**4,694**	**(1,241)**	**160**	**(41)**
Weighted average number of shares outstanding during the period (in thousands of shares) – basic	28	33,472	33,472	33,472	33,472
Weighted average number of shares outstanding during the period (thousands) - diluted	28	33,907	-	33,907	-
Profit/(loss) per share (in RR and US$) – basic	28	137.2	(54.2)	4.67	(1.79)
Profit per share (in RR and US$) - diluted	28	135.5	-	4.61	

Other than as presented above, the Group did not have any items to be recorded in the statement of comprehensive income and accordingly no such statement has been presented (2010: no items).

(in millions of Russian Roubles)

		RR million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	2011	2010	2011	2010
Cash flows from operating activities					
Profit/(loss) before income tax		**6,275**	**(727)**	**214**	**(24)**
Adjustments for:					
Depreciation		1,406	1,623	48	53
Amortisation		215	416	7	14
Share options		28	38	1	1
Provision for impairment of receivables		71	51	2	2
Provision for inventories	13	(2)	(76)	-	(3)
Other provision movements		477	405	16	13
Loss on disposal of other non-current assets		20	29	1	1
Revaluation of financial assets		-	(8)	-	-
Amortisation of Government grants		(20)	(87)	(1)	(3)
Development expenses write-off		5	34	-	1
Net losses/(gain) on disposal of property, plant and equipment		144	(20)	5	(1)
Net result on formation of joint venture	11	(4,007)	-	(136)	
Finance costs, net		3,031	2,833	103	94
Operating cash flows before working capital changes		**7,643**	**4,511**	**260**	**148**
Decrease/(increase) in inventories		5,431	(72)	185	(2)
Increase in trade and other receivables and other current assets		(4,260)	(1,168)	(145)	(39)
Increase in other current assets		(212)	-	(7)	-
Increase/(decrease) in trade accounts payable, advances received and other payables		(3,806)	6,761	(130)	224
(Decrease)/increase in other long-term liabilities		-	(1,376)	-	(46)
Increase in taxes payable		2,165	(623)	74	(21)
Cash provided from operations		**6,961**	**8,033**	**237**	**264**
Income taxes paid		(640)	(582)	(22)	(19)
Interest paid		(2,304)	(2,949)	(78)	(98)
Net cash from operating activities		**4,017**	**4,502**	**137**	**147**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(1,148)	(2,553)	(39)	(84)
Proceeds from the sale of property, plant and equipment		5,593	106	190	3
Development costs	9	(157)	(201)	(5)	(7)
Purchase of other non-current assets		(72)	(70)	(2)	(2)
Investment in joint venture	11	(330)	(105)	(11)	(3)
Cash receipts from the repayment of loans		-	434	-	14
Proceeds from sale of subsidiary net of cash disposed		-	164	-	5
Net cash from/(used in) investing activities		**3,886**	**(2,225)**	**133**	**(74)**
Cash flows from financing activities					
Proceeds from borrowings		13,521	11,196	460	370
Repayment of borrowings		(21,414)	(13,603)	(729)	(450)
Dividends paid to the Group's shareholders		(22)	(646)	(1)	(21)
Change in treasury shares		(120)	(125)	(4)	(4)
Net cash used in financing activities		**(8,035)**	**(3,178)**	**(274)**	**(105)**
Net decrease in cash and cash equivalents		**(132)**	**(901)**	**(4)**	**(32)**
Effect of exchange rate changes on cash and cash equivalents		-	-	(5)	1
Cash and cash equivalents at the beginning of the year		**3,089**	**3,990**	**101**	**132**
Cash and cash equivalents at the end of the year		**2,957**	**3,089**	**92**	**101**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

(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 2010		**530**	**(892)**	**57**	**5,337**	**1,438**	**(1,394)**	**5,076**	**5,210**	**10,286**
(Loss)/ profit for the year		-	-	-	-	-	(1,815)	**(1,815)**	574	**(1,241)**
Total recognised (expense)/ income for 2010		**-**	**-**	**-**	**-**	**-**	**(1,815)**	**(1,815)**	**574**	**(1,241)**
Change of interest in subsidiary	32	-	-	-	-	-	65	**65**	(65)	**-**
Purchase of treasury shares		-	(150)	-	-	-	-	**(150)**	-	**(150)**
Share options	6, 16	-	318	20	(275)	-	-	**63**	-	**63**
Balance at 31 December 2010		**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 recognised income for 2011		**-**	**-**	**-**	**-**	**-**	**4,594**	**4,594**	**100**	**4,694**
Change of interest in subsidiary	32	-	-	-	-	-	(358)	**(358)**	358	**-**
Purchase of treasury shares		-	(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**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

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 2011 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. During the year ended 31 December 2011 the Group's manufacturing facilities were primarily based in the city of Ulyanovsk, the Nizhniy Novgorod region, the city of Naberezhnye Chelny, Elabuga and Vladivostok in the Russian Federation. On 1 October 2011 the Group has established a new joint venture with Ford and production assets located in the city of Naberezhnye Chelny and Elabuga were contributed to the JV (Note 11).

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.

During the year ended 31 December 2011, the Group established a 50%-50% joint venture with Ford Motor Company - Ford-Sollers JV (Note 11). Ford Sollers JV will exclusively manufacture and distribute a range of Ford passenger cars and light commercial vehicles in the St. Petersburg region and in the Republic of Tatarstan. The project implies development of large-scale production facilities with a high level of localization as well as maintaining of R&D activities.

During the year ended 31 December 2011, the Group established a 50%-50% joint venture with Japanese Mitsui & Co., Ltd. in Vladivostok to assemble automobiles for Toyota Motor Corporation.

On November 2011, the Group and Mazda Motor Corporation signed a memorandum of intent, which stipulates that the parties plan to launch a new joint venture based on the Sollers-Far East facilities. The new venture will produce vehicles for the Russian market.

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 27 April 2012.

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. In 2010-2011, the Russian economy continued its recovery after global economic crisis of 2008. 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. All those factors contributed to general recovery of the automotive industry, sales of new vehicles in Russia continued to grow in 2011, although volumes are yet to return to the peak levels achieved prior to the onset of the financial crisis.

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).

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 2011 of RR 32.1961 = US$1 (31 December 2010: RR 30.4769 = US$1). The income statement and cash flow statement have been translated at the average exchange rates during the years ended 31 December 2011 of RR 29.3948 = US$1 (2010: RR 30.2350 = 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. They are stated 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 Basis of preparation and significant accounting policies (continued)

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.

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 balance sheet 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 Basis of preparation and significant accounting policies (continued)

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.

2.13 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 separately 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.

(in millions of Russian Roubles – RR)

2 Basis of preparation and significant accounting policies (continued)

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

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 balance sheet 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 Basis of preparation and significant accounting policies (continued)

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 balance sheet 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.

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:

2 Basis of preparation and significant accounting policies (continued)

	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 balance sheet 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 balance sheet 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.

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 balance sheet 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 balance sheet 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 balance sheet date.

2.23 Trade and other receivables

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

2 Basis of preparation and significant accounting policies (continued)

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.

2.24 Impairment of financial assets carried at amortised cost

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.

2.25 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 Basis of preparation and significant accounting policies (continued)

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 balance sheet 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 balance sheet 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.

2.33 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 Basis of preparation and significant accounting policies (continued)

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 balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

No detailed disclosure is made regarding the contingencies and possible financial effect of potential claims or disputes so as to not prejudice seriously the position of the Group.

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 balance sheet 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 2011, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 32.1961, Euro 1 = 41.6714, Japanese yen 100 = 37.3789 (2010: US$ 1 = RR 30.4769, Euro 1 = 40.3331, Japanese yen 100 = 37.3789). The principal average rate of exchange used for translating income and expenses was US$ 1 = RR 29.3948 (2010: US$ 1 = RR 30.2350).

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 1,812 for the year ended 31 December 2011 (2010: RR 1,249). In addition, labour expenses include payments under share based compensation of RR 19 (2010: RR 38).

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

3.1 Going concern

Management have prepared these consolidated financial statements on a going concern basis. In making this judgement management have considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis (see Note 1) on the future operations of the Group.

The Group's performance during 2011-2010 years has improved following the challenging market conditions experienced towards the end of 2008 and during 2009, with the global financial crisis having a significant impact on the global automotive industry in general, and the Russian industry and the Group in particular. As a result of the actions taken by management, and the recent positive developments in the market, the Group has sufficient access to finance that will allow it to cover its obligations as and when they fall due for the foreseeable future.

Management consider that the existing and potential funding sources available to the Group will be sufficient to meet any funding gap that may reasonably be foreseen to arise, even in the event that the recovery in sales volumes and other factors are impacted further by global or local events so as to be significantly below the levels that the Group's forecasts are based on.

During the period after the balance sheet date additional financing has been agreed for the Group (see Note 33).

3.2 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. If the estimated remaining useful life of buildings had been 20% higher or lower than management's estimates, then as at 31 December 2011, the carrying value of buildings would have been RR 328 higher or RR 492 lower respectively (31 December 2010: RR 347 higher or RR 521 lower respectively). If the estimated remaining useful life of plant and equipment had been 20% higher or lower than management's estimates, then as at 31 December 2011, the carrying value of plant and equipment would have been RR 650 higher or RR 974 lower respectively (31 December 2010: RR 812 higher or RR 1,217 lower respectively).

3.3 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 2011 as required. Management have determined that there are four cash-generating units ("CGU") within the Group: OAO "UAZ", OAO "ZMZ", ZAO "Sollers-Isuzu" and OOO "Sollers-Far East". Additionally Company has contributed its production assets at Sollers-Elabuga and Sollers-Naberezhnye Chelny to the newly established Ford-Sollers JV. These two companies accordingly are no longer considered to be CGUs.

No indicators in respect of impairment of assets were identified in 2011 due to favorable change in market conditions and Group's financial position.

The Russian automotive market continued its growth in 2011: according to independent automotive experts the volume of the Russian automotive market for 2011 is amounted to 2.7 mln units. Hence, the market growth in comparison with 2010 is approximately 39%. The market growth is explained by two main factors: stabilization of economic environment and the recovery of demand.

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

3.3 Impairment of assets (including goodwill) (continued)

Sales of vehicles grew overall and the Group benefited from strong growth in the SUV and LCV segments in particular. The cost of debt had decreased from 9.8% as of 31 December 2010 to 9.2% as of 31 December 2011. 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" CGU have been tested by management for impairment using the most recent detailed calculation of recoverable amount made as at 31 December 2009. Based on an assessment performed, management also considered a number of potential indicators for impairment in the Group's other CGUs, including sales volumes, profitability and cashflows during 2011 and as included in future projections compared to the assumptions included in the models prepared for each CGU as at 31 December 2009. Management have used judgement to determine that there has been no reduction in the value of this business since the point of that valuation.

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 2009 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.

Potential indicators of impairment were identified in OAO "ZMZ". As at 31 December 2011 the recoverable amount of OAO "ZMZ" CGU was determined based on recoverable amount calculations.

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Management has based the CGU's cash flow projections on three key assumptions related to the operating margin, growth rate and discount rate specific to each CGU. Management determined budgeted operating margin based on past performance for the last two years and its expectations for 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 the consolidation of its position as the dominant supplier of car engines to the Russian market, and its capability 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 rates of 2.0% for the OAO "UAZ" and 2.0% for the OAO "ZMZ" (31 December 2010: 2.0% and 2.0% respectively); these growth rates do not exceed the long-term average growth rate for the automotive business in which the CGUs operate. The discount rates used of 12.4% for OAO "UAZ" and 12.9% for OAO "ZMZ" (31 December 2010: 12.4% and 11.6% respectively) are pre-tax and reflect specific risks relating to the relevant segments.

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 20% in each future period would result in a need to reduce the carrying value of goodwill by RR 468. A 30% reduction in revenues in each future period would result in a need to reduce the carrying value of goodwill by RR 1,207 and other non-current assets in aggregate by RR 737.

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 15% in each future period would result in a need to reduce the carrying value of goodwill by RR 277. A 30% reduction in revenues in each future period would result in a need to reduce the carrying value of goodwill by RR 277 and other non-current assets in aggregate by RR 987.

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.

3.4 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 2011, see Note 27. The balance includes RR 874 (2010: RR 1,170). Management expects these losses to be utilised in the next few years based on current profit forecasts.

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

3.5 Fair value assessment of Ford Sollers JV.

As further discussed in Note 11, during the course of Ford-Sollers JV formation the Group ceased control of its two production assets (previously dedicated to FIAT business) located in Tatarstan effective 1 October 2011. The Group retained joint control in established Ford Sollers JV and, consequently, was required to fair value the remaining interest in Ford Sollers JV in accordance with IFRS. The fair value of the investment in Ford Sollers JV was calculated based on a discounted cash flow model for the Ford Sollers JV.

The management considers the formation of the new Ford-Sollers JV and the cease of FIAT business to be inter-related for the Group so the net results of the multiple transactions is presented in these financial statement as required by IAS 27.

4 Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties. The amendment did not significantly affect the Group’s financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree’s share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was adopted previously by the Group in its prior year’s financial statements); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity’s financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset (“over-collateralised assets”) and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

Other revised standards and interpretations effective for the current period. IFRIC 19 “Extinguishing financial liabilities with equity instruments”, amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 “IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction” relating to prepayments of minimum funding requirements and amendments to IFRS 1 “First-time adoption of IFRS”, did not have any impact on these 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 2012 or later and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, 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. Key features of the standard are as follows:

- 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 decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- 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. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), 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 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

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 is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas,

5 New Accounting Pronouncements (Continued)

including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

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 Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its financial statements.

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). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

5 New Accounting Pronouncements (Continued)

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). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Other revised standards and interpretations: 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, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and 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, will not have any impact on these financial statements.

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

(in millions of Russian Roubles – RR)

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 2011 and 31 December 2010 consist of the following:

Balances	**Newdeal Investments Limited**	**Other related parties**	**Total**
Nature of relationship	Parent company	Associates and joint ventures	
As at 31 December 2011			
Accounts receivable	-	237	237
Other accounts receivable		177	177
Advances received	-	10	10
Trade accounts payable	-	32	32
As at 31 December 2010			
Accounts receivable	-	1	1
Advances received	-	7	7
Trade accounts payable	-	336	336

Transactions with related parties of the Group for the years ended 31 December 2011 and 31 December 2010 consist of the following:

Transactions	**Newdeal Investments Limited**	**Other related parties**	**Total**
Nature of relationship	Parent company	Associates and joint ventures	
Year ended 31 December 2011			
Sales of vehicles and components	-	313	313
Sale of non-current assets	-	5,249	5,249
Purchases of inventory	-	223	223
Cash receipts from the repayment of loans	-	-	-
Year ended 31 December 2010			
Sales of vehicles and components	-	55	55
Purchases	-	270	270
Cash receipts from the repayment of loans	-	434	434

6.2 Key management compensation

The compensation paid to the nine members of key management (year ended 31 December 2010: 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 2011 comprises:

- short-term employee benefits amounting to RR 647 (2010: RR 136); and
- expenses recognised under equity-settled, share based compensation amounting to RR 14 (2010: RR 26).

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

During the year ended 31 December 2011, 138,000 options were exercised at an exercise price of US$ 3 (2010: 5,000 options at an exercise price US$ 6.28 and 125,000 options at an exercise price of US$ 3) by members of key management.

(in millions of Russian Roubles – RR)

7 Property, plant and equipment

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

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2010	9,395	15,062	2,701	2,988	30,146
Additions	-	-	-	1,873	1,873
Disposals	(21)	(42)	(138)	(45)	(246)
Transfers	442	1,057	383	(1,882)	-
Balance at 31 December 2010	**9,816**	**16,077**	**2,946**	**2,934**	**31,773**
Additions	-	-	-	1,202	1,202
Disposals	(2,926)	(8,090)	(977)	(960)	(12,953)
Transfers	294	713	692	(1,699)	-
Balance at 31 December 2011	**7,184**	**8,700**	**2,661**	**1,477**	**20,022**
Accumulated depreciation					
Balance at 1 January 2010	(1,803)	(4,019)	(1,285)	-	(7,107)
Depreciation expense for year	(279)	(875)	(364)	-	(1,518)
Disposals	-	25	50	-	75
Balance at 31 December 2010	**(2,082)**	**(4,869)**	**(1,599)**	**-**	**(8,550)**
Depreciation expense for year	(242)	(792)	(329)	-	(1,363)
Disposals	352	1,735	331	-	2,418
Balance at 31 December 2011	**(1,972)**	**(3,926)**	**(1,597)**		**(7,495)**
Net book value					
Balance at 31 December 2010	**7,734**	**11,208**	**1,347**	**2,934**	**23,223**
Balance at 31 December 2011	**5,212**	**4,774**	**1,064**	**1,477**	**12,527**

The significant property, plant and equipment disposal during 2011 were performed through contribution of the Group's subsidiaries to joint venture and further sale to joint venture (Note 11).

As at 31 December 2011, bank borrowings are secured on land and buildings and plant and equipment. The value of these items of property, plant and equipment included above is RR 4,773 (31 December 2010: RR 12,649). See Note 17.

Construction in progress consists mainly of equipment. Upon completion, assets are transferred to plant and equipment. During the year ended 31 December 2011, the Group capitalised borrowing costs of RR 77 (2010: RR 241) as part of the cost of the qualifying assets (see Note 2.14). The annual capitalisation rate was 13.8% (2010: 14.0%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2011, the cost of the land amounted to RR 686 (2010: RR 861).

(in millions of Russian Roubles – RR)

8 Goodwill

Goodwill arose first on the original purchase of the controlling stake in OAO “UAZ” and OAO “ZMZ” and then on the increase of the holding stake in OAO “UAZ” in 2003 and OAO “ZMZ” in 2004.

	31 December 2011	31 December 2010
OAO “UAZ”	1,207	1,207
OAO “ZMZ”	277	277
Total goodwill	**1,484**	**1,484**

Impairment tests for goodwill

Management have tested goodwill for impairment at 31 December 2011. Goodwill is allocated to two of the Group’s CGUs: OAO “UAZ” and OAO “ZMZ”. See details of impairment testing in Note 3.3.

As a result of the assessment performed by management, no impairment loss has been identified as at 31 December 2011 (31 December 2010: nil).

9 Development costs

Following an assessment of future economic benefits to the Group for each individual project, as at 31 December 2011, RR 298 of development costs were written off (31 December 2010: RR 34). Management do not consider that the write-off would be materially different in the event of applying reasonable changes to the underlying assumptions used in reaching this conclusion.

	31 December 2011	31 December 2010
Cost		
Balance at the beginning of the year	1,748	1,606
Additions	157	201
Write-off	(504)	(59)
Balance at the end of the year	**1,401**	**1,748**
Accumulated amortisation		
Balance at the beginning of the year	(973)	(778)
Amortisation charge	(110)	(220)
Write-off	206	25
Balance at the end of the year	**(877)**	**(973)**
Net book value		
Balance at the end of the year	**524**	**775**

Breakdown of development costs

	31 December 2011	31 December 2010
Completed projects		
Development of new off-road vehicle (UAZ Patriot)	93	122
Expenditures related to establishing production of diesel engine	94	98
Development of Fiat Ducato production	-	138
Development of Euro-4 engine for UAZ	40	-
Development of new light commercial vehicle (UAZ-2360)	23	24
Development of SYMC production process	-	6
Improvement of selected vehicle component parts	13	25
Improvement of vehicles and engines to satisfy Euro-2 requirements	3	5
Improvement of vehicles and engines to satisfy Euro-3 requirements	-	4
Development of Fiat Doblo production	-	26
Vehicles with ABS	23	19
Other	86	69
Total completed projects	**375**	**536**
Projects in progress		
Improvement of vehicles and engines to satisfy Euro-4 requirements	149	112
Development of LCV stamping project	-	127
Total projects in progress	**149**	**239**
Total development costs	**524**	**775**

(in millions of Russian Roubles – RR)

10 Other intangible assets

Other intangible assets mainly comprise of exclusive licences, which were provided for a period of 4 to 10 years:

	Total
Cost	
Balance at 1 January 2010	**1,180**
Additions	70
Disposals	(1)
Balance at 31 December 2010	**1,249**
Additions	45
Disposals	(721)
Balance at 31 December 2011	**573**
Accumulated amortisation	
Balance at 1 January 2010	**(267)**
Amortisation expense	(195)
Disposals	-
Balance at 31 December 2010	**(462)**
Amortisation expense	(105)
Disposals	193
Balance at 31 December 2011	**(374)**
Net book value	
Balance at 31 December 2010	**787**
Balance at 31 December 2011	**199**

11 Investments in joint ventures, associates and other financial assets

Joint ventures and associates

Ford-Sollers JV

In February 2011, the Group announced cancellation of the alliance with FIAT SPA and the signing of Memorandum of understanding to establish a new joint venture in Russia with Ford. As stated in Note 3.5 Sollers management considers these two transactions to be inter-related and one indispensable from the other.

In May 2011 Sollers and Ford signed an Agreement to establish a joint venture for exclusive production and distribution of Ford vehicles in the Russian Federation.

On 1 October 2011 the Group completed formation of 50%-50% Ford-Sollers JV and the commencement of the joint venture was announced. Ford Sollers JV will manufacture a range of Ford passenger cars and light commercial vehicles in the St. Petersburg region and in the Republic of Tatarstan. The project implies development of large-scale production facilities with a high level of localization as well as maintaining of R&D activities. The financing for the new JV has been agreed with Vnesheconombank (VEB). The Group together with Ford Motor Company has pledged 100% interest in Ford-Sollers JV with the VEB.

In the amount of disposal of property, plant and equipment (Note 7), intangible assets (Note 10) and development costs (Note 9) included the assets disposed of that otherwise would have been used if the establishment of the Ford-Sollers JV had not taken place. Disposal of assets to Ford Sollers JV was performed through contribution of two subsidiaries located in Tatarstan and sale of fixed assets to Ford Sollers JV. There was also cash contribution from JSC Sollers for amount RR 330 into the share capital of the joint venture.

Included in the income statement is the gain of RR 4,007 related to the formation of the JV. Details are as follows:

	31 December 2011
Fair value of investment in joint venture	11,605
Net assets of subsidiaries contributed to the share capital of the joint venture	(4,148)
Disposal of the assets as a consequence of the formation of the joint venture	(3,715)
Gain on disposal of fixed assets to the joint venture after formation	265
Net result	**4,007**

(in millions of Russian Roubles – RR)

11. Investments in joint ventures, associates and other financial assets (Continued)

Sollers-Finance JV

In November 2010, the Group established a joint venture with a bank for the development of leasing services and contributed OOO "Sollers-Finance", a previously wholly owned subsidiary, to the joint venture.

The gross cash proceeds from sale of OOO "Sollers-Finance" amounted to RR 167. The net proceeds were RR 164. The Group's remaining interest in the joint venture after the disposal was RR 130 approximating the fair value at the date of disposal and therefore the remeasurement of the Group's remaining interest was nil.

Details on the disposal of the subsidiary are as follows:

	31 December 2010
Total net assets of the subsidiary at the date of disposal	(259)
Fair value of the consideration received	297
Gain on disposal of 50% interest	**38**

At 31 December 2011, the Group held the 50% interest in Ford-Sollers JV, 50% interest in OOO "Sollers-Finance", 30% interest in OOO DaeWon-SeverstalAuto Elabuga (31 December 2010: 50% interest in OOO "Sollers-Finance" and a 30% interest in OOO DaeWon-SeverstalAuto Elabuga). The summarised financial information of the Joint ventures and the associates, including full amounts of total assets, liabilities, revenues and profit/ (loss), is as follows:

	Total assets	**Total liabilities**	**Revenue**	**Profit/ (loss)**
Joint ventures:				
Total at 31 December 2011	56,389	26,472	23,754	(7)
Total at 31 December 2010	827	367	154	48
Associates:				
Total at 31 December 2011	134	30	275	(10)
Total at 31 December 2010	308	193	264	-

The results of the joint venture and associate activity for 2011 and 2010 was insignificant for disclosure it separately in the income statement.

Investments in associates, joint ventures and other financial assets

	31 December 2011	**31 December 2010**
Ford-Sollers JV	11,605	-
Sollers-Finance	284	235
DaeWon-SeverstalAuto Elabuga	34	34
Listed securities	16	24
Unlisted securities	4	11
Total other financial assets	**11,943**	**304**

Unlisted securities

Available-for-sale investments include equity securities with a carrying value of RR 4 (31 December 2010: RR 11) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, the fair value was estimated by reference to the investee's net asset value. For the other investments traded in active markets, the fair value was determined by reference to the current market value at the close of business on 31 December.

Listed securities

The Group holds corporate shares as available-for-sale investments. The fair value of these investments amounted to RR 16 as of 31 December 2011 (31 December 2010: RR 24).

(in millions of Russian Roubles – RR)

12 Other non-current assets

	31 December 2011	31 December 2010
Advances for equipment and other non-current assets	590	1,418
Advances for construction in progress	6	7
Total other non-current assets	**596**	**1,425**

13 Inventories

	31 December 2011	31 December 2010
Raw materials	2,173	7,760
Less: provision	(33)	(46)
Total raw materials	**2,140**	**7,714**
Work in progress	1,256	916
Less: provision	-	-
Total work in progress	**1,256**	**916**
Finished products	3,364	4,753
Less: provision	(60)	(49)
Total finished products	**3,304**	**4,704**
Total	**6,700**	**13,334**

Inventories of RR 84 (31 December 2010: RR 3,261) have been pledged as security for borrowings. See Note 17.

(in millions of Russian Roubles – RR)

14 Trade and other receivables

	31 December 2011	31 December 2010
Trade receivables	9,336	5,831
Less: provision for impairment	(151)	(161)
Total trade receivables	**9,185**	**5,670**
Other receivables	575	625
Less: provision for impairment	(70)	(26)
Total other receivables	**505**	**599**
Advances to suppliers, other than for equipment	548	792
Less: provision for impairment	(3)	(22)
Total advances to suppliers, other than for equipment	**545**	**770**
Taxes prepayments	94	17
VAT recoverable, net	680	366
Other prepayments	25	36
Total	**11,034**	**7,458**

At 31 December 2011, trade receivables arising from revenue contracts of RR 3,923 (31 December 2010: RR 1,336) were pledged as a security for a bill of credit.

Trade receivables are represented by currency as follows:

Currency	31 December 2011	31 December 2010
Russian Roubles	8,392	5,396
US Dollars	281	243
Euros	467	2
Korean Won	45	29
Total	**9,185**	**5,670**

The analysis by credit quality of trade receivables outstanding are as follows:

	31 December 2011	31 December 2010
Current and not impaired – exposure to		
- Group 1 – large corporate clients	407	419
- Group 2 – dealers	7,165	4,307
- Group 3 – other clients	1,610	684
Total current and not impaired	**9,182**	**5,410**
Past due but not impaired		
- less than 30 days overdue	-	54
- 30 to 90 days overdue	1	36
- 90 to 180 days overdue	-	20
- 180 to 360 days overdue	2	86
- over 360 days overdue	-	64
Total past due but not impaired	**3**	**260**
Individually determined to be impaired (gross)		
- not overdue	-	-
- less than 30 days overdue	-	29
- 30 to 90 days overdue	-	5
- 90 to 180 days overdue	-	2
- 180 to 360 days overdue	-	-
- over 360 days overdue	151	125
Total individually impaired	**151**	**161**
Less impairment provision	**(151)**	**(161)**
Total	**9,185**	**5,670**

(in millions of Russian Roubles – RR)

14 Trade and other receivables (continued)

The Group retains the PTS (vehicle registration certificate representing the certificate of title of a vehicle) as a pledge when other documents are transferred to the dealer in conjunction with a sale. Management considers that this serves as collateral in relation for the trade receivables in Group 2 and Group 3. The fair value of the collateral for the past due but not impaired receivables as at 31 December 2011 was RR 3 (31 December 2010: RR 260) and the fair value of the collateral for the individually determined to be impaired receivables was RR 151 (31 December 2010: RR 161).

Movements in the impairment provision for trade and other receivables are as follows:

	31 December 2011			31 December 2010		
	Trade receivables	**Other financial receivables**	**Advances to suppliers**	**Trade receivables**	**Other financial receivables**	**Advances to suppliers**
Provision for impairment at start of year	**161**	**26**	**22**	**130**	**17**	**8**
Amounts written off during the year as uncollectible	(20)	-	-	(46)	-	-
Provision for impairment during the year	10	44	(19)	77	9	14
Provision for impairment at end of year	**151**	**70**	**3**	**161**	**26**	**22**

15 Cash and cash equivalents

	31 December 2011	**31 December 2010**
Cash on hand and balances with banks	1,393	2,664
Cash deposits	1,564	425
Total	**2,957**	**3,089**

Cash and cash equivalents held by the Group earned the following interest rates per annum:

	<1%	**1%-3%**	**3%-5%**	**5%-7%**	**non-interest bearing**	**Total**
As at 31 December 2011						
Cash on hand and balances with banks	137	337	13		906	1,393
Cash deposits	37	104	707	716	-	1,564
Total	**174**	**441**	**720**	**716**	**906**	**2,957**
As at 31 December 2010						
Cash on hand and balances with banks	1,242	66	-	-	1,356	2,664
Cash deposits	409	16	-	-	-	425
Total	**1,651**	**82**	**-**	**-**	**1,356**	**3,089**

The following cash and cash equivalents held by the Group are denominated in foreign currencies:

Currency	**31 December 2011**	**31 December 2010**
US Dollars	579	118
Euro	2	366
Korean won	75	22
Japanese yens	-	82
Total	**656**	**588**

(in millions of Russian Roubles – RR)

15 Cash and cash equivalents (continued)

The carrying value of cash and cash equivalents as at 31 December 2011 and 31 December 2010 is approximately equal to their fair value. The Group holds cash and cash equivalents in the top-20 Russian banks. Credit ratings of the banks where accounts were held as at the year-end date are set out in the analysis below:

	31 December 2011	31 December 2010
Rating by Fitch		
- A-	24	-
- A	37	-
- BBB+	85	23
- BBB	2,187	2,474
- BBB-	3	4
- BB	150	86
- BB-	-	-
- B+	3	53
- B	1	1
- B-	-	-
Rating by Moody's		
- A1	23	-
- Baa2.ru	414	-
- Baa3.ru	-	340
Other		
- Unrated	25	103
- Cash on hand	5	5
Total	**2,957**	**3,089**

16 Shareholders' equity

The value of share capital issued and fully paid up consists of the following amounts:

	Number of outstanding ordinary shares (thousands)	Number of treasury shares (thousands)	Share capital	Treasury shares	Share premium	Additional paid-in capital
At 31 December 2010	34,270	799	530	(724)	5,062	1,438
At 31 December 2011	34,270	799	530	(653)	4,893	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2010: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

At 31 December 2011, treasury shares include 799 thousand ordinary shares of the Group (31 December 2010: 799 thousand of ordinary shares) owned by wholly-owned subsidiary of the Group. These ordinary shares carry voting rights in the same proportion as other ordinary shares. The voting rights of the ordinary shares of the Group held by entities within the Group are effectively controlled by the management of the Group.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2011, the net statutory loss for the Company reported in the published annual statutory reporting financial statements was RR 3,417 (2010: profit RR 4,802) and the closing balance of the accumulated profit including the current reporting period net statutory loss was RR 5,008 (31 December 2010: RR 8,432). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

No dividends were proposed by the Board of Directors for the year ended 31 December 2011 (2010: no dividends were declared at the General Shareholders' Meeting).

The Group has reserved treasury shares for a share option programme for members of key management (Note 6.2).

16 Shareholders' equity (continued)

During the year ended 31 December 2011, the Group disposed of 228 thousand of ordinary shares and acquired an additional 228 thousand shares.

During the year ended 31 December 2010, the Group disposed of 285 thousand of ordinary shares and acquired an additional 285 thousand shares.

Share based compensation

On 10 March 2009, the Group granted to members of key management and other employees options to acquire 855,000 of the Group's ordinary shares at an exercise price of US$3 that represented the average market share price for the three months preceding the grant date. The market share price at the grant date was US$3. The vesting period for the options is one year for 285,000 options; two years for 285,000 options and three years for 285,000 options. These options are exercisable until 1 March 2013 subject to an employee meeting certain conditions, including remaining in employment in the Group up until the date of vesting.

On 30 May 2007, the Group granted to members of key management and other employees options to acquire 790,000 of the Group's ordinary shares at an exercise price of US$30.50 which represented the average market share price for the three months preceding the grant date. The market share price at the grant date was US$30. Options on 150,000 shares are exercisable for three years after a one-year vesting period, subject to certain conditions, including the employee remaining in employment in the Group up until the vesting date. Options on 640,000 shares were exercisable for two years after a two-year vesting period, although this option to exercise was cancelled by the Group on 10 March 2009.

During the year ended 31 December 2011 228,000 options were exercised at an exercise price of US$3 (31 December 2010, 5,000 options were exercised at an exercise price of US$ 6.28 and 285,000 options at an exercise price of US$ 3) by the members of key management and other employees. For further details please see Note 6.2.

(in millions of Russian Roubles – RR)

17 Borrowings

The Group's long-term borrowings consisted of the following:

	31 December 2011	31 December 2010
Bank loans	3,497	13,088
Bonds	2,354	3,965
Total long-term borrowings	**5,851**	**17,053**

The Group's long-term borrowings are denominated in currencies as follows:

		31 December 2011	31 December 2010
Borrowings denominated in:	- Russian Roubles	5,851	13,727
	- US Dollars	-	2,041
	- Euros	-	1,285
Total long-term borrowings		**5,851**	**17,053**

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures. See Note 13 for information on inventories pledged as security for borrowings. The fair value of long-term borrowings amounted to RR 5,885 at 31 December 2011 (31 December 2010: RR 17,145), comprising bonds RR 2,388 (31 December 2010: RR 4,057) and bank loans RR 3,497 (31 December 2010: RR 13,088).

The Group's short-term borrowings consisted of the following:

	31 December 2011	31 December 2010
Bank loans	8,943	7,200
Bonds	1,843	-
Interest payable	197	278
Total short-term borrowings	**10,983**	**7,478**

The Group's short-term borrowings are denominated in currencies as follows:

		31 December 2011	31 December 2010
Borrowings denominated in:	- Russian Roubles	9,522	6,372
	- US Dollars	124	213
	- Euros	1,337	893
Total short-term borrowings		**10,983**	**7,478**

As of 31 December 2011, the total amount of short-term borrowings included interest payable amounting to RR 197 (31 December 2010: RR 278). The carrying amounts of short-term borrowings approximates to their fair values as at 31 December 2011 and 31 December 2010.

Rouble-denominated bonds of RR 2,354 classified as long-term in current year financial statements, were renegotiated in July 2010 as set out in the original bond prospectus. As a result of renegotiation, the Group changed the bond interest rate from 7.7% to 12.5%. In April 2010, the Group issued a RR-denominated bond on MICEX for RR 2,000 with the coupon rate per annum is 13%.

Certain of the Group's borrowings are subject to covenant requirements that the Group is required to comply with, or otherwise could result in an acceleration of the repayment period. See Note 31.

Property, plant and equipment and inventories of RR 4,857 (31 December 2010: RR 15,910) and 100% shares of the Group's subsidiary OOO «Sollers-Dal'niy Vostok» are pledged as collateral for long-term and short-term borrowings. Refer to Note 7 and Note 13.

(in millions of Russian Roubles – RR)

18 Advances received and other payables

	31 December 2011	31 December 2010
Dividends payable	34	47
Liabilities for purchased property, plant and equipment	151	291
Accrued liabilities and other creditors	56	97
Total financial liabilities within other payables	*241*	*435*
Advances received	352	898
Accrued employee benefit costs	268	260
Vacation accrual	206	239
Bonus accrual	613	108
Total advances received and other payables	**1,680**	**1,940**

There were no overdue payables as at 31 December 2011, including in respect of trade payables (31 December 2010: nil).

The bonus accrual relates to performance based on productivity of employees at a subsidiary during the year ended 31 December 2011 of RR 613 (31 December 2010: RR 108).

19 Taxes payable

	31 December 2011	31 December 2010
Value-added tax	1,768	271
Payments to the State Pension Fund and other social taxes	141	96
Income tax	291	73
Property tax	32	49
Personal income tax	36	31
Tax penalties and interest	-	7
Other taxes	53	49
Total	**2,321**	**576**

The Group had no tax liabilities past due at 31 December 2011 or 31 December 2010.

20 Warranty and other provisions

During the year ended 31 December 2011 and the year ended 31 December 2010, the following movements in warranty and other provisions were recorded:

	Warranty	Tax and other claims	Total
Balance at 31 December 2009	**98**	**16**	**114**
Additional provision	303	5	308
Utilised in the year	(80)	(1)	(81)
Balance at 31 December 2010	**321**	**20**	**341**
Additional provision	298	26	324
Utilised in the year	(301)	(19)	(320)
Balance at 31 December 2011	**318**	**27**	**345**

The Group provides a one-year warranty on most UAZ vehicles, except a two-year warranty on the UAZ Patriot; one and two-year warranty periods on ZMZ engines; and a three-year warranty period on sport utility vehicles. The Group undertakes to repair or replace items that fail to perform satisfactorily. A provision has also been recognised for SsangYong and Fiat vehicles based on expected costs to be incurred that are not covered by warranties provided by the supplier.

All of the above provisions have been classified as current liabilities as the Group does not have an unconditional right to defer settlement beyond one year.

(in millions of Russian Roubles – RR)

21 Sales

	Year ended 31 December 2011	Year ended 31 December 2010
Vehicles	59,497	46,139
Automotive components	5,923	4,117
Engines	1,400	1,261
Services	1,317	1,180
Other sales	1,394	2,569
Total	**69,531**	**55,266**

22 Cost of sales

	Year ended 31 December 2011	Year ended 31 December 2010
Materials and components	44,775	36,184
Labour costs	5,131	3,946
Other production costs	2,650	2,227
Depreciation and amortisation	1,220	1,477
Change in finished goods and work in progress	3,543	2,480
Total	**57,319**	**46,314**

23 Distribution costs

	Year ended 31 December 2011	Year ended 31 December 2010
Transportation	1,200	942
Advertising	534	478
Labour costs	506	335
Check and inspection performed by dealers	43	100
Materials	160	144
Other	135	177
Total	**2,578**	**2,176**

24 General and administrative expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Labour costs	2,843	2,289
Services provided by third parties	458	356
Depreciation and amortisation	321	476
Rent	144	268
Taxes other than income	339	247
Business travel	109	140
Fire brigade and security costs	150	159
Repairs and maintenance	98	171
Transportation	66	106
Materials	98	96
Insurance	88	84
Training costs	22	17
Movement in the provision for impairment of receivables	71	51
Other	175	49
Total	**4,982**	**4,509**

(in millions of Russian Roubles – RR)

25 Other operating expenses/ (income) – net

	Year ended 31 December 2011	Year ended 31 December 2010
Net losses on disposals of property, plant, equipment and investments	105	39
Charitable donations	45	39
Social expenses	46	28
Loss on disposal of materials	67	52
Research and development expenses	5	34
Government grant amortisation	(20)	(88)
Other	(145)	(66)
Total	**103**	**-**

26 Finance costs, net

	2011	2010
Interest expense	2,827	3,272
Government subsidy of interest expenses	(1,360)	(33)
Foreign exchange losses/(gain), net	891	(4)
Total finance costs, net	**2,358**	**3,235**
Less capitalised finance costs	(77)	(241)
Total finance costs, net	**2,281**	**2,994**

The Group's capitalised borrowing costs of RR 77 mainly arising on financing attributable to the construction of property, plant and equipment (2010: RR 241).

Interests paid during 2011 and 2010 to State banks were partly compensated under Government Decrees #640 dated 1 August 2011 and #357 dated 6 June 2005. The compensation was recognised within finance costs of the consolidated income statement of the reporting periods to match it with the costs that they are intended to compensate.

(in millions of Russian Roubles – RR)

27 Income tax expense

The income tax expense recorded in the consolidated income statement comprises the following:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Current income tax expense	822	623
Deferred tax charge/(benefit)	759	(109)
Income tax expense	**1,581**	**514**

The income tax rate applicable to the majority of the Group's income is 20% (2010: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Profit/(loss) before income tax	**6,274**	**(726)**
Theoretical tax charge at statutory rate (2011: 20%; 2010: 20%)	1,722	38
Theoretical tax benefit at statutory rate (2010: 17%)	-	147
Theoretical tax benefit at statutory rate (2011: 16%; 2010: 16%)	(467)	(330)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible (income)/expenses 20%	(16)	460
- Non-deductible expenses 17%	-	17
- Non-deductible expenses 16%	342	214
Effect of increase in tax rate from 16% to 20% in Sollers-Naberezhnye Chelny	-	(32)
Income tax expense	**1,581**	**514**

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (31 December 2010: 20%)

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management's expectations that are believed to be reasonable under the circumstances.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Deferred tax assets may be realised in different periods than the deferred tax liabilities may be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets. See Note 3.4.

The deferred tax liability that has been netted off with deferred tax assets at the subsidiary level within the Group amounted to RR 1,237 as of 31 December 2011 (31 December 2010: RR 998).

The tax losses carried forward generally expire in the period to 2020, being ten years after the end of the fiscal period when the losses were generated.

(in millions of Russian Roubles – RR)

27 Income tax expense (Continued)

	1 January 2010	Movement in the year ended 31 December 2010	31 December 2010	Movement in the year ended 31 December 2011	31 December 2011
Tax effects of deductible temporary differences:					
Long-term borrowings	11	(11)	-	-	-
Losses carried forward	1,639	100	1,739	(496)	1,243
Accounts payable and provisions	57	88	145	117	262
Taxes payable	38	12	50	109	159
Inventories	302	112	414	685	1,099
Total	**2,047**	**301**	**2,348**	**415**	**2,763**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(1,441)	12	(1,429)	402	(1,027)
Accounts receivable	(224)	(204)	(428)	(904)	(1,332)
Equity investments	-	-	-	(738)	(738)
Total	**(1,665)**	**(192)**	**(1,857)**	**(1,240)**	**(3,097)**
Recognised deferred tax asset, net	1,300	189	1,489	(615)	874
Recognised deferred tax liability, net	(918)	(80)	(998)	(210)	(1,208)
Total net deferred tax assets/(liabilities)	**382**	**109**	**491**	**(825)**	**(334)**

During the year ended 31 December 2011 movement of RR 66 was due to disposal of subsidiaries.

The Group has not recorded a deferred tax liability in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and does not intend for them to reverse in the foreseeable future. Un-remitted earnings from subsidiaries were RR 11,566 at 31 December 2011 (31 December 2010: RR 10,196).

(in millions of Russian Roubles – RR)

28 Earning/(loss) per share

Basic earning/ (loss) per share is calculated by dividing the profit/ (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

	Year ended 31 December 2011	**Year ended 31 December 2010**
Basic earnings/(loss) per share (in RR per share)	137.2	(54.2)
Diluted earnings per share (in RR per share)	135.5	-
Profit/(loss) attributable to equity holders of the Company	4,594	(1,815)
Basic weighted average number of shares outstanding (thousands)	33,472	33,472
– Adjustment for share options (thousands)	435	-
Diluted weighted average number of shares outstanding (thousands)	33,907	-

The Group does have potentially dilutive instruments (share options) but for the year ended 31 December 2010 the effect of these instruments was anti-dilutive and accordingly the diluted loss per share is equal to the basic loss per share.

29 Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group which are regularly reviewed by the ‘chief operating decision maker’ in order to allocate resources to segments and to assess their performance. The Group’s operating segments are reported based on the financial information provided to the Group’s Chief Executive Officer and that are used to make strategic decisions.

In 2011 the Group began to restructure its automotive and engine segments after OAO UAZ has become the major customer of OAO ZMZ. The sales of engine segment became immaterial in terms of segment reporting and thus are no longer disclosed separately. As at 31 December 2011 the Group is operating as one business segment: vehicles. In 2010, retail network, following changes to the Group’s distribution strategy, has become immaterial to be reported as a separate segment.

The information for 2010 has been restated so as to be presented on a consistent basis with the information disclosed in respect of 2011

The Group’s production facilities are wholly located within the Russian Federation, and almost all sales are domestic.

The Chief Executive Officer reviews financial information prepared on the basis of Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards, including in relation to inventory provisions; receivables provisions and other adjustments.

Performance is evaluated on the basis of operating profit or loss. Accordingly, foreign currency gains/ losses, interest income/ expenses and income tax charges are excluded. No balance sheet information is regularly reviewed and accordingly no information on assets or liabilities is included as part of the segment information presented.

Revenues from external customers are presented in Note 21. Management considers that across the range of vehicles and models produced, these are considered as similar products. During the year ended 31 December 2011 and 31 December 2010 the Group did not have transactions with a single external customer that amounted to ten per cent or more of the Group’s revenues.

30 Financial risk management

30.1 Financial risk factors

The risk management function within the Group is carried out in respect of financial risks (market, currency, price, interest rate, credit and liquidity), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

(a) Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity investments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(i) Currency risk

The Group is exposed to currency risk from changes in the exchange rate of four currencies: Euro, US Dollars, Japanese Yen and Korean Won. The risks arise on purchase agreements for delivery of major production components denominated in foreign currencies. Management believes that the nature of its business enables the Group to offset currency risk by changing related Rouble denominated retail prices.

The Group is exposed to currency risk arising on open loan positions denominated in Euros and US Dollars obtained to finance purchases of equipment and the working capital of OAO “UAZ“, OAO “Sollers-Naberezhyne Chelny” and OOO “Sollers-Elabuga”. Management considers hedging of these positions unsuitable.

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2011:

	Monetary financial assets		**Monetary financial liabilities**		
	Cash and cash equivalents	**Accounts receivable**	**Accounts payable**	**Bonds and borrowings**	**Net balance sheet position**
US Dollars	579	281	(4,088)	(124)	**(3,352)**
Euros	2	467	(2,949)	(1,337)	**(3,817)**
Korean Won	75	45	(28)	-	**92**
Japanese Yen	-		(1,381)	-	**(1,381)**
Total foreign currencies	**656**	**793**	**(8,446)**	**(1,461)**	**(8,458)**
Russian Roubles	2,301	8,392	(4,899)	(15,373)	**(9,579)**
Total	**2,957**	**9,185**	**(13,345)**	**(16,834)**	**(18,037)**

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2010:

	Monetary financial assets		**Monetary financial liabilities**		
	Cash and cash equivalents	**Accounts receivable**	**Accounts payable**	**Bonds and borrowings**	**Net balance sheet position**
US Dollars	118	243	(2,741)	(2,254)	**(4,634)**
Euros	366	2	(6,607)	(2,178)	**(8,417)**
Korean Won	22	29	(25)	-	**26**
Japanese Yen	82	-	(3,198)	-	**(3,116)**
Total foreign currencies	**588**	**274**	**(12,571)**	**(4,432)**	**(16,141)**
Russian Roubles	2,501	5,396	(3,866)	(20,099)	**(16,068)**
Total	**3,089**	**5,670**	**(16,437)**	**(24,531)**	**(32,209)**

The above analysis includes only monetary assets and liabilities. The Group does not hold any currency derivatives. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

Management monitors exchange rates and market forecasts on foreign exchange rates regularly as well as prepares budgets for long-term, medium-term and short-term periods.

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the reporting date relative to the Group's functional currency, with all other variables held constant:

	2011	**2010**
Impact on profit and loss and on equity of:		
US Dollar strengthening by 10% (10% for 2010)	(335)	(463)
US Dollar weakening by 10% (10% for 2010)	335	463
Euro strengthening by 10% (10% for 2010)	(382)	(842)
Euro weakening by 10% (10% for 2010)	382	842
Korean Won strengthening by 10% (10% for 2010)	9	3
Korean Won weakening by 10% (10% for 2010)	(9)	(3)
Japanese Yen strengthening by 10% (10% for 2010)	(138)	(312)
Japanese Yen weakening by 10% (10% for 2010)	138	312

The exposure was calculated only for monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity of the Group.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of equity securities.

(iii) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Management believes the Group will be able to swap floating interest rate loans with fixed interest rate loans in case of a significant adverse change of market conditions. The table below summarises the Group's exposure to interest rate risks. The table below presents the Group's financial liabilities at their carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 3 month	**From 3 to 12 months**	**More than 1 year**	**More than 5 years**	**Total**
31 December 2011					
Fixed interest rates	630	8,269	4,358	-	**13,257**
EURIBOR based interest rates	197	1,129	-	-	**1,326**
CB RF refinancing rate based	113	448	1,493	-	**2,054**
Total	**940**	**9,846**	**5,851**		**16,637**

	Demand and less than 3 month	**From 3 to 12 months**	**More than 1 year**	**More than 5 years**	**Total**
31 December 2010					
Fixed interest rates	576	5,928	14,022	-	**20,526**
EURIBOR based interest rates	221	250	1,285	-	**1,756**
CB RF refinancing rate based	-	225	1,746	-	**1,971**
Total	**797**	**6,403**	**17,053**	**-**	**24,253**

At 31 December 2011, if interest rates at that date had been 200 basis points lower (31 December 2010: 200 basis points lower) with all other variables held constant, the interest expense for the year would have been RR 410 lower (2010: RR 444 lower). If interest rates at that date had been 100 basis points higher (31 December 2010: 100 basis points higher) with all over variables held constant, the interest expense for the year would have been RR 205 higher (31 December 2010: RR 222 higher).

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

		2011			2010	
In % p.a.	**RR**	**US$**	**Euro**	**RR**	**US$**	**Euro**
Assets						
Cash and cash equivalents	0%-6.5%	0%-0.1%	0%	0%-3%	0%-3%	-
Liabilities						
Borrowings	7.25%-10.0%, CB RF refinancing rate + 4%	1.0%	EURIBOR+ 0.25% to 0.5%	9%-11%, CB RF refinancing rate + 4%	10%	EURIBOR+ 0.25% to 2.375%

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is as follows:

	31 December 2011	**31 December 2010**
Cash and cash equivalents	2,957	3,089
Accounts receivable	9,185	5,670
Other receivables	250	-
Other financial assets	256	-
Total	**12,648**	**8,759**

All of the financial assets of the Group, except for RR 20 (31 December 2010: RR 35) in shares, categorised as available for sale, are loans and receivables.

The process of management of credit risk includes assessment of credit reliability of the counterparties and reviewing payments received. All the receivables from the Group's dealers are secured through the Group retaining the PTS of vehicles dispatched until payment has been made.

Management reviews the ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 14.

The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position and past experience.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

The Group's cash and cash equivalents are held with over 20 banks (31 December 2010: 26 banks) thus there is no significant exposure of the Group to a concentration of credit risk. Management monitor both Moody's and Fitch ratings of the banks used to manage the level of credit risk that the Group is exposed to. Management considers that the credit risk associated with these banks is negligible.

The Group did not issue any financial guarantees in either of the years ended 31 December 2011 or 31 December 2010.

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit risks concentration

No single debtor of the Group accounts for more than 3.0% (31 December 2010: 2.6%) of the trade accounts receivable of the Group. However, the majority of the Group's trade receivables represent dealers who sell the Group's vehicles to consumers, and therefore are exposed in similar ways to reductions in the demand from consumers for new vehicle sales, and their ability to obtain access to credit in the financial markets in order to finance their businesses. As the Group maintains the PTS registration certificates to each vehicle and has insurance arrangements in place covering the vehicles held by the dealers, this mitigates the potential exposure of the Group in the event that a number of dealers are impacted in similar ways and are not able to repay amounts owed.

The Group's cash and cash equivalents are held with 20 banks (31 December 2010: 26 banks) thus there is no significant exposure of the Group to a concentration of credit risk.

Management does not consider any requirement to enter into hedging arrangements in relation to the credit risks to which the Group is exposed.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times for all cash flow obligations as they become due by preparing long-term, medium-term and short-term budgets, continuously monitoring forecast and actual cash flows.

The Group monitors the range of financial ratios (net debt/EBITDA, EBIT/Interest expense) in order to ensure that the Group maintains sufficient liquidity in order to meet its obligations as they fall due. Management review the targeted ratios in order to ensure that targets are in line with the market and take actions to ensure that the Group is able to maintain sufficient liquid resources to ensure that the Group continues to meet its liabilities as they fall due.

Management monitors compliance with covenant requirements on a monthly basis, or more frequently as appropriate. A schedule of covenant requirements that the Group is subject to is maintained by the Head of Treasury, and management are proactive to obtain revised agreements or waivers to the extent that requirements would otherwise not be achieved.

Management considers the targeted ratios sustainable for the foreseeable future. Management believes that the Group has access to additional credit facilities if required. See Note 3.

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The analysis below represents management expectations of repayment schedule of monetary assets and liabilities of the Group as of 31 December 2011 and 31 December 2010. The table below is based on the earliest possible repayment dates and on nominal cash flows including future interest payments. Foreign currency cash flows are translated using spot exchange rates as of 31 December 2011 and 31 December 2010.

	Demand and less than 3 months	**From 3 to 12 months**	**More than 1 year**	**More than 5 years**	**Total**
31 December 2011					
Total monetary financial assets	**12,535**	**113**	**-**	**-**	**12,648**
Cash and cash equivalents	2,957	-	-	-	**2,957**
Trade receivables	9,185	-	-	-	**9,185**
Other receivables	250	-	-	-	**250**
Other financial assets	143	113	-	-	**256**
Total monetary financial liabilities	**(13,898)**	**(10,429)**	**(5,852)**	**-**	**(30,179)**
Loans and bonds	(1,137)	(9,845)	(5,852)	-	**(16,834)**
Trade payables	(12,520)	(584)	-	-	**(13,104)**
Other payables	(241)	-	-	-	**(241)**
Future interest payments	**(391)**	**(807)**	**(563)**	**-**	**(1,761)**
Net monetary financial liabilities at 31 December 2011	**(1,754)**	**(11,123)**	**(6,415)**	**-**	**(19,292)**
31 December 2010					
Total monetary financial assets	**8,731**	**27**	**1**	**-**	**8,759**
Cash and cash equivalents	3,089	-	-	-	**3,089**
Trade receivables	5,642	27	1		**5,670**
Total monetary financial liabilities	**(14,555)**	**(8,042)**	**(18,371)**	**-**	**(40,968)**
Loans and bonds	(1,075)	(6,403)	(17,053)	-	**(24,531)**
Trade payables	(13,045)	(1,639)	(1,318)	-	**(16,002)**
Other payables	(435)	-	-	-	**(435)**
Future interest payments	**(558)**	**(1,497)**	**(1,481)**	**-**	**(3,536)**
Net monetary financial liabilities at 31 December 2010	**(6,382)**	**(9,512)**	**(19,851)**	**-**	**(35,745)**

The Group did not have any derivative financial instruments issued/held during the year ended 31 December 2011 or the year ended 31 December 2010.

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by a sum of total equity and net debt. The Group considers total capital under management at 31 December 2011 to be RR 27,431 (31 December 2010: RR 30,400).

The gearing ratios at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011	**31 December 2010**
Long-term borrowings	5,851	17,053
Short-term borrowings	10,983	7,478
Less: cash and cash equivalents	(2,957)	(3,089)
Net debt	**13,877**	**21,442**
Equity	13,554	8,958
Total net debt and equity	27,431	30,400
Gearing ratio	**50%**	**70%**

Management constantly monitor profitability ratios, market share price and debt/capitalisation ratio. The level of dividends is also monitored by the Board of Directors of the Group.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The fair value of long-term borrowings is disclosed in Note 17. The carrying value of other financial instruments approximates to their fair value.

31 Contingencies, commitments and operating risks

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis both of its own estimates and external and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims.

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

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authority's scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

31 Contingencies, commitments and operating risks (continued)

Different interpretations and applications of the Russian Tax Code are possible. For example, in relation to Russian taxpayers where outstanding loans are controlled by a foreign company owning directly or indirectly more than 20% of the charter capital of the Russian entity, thin capitalisation limits could be applied to the respective loan interest under certain circumstances even where loans are with other subsidiaries or Russian banks for the purpose of financing Russian business activities. As Russian tax legislation does not provide definitive guidance in certain areas, other tax matters including assessment of tax bases could also have different interpretations. Nonetheless management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Management estimates that possible exposure in relation to risks referred to above could substantially reduce recognised losses carried forward. However, management do not anticipate any tax exposures will arise in practice.

Capital commitments. Contractual obligations to purchase, construct or develop property, plant and equipment totalled RR 129 at 31 December 2011 (31 December 2010: RR 727).

Covenants. For certain borrowing agreements, the Group is subject to covenant requirements. Breaches of these requirements could give a lender the right to accelerate the repayment period of the borrowings and demand immediate repayment.

Management have validated that, after consideration of any waivers obtained, the Group was in full compliance with all covenants attached to contracts entered into, including borrowing agreements with lenders, as at 31 December 2011 (31 December 2010: no exceptions). Where requirements were not complied with at certain times during the year, all these instances had been remedied prior to 31 December 2011 (2010: no exceptions).

As at the date of approval of these consolidated financial statements, management considers that the Group is in full compliance with all covenant requirements.

Environmental matters. 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. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(in millions of Russian Roubles – RR)

32 Principal subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by the Group are as follows:

		31 December 2011	31 December 2010
Entity	**Activity**	**% of effective interest (total share capital)**	**% of effective interest (total share capital)**
OAO "Sollers-Naberezhnye Chelny (previously OAO "Small Car Plant")	Manufacture and sale of passenger automobiles	100	100
OOO "Sollers-Elabuga (previously OOO "Severstalavto-Elabuga")	Manufacture and sale of commercial vehicles	100	100
OOO "DC Sollers" (previously OOO «Severstalavto»)	Auto trading	100	100
OOO "Ford-Sollers Holding" (previously OOO "Sollers-Kama")	Manufacture and sale of passenger automobiles	-	100
OOO "Ford-Sollers Elabuga" (previously OOO "Severstalauto-Chelny")	Manufacture and sale of commercial vehicles	-	100
OOO "Torgoviy dom Sollers" (previously OOO "Torgoviy dom Severstalauto")	Auto trading	100	100
OOO "Torgoviy dom Sollers Msk" (previously OOO Sollers-development)	Auto trading	100	100
OOO "Turin-Auto"	Auto trading	100	100
OAO "Zavolzhskiy Motor Works"	Manufacture and sale of engines for passenger automobiles, trucks and buses	73	73
OAO "Ulyanovsky Avtomobilny Zavod"	Manufacture and sale of passenger automobiles, light trucks and minibuses	66	66
ZAO "Sollers-Isuzu" (previously ZAO "Severstalauto-Isuzu")	Manufacture and sale of commercial vehicles	66	66
OOO "Sollers-Shtamp"	Stamping	100	100
OOO "Sollers-Dal'niy Vostok"	Vehicle production	100	100
OOO DC UAZ	Auto trading	100	66
OOO UAZ-service	Service and trading	66	66
OOO ZMZ-service	Service and trading	73	73

The table presents the Group's effective interest in total share capital comprising of ordinary shares and preference shares.

During the year ended 31 December 2011, as part of an internal Group reorganisation, the Group's effective interest in OAO "Zavolzhskiy Motor Works" was reduced although the Group retained a majority effective interest and there were no changes in voting rights. As a result of this reorganisation, an amount of RR 358 is recognised in the Statement of Changes in Equity.

During the year ended 31 December 2010, as part of an internal Group reorganisation, the Group's effective interest in OAO "Zavolzhskiy Motor Works" was reduced although the Group retained a majority effective interest and there were no changes in voting rights. As a result of this reorganisation, an amount of RR 65 is recognised in the Statement of Changes in Equity.

33 Events after the balance sheet date

In April 2012 new borrowing facilities have been approved by Sberbank for the amount of RR 5,000.

In April 2012 the Group announced change of interest rate on its bond issue from 13.0% to 9.25%. The bond issue amounts to RR 1,843.

On 27 April 2012, it was recommended by the Board of Directors that no dividends will be paid in relation to the year ended 31 December 2011. This decision is subject to the approval of the General Shareholders' Meeting.