SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2010

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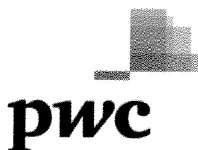

Independent Auditor's Report

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 of 31 December 2010 and the consolidated statements of income, changes in equity and cash flows 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 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 whether the 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 judgement, including the assessment of the risks of material misstatement of the 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 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

28 April 2011

Moscow, Russian Federation

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Sollers Group
Consolidated Balance Sheet at 31 December 2010
(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 2010	At 31 December 2009	At 31 December 2010	At 31 December 2009
ASSETS					
Non-current assets					
Property, plant and equipment	7	23,223	23,039	762	762
Goodwill	8	1,484	1,484	49	49
Development costs	9	775	828	25	27
Other intangible assets	10	787	913	26	30
Deferred income tax assets	31	1,489	1,300	49	43
Investments in associates and joint ventures	11	269	31	9	1
Other non-current assets	12	1,425	967	47	32
Other financial assets	13	35	220	1	7
Total non-current assets		**29,487**	**28,782**	**968**	**951**
Current assets					
Inventories	14	13,334	13,191	438	436
Trade and other receivables	15	7,458	6,882	245	228
Other current assets		45	27	1	1
Cash and cash equivalents	16	3,089	3,990	101	132
Total current assets		**23,926**	**24,090**	**785**	**797**
TOTAL ASSETS		**53,413**	**52,872**	**1,753**	**1,748**
LIABILITIES AND EQUITY					
Equity					
Share capital	17	530	530	17	18
Treasury shares		(724)	(892)	(24)	(29)
Share options		77	57	3	2
Share premium		5,062	5,337	166	176
Additional paid-in capital		1,438	1,438	47	48
Retained earnings		(3,144)	(1,394)	(103)	(46)
Total capital and reserves attributable to the Company's equity holders		**3,239**	**5,076**	**106**	**169**
Non-controlling interest		5,719	5,210	188	172
Total equity		**8,958**	**10,286**	**294**	**341**
Liabilities					
Non-current liabilities					
Long-term borrowings	18	17,053	16,908	560	559
Trade accounts payable		1,318	2,694	43	89
Deferred income tax liabilities	31	997	918	33	30
Other long term liabilities	19	68	154	2	5
Total non-current liabilities		**19,436**	**20,674**	**638**	**683**
Current liabilities					
Trade accounts payable		14,684	7,655	482	253
Advances received and other payables	21	1,940	2,696	64	89
Taxes payable	22	576	1,160	19	38
Warranty and other provisions	23	341	114	11	4
Short-term borrowings	18	7,478	10,287	245	340
Total current liabilities		**25,019**	**21,912**	**821**	**724**
Total liabilities		**44,455**	**42,586**	**1,459**	**1,407**
TOTAL LIABILITIES AND EQUITY		**53,413**	**52,872**	**1,753**	**1,748**

Approved for issue and signed on behalf of the Board of Directors on 28 April 2011.

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	**2010**	**2009**	**2010**	**2009**
Sales	24	55,266	34,743	1,828	1,095
Cost of sales	25	(46,314)	(30,290)	(1,532)	(955)
Gross profit		**8,952**	**4,453**	**296**	**140**
Distribution costs	26	(2,176)	(1,835)	(72)	(58)
General and administrative expenses	27	(4,509)	(3,954)	(149)	(125)
Other operating expenses	28	-	(233)	-	(7)
Operating profit/ (loss)		**2,267**	**(1,569)**	**75**	**(50)**
Finance costs, net	29	(2,994)	(4,191)	(99)	(132)
Loss before income tax		**(727)**	**(5,760)**	**(24)**	**(182)**
Income tax (expense)/ credit	31	(514)	749	(17)	24
Loss for the year		**(1,241)**	**(5,011)**	**(41)**	**(158)**
(Loss)/ profit is attributable to:					
Equity holders of the Company		(1,815)	(5,027)	(60)	(159)
Non-controlling interest		574	16	19	1
Loss for the year		**(1,241)**	**(5,011)**	**(41)**	**(158)**
Weighted average number of shares outstanding during the period (in thousands of shares) – basic and diluted	32	33,472	33,170	33,472	33,170
Loss per share (in RR and US$) – basic and diluted	32	(54.2)	(151.55)	(1.79)	(4.78)

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 (2009: no items).

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

Sollers Group
Consolidated Statement of Cash Flows for the year ended 31 December 2010
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million Year ended 31 December 2010	RR million Year ended 31 December 2009	Supplementary information US$ million (Note 2) Year ended 31 December 2010	Supplementary information US$ million (Note 2) Year ended 31 December 2009
Cash flows from operating activities					
Loss before income tax		**(727)**	**(5,760)**	**(24)**	**(182)**
Adjustments for:					
Depreciation		1,623	1,443	53	46
Amortisation		416	390	14	12
Share options	17, 30	38	57	1	2
Provision for impairment of receivables	27	51	(113)	2	(4)
Provision for inventories	14	(76)	(144)	(3)	(4)
Other provision movements		405	(74)	13	(2)
Loss on disposal of other non-current assets		29	3	1	-
Revaluation of financial assets	13	(8)	(10)	-	-
Amortisation of Government grants	20	(87)	(88)	(3)	(3)
Development expenses write-off	9	34	11	1	-
Net losses on disposal of property, plant and equipment		(20)	174	(1)	5
Finance costs		2,833	3,398	94	107
Operating cash flows before working capital changes		**4,511**	**(713)**	**148**	**(23)**
(Increase)/ decrease in inventories		(72)	7,930	(2)	250
(Increase)/ decrease in trade and other receivables and other current assets		(1,168)	7,578	(39)	239
Decrease/ (increase) in trade accounts payable, advances received and other payables		6,761	(11,471)	224	(361)
Change in other long-term liabilities		(1,376)	2,697	(46)	85
Increase in taxes payable		(623)	291	(21)	9
Cash provided from operations		**8,033**	**6,312**	**264**	**199**
Income taxes paid		(582)	27	(19)	1
Interest paid		(2,949)	(3,147)	(98)	(99)
Net cash from operating activities		**4,502**	**3,192**	**147**	**101**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(2,553)	(3,560)	(84)	(112)
Proceeds from the sale of property, plant and equipment		106	181	3	6
Development costs	9	(201)	(166)	(7)	(5)
Purchase of other non-current assets	10	(70)	(141)	(2)	(4)
Investment in joint venture		(105)	-	(3)	-
Cash receipts from the repayment of loans	6	434	-	14	-
Proceeds from sale of subsidiary net of cash disposed	11	164	-	5	-
Net cash used in investing activities		**(2,225)**	**(3,686)**	**(74)**	**(115)**
Cash flows from financing activities					
Proceeds from borrowings		11,196	18,154	370	572
Repayment of borrowings		(13,603)	(14,390)	(450)	(454)
Dividends paid to the Group's shareholders		(646)	(1)	(21)	-
Change in treasury shares		(125)	(178)	(4)	(5)
Net cash (used in)/ from financing activities		**(3,178)**	**3,585**	**(105)**	**113**
Net (decrease)/ increase in cash and cash equivalents		**(901)**	**3,091**	**(32)**	**99**
Effect of exchange rate changes on cash and cash equivalents		-	-	1	2
Cash and cash equivalents at the beginning of the year		**3,990**	**899**	**132**	**31**
Cash and cash equivalents at the end of the year		**3,089**	**3,990**	**101**	**132**

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

Consolidated Statement of Changes in Equity for the year ended 31 December 2010

(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 2009		**530**	**(1,609)**	**-**	**6,058**	**1,438**	**4,063**	**10,480**	**4,764**	**15,244**
(Loss)/ profit for the year		-	-	-	-	-	(5,027)	**(5,027)**	16	**(5,011)**
Total recognised (expense)/ income for 2009		**-**	**-**	**-**	**-**	**-**	**(5,027)**	(5,027)	**16**	(5,011)
Disposal of interest in subsidiary	36	-	-	-	-	-	(430)	**(430)**	430	**-**
Purchase of treasury shares		-	(178)	-	-	-	-	**(178)**	-	**(178)**
Sale of treasury shares		-	895	-	(721)	-	-	**174**	-	**174**
Share options	17	-	-	57	-	-	-	**57**	-	**57**
Balance at 31 December 2009		**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)**
Disposal of interest in subsidiary	36	-	-	-	-	-	65	**65**	(65)	**-**
Purchase of treasury shares		-	(150)	-	-	-	-	**(150)**	-	**(150)**
Share options	17	-	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**

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 2010 for Sollers OJSC, previously called OAO "Severstal-auto", (the "Company") and its subsidiaries (the "Group"). The Group adopted its new name "Sollers" in April 2008.

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

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 RTS and MICEX.

During the year ended 31 December 2010, the Group incorporated four subsidiaries and a joint venture: TOO SaryarkaAutoProm (51% of voting rights), OOO DC UAZ (100% of voting rights), UAZ Service (100% of voting rights), ZMZ Service (100% of voting rights) and Sollers-Bussan (50% of voting rights).

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 28 April 2011.

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, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector. In particular, a number of these factors have helped the automotive industry in general recover and sales of new vehicles in Russia significantly increased during the year ended 31 December 2010 compared to the previous year, 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 2010 of RR 30.4769 = US$1 (31 December 2009: RR 30.2442 = US$1). The income statement and cash flow statement have been translated at the average exchange rates during the years ended 31 December 2010 of RR 30.2350 = US$1 (2009: RR 31.7215 = 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).

2.9 Classification of financial assets

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.9 Classification of financial assets (continued)

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

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

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each 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.

2.11 Initial recognition of financial instruments

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

2.12 Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2 Basis of preparation and significant accounting policies (continued)

2.13 Valuation of investments

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

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

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

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

Embedded derivatives. Foreign currency forwards embedded into sales-purchase contracts are separated from the host contracts and accounted for 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.

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 Basis of preparation and significant accounting policies (continued)

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.

2.17 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 Basis of preparation and significant accounting policies (continued)

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:

	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 Basis of preparation and significant accounting policies (continued)

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.

2.24 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 Basis of preparation and significant accounting policies (continued)

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.

2.26 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 Group or its subsidiaries purchase the Group's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Group'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 Group'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 Basis of preparation and significant accounting policies (continued)

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.

Accrued interest is recorded within the relevant borrowing.

2.32 Government grants

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

2.34 Provisions for liabilities and charges

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

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 2010, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 30.4769, Euro 1 = 40.3331, Japanese yen 100 = 37.3789 (2009: US$ 1 = RR 30.2442, Euro 1 = 43.3883, Japanese yen 100 = 32.8260). The principal average rate of exchange used for translating income and expenses was US$ 1 = RR 30.2350 (2009: US$ 1 = RR 31.7215).

2 Basis of preparation and significant accounting policies (continued)

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 and discounts.

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.

2.37 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.

2.39 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group 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.

2 Basis of preparation and significant accounting policies (continued)

2.42 Changes in presentation

Rouble-denominated bonds of RR 2,993 classified as long-term in prior 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%. Because the bond holders had the right to redeem their bonds during the renegotiation, these bonds have been classified as short-term as at 31 December 2009 in these consolidated financial statements. RR 1,965 of these bonds was not redeemed and accordingly have been classified as long-term borrowings effective from July 2010.

3 Critical accounting estimates and judgements in applying accounting policies

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

3.1 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 2010 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.

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 2010, the carrying value of buildings would have been RR 347 higher or RR 521 lower respectively (31 December 2009: RR 301 higher or RR 451 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 2010, the carrying value of plant and equipment would have been RR 812 higher or RR 1,217 lower respectively (31 December 2009: RR 666 higher or RR 998 lower respectively).

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

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 2010 as required. Management have determined that there are six cash-generating units ("CGU") within the Group: OAO "UAZ", OAO "ZMZ", OOO "Sollers-Elabuga", ZAO "Sollers-Isuzu", OAO "Sollers-Naberezhnye Chelny" and OOO "Sollers-Far East".

The overall economic situation in Russia improved in 2010: GDP grew by 3.7%, while the Consumer Price Index decreased to 8.7% (2009: 13.4%). These factors were favourable for automotive industry and together with supportive actions by the Russian government, this has enabled a strong recovery in demand for vehicles. As a result, 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 12.9% as of 31 December 2009 to 9.8% as of 31 December 2010. The increase in exchange rate of Russian Rouble to major currencies was also a favourable factor for the Group's results.

Goodwill allocated to OAO "UAZ" and OAO "ZMZ" CGUs have been tested by management for impairment using 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 2010 and as included in future projections compared to the assumptions included in the models prepared for each CGU as at 31 December 2009. Potential indicators of impairment were identified in OOO "Sollers-Elabuga" and ZAO "Sollers-Isuzu". For OAO "Sollers-Naberezhnye Chelny", the assessed recoverable amount of Sollers-Naberezhnye Chelny CGU was based on the valuation prepared by an independent appraiser on the basis of market value as at 1 July 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.

Information on the judgements made in the models used in the prior year as at 31 December 2009 are set out below.

As at 31 December 2009, the recoverable amounts for the other five of these CGUs have been determined based on value-in-use calculations. These calculations use cash flow projections based on business plans approved by management and a corresponding discount rate. The discount rate for each CGU was estimated based on using a weighted average cost of capital. The discount rates used are post-tax and reflect specific risks relating to the relevant segments and time value of money.

The cash-flow projections cover an initial five-year period. Management has based each CGU's cash flow projections on three key assumptions related to the EBITDA margin; revenue growth rate and the discount rate specific to each CGU. Management have determined the budgeted operating margin based on expectations for market developments over the five-year time horizon. Cash flows beyond the initial five-year period are extrapolated using estimated growth rates of 2% in perpetuity for the vehicle segment and 2% for the engine segment. These growth rates are almost equal to the long-term average real inflation rate. As the observable future (period for projections) is five years, management consider that a 2% growth rate is appropriate and most conservative approach as the most recent marketing researches increased the prognosis for Russian car market by up to 5%.

OAO "UAZ" CGU: (i) Despite a major decline in the market during 2009, the share of the Group's products continue to increase as its model range is extended. Management have anticipated a moderate increase in sales in 2010 and in subsequent years, particularly in response to measures taken by the Russian Government to support the automotive industry such as new utilisation and subsidy of loan interest programs; (ii) EBITDA and working capital position will be improved due to increased production/sales volume; and (iii) the discount rate used was 12.4%.

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 593. 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 786.

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

3.3 *Impairment of assets (including goodwill) (continued)*

OAO "ZMZ" CGU: (i) demand will increase until 2011 before stabilising and remaining constant subsequently, but the forecast for 2011 and beyond remains at a level of around fifty per cent of the peak sales achieved in 2008. The increase in demand until 2011 is attributed to additional demand from a major external customer and additional consumption from the companies within the Group; (ii) the Group will continue to maintain the profitable sales in the secondary market for spare parts. These sales retain a higher level of certainty due to the maintenance needs of previously sold vehicles. Management anticipate this market to recover quickly in 2010; (iii) EBITDA and working capital position will be improved due to increased production/sales volume; and (iv) the discount rate used was 11.6%.

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 and other non current assets in aggregate by RR 141. 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 1,988.

OOO "Sollers-Elabuga" and ZAO "Sollers-Isuzu" CGU: (i) sales of the major product Fiat Ducato grew significantly in 2009, and have continued to grow further in 2010. The high quality, competitively priced vehicles with best in-class cost of ownership all contribute to the Group maintaining its leading position in the segment; (ii) the sales volumes of the Group are expected to grow rapidly once production can be increased and exploit the market demand for this segment of vehicles. The Group will benefit from its models being high quality, Russian-built vans and trucks and its strong competitive advantage over more expensive imported Western-built vehicles, especially following the higher custom tariffs introduced on imported vehicles in January 2009; (iii) the EBITDA and working capital position will be improved due to increased localisation level of major components and spare parts; and (iv) the discount rate used was 11.2%.

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 35.

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 2010, see Note 31. The balance includes RR 1,170 (2009: RR 499) in respect of production facilities recently established and without a history of profitability in earlier years, although management expects these losses to be utilised in the next few years based on current profit forecasts.

4 Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

The Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010. Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these consolidated financial statements.

4 Adoption of new or revised standards and interpretations (continued)

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these consolidated financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, *'Determining Whether an Arrangement Contains a Lease'* when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these consolidated financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

5 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: 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. 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 only payments of principal and interest (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 as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, 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.

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

5 New accounting pronouncements (continued)

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 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 early adopted by the Group); 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 Group does not expect the amendments to have any material effect on its consolidated financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any effect on its consolidated 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 consolidated financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment*, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

5 New accounting pronouncements (continued)

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendments to have any effect on its consolidated financial statements.

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

6 Balances and transactions with related parties

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

6.1 Balances and transactions with related parties

Balances with related parties of the Group as at 31 December 2010 and 31 December 2009 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 2010			
Accounts receivable	-	1	1
Advances received	-	7	7
Trade accounts payable	-	336	336
As at 31 December 2009			
Accounts receivable	171	2	173

Transactions with related parties of the Group for the years ended 31 December 2010 and 31 December 2009 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 2010			
Sales of vehicles and components	-	55	55
Purchases	-	270	270
Cash receipts from the repayment of loans	-	434	434
Year ended 31 December 2009			
Sales of vehicles and components	-	181	181
Capital transactions	174	-	174

6.2 Key management compensation

The compensation paid to the nine members of key management (year ended 31 December 2009: 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 2010 comprises:

- short-term employee benefits amounting to RR 136 (2009: RR 131); and
- expenses recognised under equity-settled, share based compensation amounting to RR 26 (2009: 39).

For information on the share based compensation, see Note 17.

During the year ended 31 December 2010, 5,000 options were exercised at an exercise price of US$ 6.28 and 125,000 options at an exercise price of US$ 3 by a member of key management (2009: no options were exercised).

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 2009	8,851	14,241	2,577	3,213	28,882
Additions	-	-	-	1,707	1,707
Disposals	(6)	(61)	(296)	(80)	(443)
Transfers	550	882	420	(1,852)	-
Balance at 31 December 2009	**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**
Accumulated depreciation					
Balance at 1 January 2009	(1,553)	(3,201)	(1,006)	-	(5,760)
Depreciation expense for year	(251)	(842)	(393)	-	(1,486)
Disposals	1	24	114	-	139
Balance at 31 December 2009	**(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)**
Net book value					
Balance at 31 December 2009	**7,592**	**11,043**	**1,416**	**2,988**	**23,039**
Balance at 31 December 2010	**7,734**	**11,208**	**1,347**	**2,934**	**23,223**

As at 31 December 2010, 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 12,649 (31 December 2009: RR 11,323). See Note 18.

Construction in progress consists mainly of equipment. Upon completion, assets are transferred to plant and equipment. During the year ended 31 December 2010, the Group capitalised borrowing costs of RR 241 (2009: RR 453) as part of the cost of the qualifying assets (see Note 2.14). The annual capitalisation rate was 14% (2009: 14.6%).

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

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 2010	31 December 2009
OAO "UAZ" (vehicles)	1,207	1,207
OAO "ZMZ" (engines)	277	277
Total goodwill	**1,484**	**1,484**

Impairment tests for goodwill

Management have tested goodwill for impairment at 31 December 2010. Goodwill is allocated to two of the Group's CGUs: OAO "UAZ" (vehicle segment) and OAO "ZMZ" (engine segment). 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 2010 (31 December 2009: nil).

9 Development costs

Following an assessment of future economic benefits to the Group for each individual project, as at 31 December 2010, RR 34 of development costs were written off (31 December 2009: RR 11). 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 2010	31 December 2009
Cost		
Balance at the beginning of the year	1,606	1,451
Additions	201	166
Write-off	(59)	(11)
Balance at the end of the year	**1,748**	**1,606**
Accumulated amortisation		
Balance at the beginning of the year	(778)	(513)
Amortisation charge	(220)	(265)
Write-off	25	-
Balance at the end of the year	**(973)**	**(778)**
Net book value		
Balance at 31 December	**775**	**828**

Breakdown of development costs

	31 December 2010	31 December 2009
Completed projects		
Development of new off-road vehicle (UAZ Patriot)	122	165
Expenditures related to establishing production of diesel engine	98	109
Development of Fiat Ducato production	138	101
Development of diesel engine funded by Government grant	-	69
Development of new light commercial vehicle (UAZ-2360)	24	33
Development of SYMC production process	6	23
Improvement of selected vehicle component parts	25	17
Improvement of vehicles and engines to satisfy Euro-2 requirements	5	8
Improvement of vehicles and engines to satisfy Euro-3 requirements	4	-
Development of Fiat Doblo production	26	-
Vehicles with ABS	19	-
Other	69	79
Total completed projects	**536**	**604**
Projects in progress		
Improvement of vehicles and engines to satisfy Euro-4 requirements	112	105
Development of LCV stamping project	127	119
Total projects in progress	**239**	**224**
Total development costs	**775**	**828**

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 2009	**1,111**
Additions	71
Disposals	(2)
Balance at 31 December 2009	**1,180**
Additions	70
Disposals	(1)
Balance at 31 December 2010	**1,249**
Accumulated amortisation	
Balance at 1 January 2009	**(141)**
Amortisation expense	(127)
Disposals	1
Balance at 31 December 2009	**(267)**
Amortisation expense	(195)
Disposals	-
Balance at 31 December 2010	**(462)**
Net book value	
Balance at 31 December 2009	**913**
Balance at 31 December 2010	**787**

11 Investments in associates and joint ventures

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. Details on the disposal of this subsidiary is as follows:

	31 December 2010
Total net assets of the subsidiary at the date of disposal	(259)
Fair value of the consideration received (comprising of the fair value of the retained interest in the joint venture of RR 130 and the gross cash proceeds of RR 167)	297
Gain on disposal of 50% interest	**38**

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.

At 31 December 2010, the Group held the remaining 50% interest in OOO "Sollers-Finance" and a 30% interest in OOO DaeWon-SeverstalAuto Elabuga (31 December 2009: 30% interest in OOO DaeWon-SeverstalAuto Elabuga). The summarised financial information of the associates, including total assets, liabilities, revenues and profit/ loss, is as follows:

	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
Joint ventures:						
Total at 31 December 2010	827	367	154	48	50%	Russian Federation
Associates:						
Total at 31 December 2010	308	193	264	-	30%	Russian Federation
Total at 31 December 2009	127	12	31	(11)	30%	Russian Federation

12 Other non-current assets

	31 December 2010	31 December 2009
Advances for equipment and other non-current assets	1,418	940
Advances for construction in progress	7	27
Total other non-current assets	**1,425**	**967**

13 Other financial assets

	31 December 2010	31 December 2009
Financial lease receivables	-	144
Unlisted securities	11	60
Listed securities	24	16
Total other financial assets	**35**	**220**

Unlisted securities

Available-for-sale investments include equity securities with a carrying value of RR 11 (31 December 2009: RR 60) 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 24 as of 31 December 2010 (31 December 2009: RR 16).

14 Inventories

	31 December 2010	31 December 2009
Raw materials	7,760	5,176
Less: provision	(46)	(86)
Total raw materials	**7,714**	**5,090**
Work in progress	916	862
Less: provision	-	-
Total work in progress	**916**	**862**
Finished products	4,753	7,324
Less: provision	(49)	(85)
Total finished products	**4,704**	**7,239**
Total	**13,334**	**13,191**

Inventories of RR 3,261 (31 December 2009: RR 5,978) have been pledged as security for borrowings; see Note 18. The collateral value of the pledged inventories amounted to RR 3,580 (31 December 2009: RR 5,651).

15 Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables	5,831	4,646
Less: provision for impairment	(161)	(130)
Total trade receivables	**5,670**	**4,516**
Other receivables	625	634
Less: provision for impairment	(26)	(17)
Total other receivables	**599**	**617**
Advances to suppliers, other than for equipment	792	675
Less: provision for impairment	(22)	(8)
Total advances to suppliers, other than for equipment	**770**	**667**
Taxes prepayments	17	28
VAT recoverable, net	366	996
Other prepayments	36	58
Total	**7,458**	**6,882**

Trade receivables are represented by currency as follows:

Currency	31 December 2010	31 December 2009
Russian Roubles	5,396	4,410
US Dollars	243	106
Euros	2	-
Korean Won	29	-
Total	5,670	**4,516**

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

	31 December 2010	31 December 2009
Current and not impaired – exposure to		
- Group 1 – large corporate clients	419	25
- Group 2 – dealers	4,307	3,286
- Group 3 – other clients	684	914
Total current and not impaired	**5,410**	**4,225**
Past due but not impaired		
- less than 30 days overdue	54	54
- 30 to 90 days overdue	36	18
- 90 to 180 days overdue	20	24
- 180 to 360 days overdue	86	85
- over 360 days overdue	64	110
Total past due but not impaired	**260**	**291**
Individually determined to be impaired (gross)		
- not overdue		31
- less than 30 days overdue	29	-
- 30 to 90 days overdue	5	-
- 90 to 180 days overdue	2	1
- 180 to 360 days overdue	-	9
- over 360 days overdue	125	89
Total individually impaired	**161**	**130**
Less impairment provision	**(161)**	**(130)**
Total	5,670	**4,516**

15 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 2010 was RR 260 (31 December 2009: RR 291) and the fair value of the collateral for the individually determined to be impaired receivables was RR 161 (31 December 2009: RR 130).

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

	31 December 2010			31 December 2009		
	Trade receivables	Other financial receivables	Advances to suppliers	Trade receivables	Other financial receivables	Advances to suppliers
Provision for impairment at start of year	**130**	**17**	**8**	**238**	**20**	**10**
Amounts written off during the year as uncollectible	(46)	-	-	(119)	(9)	(4)
Provision for impairment during the year	77	9	14	11	6	2
Provision for impairment at end of year	**161**	**26**	**22**	**130**	**17**	**8**

16 Cash and cash equivalents

	31 December 2010	31 December 2009
Cash on hand and balances with banks	2,664	915
Cash deposits	425	3,054
Bank letters of credit	-	21
Total	**3,089**	**3,990**

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

	<1%	1%-3%	3%-5%	5%-7%	7%-9%	9.00%-9.50%	non-interest bearing	Total
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**
As at 31 December 2009								
Cash on hand and balances with banks	56	103	124	-	-	-	632	915
Cash deposits	48	-	809	528	1,150	519	-	3,054
Short-term bank promissory notes	-	-	-	-	-	-	21	21
Total	**104**	**103**	**933**	**528**	**1,150**	**519**	**653**	**3,990**

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

Currency	31 December 2010	31 December 2009
US Dollars	118	25
Euro	366	3
Korean won	22	-
Japanese yens	82	-
Total	**588**	**28**

16 Cash and cash equivalents (continued)

The carrying value of cash and cash equivalents as at 31 December 2010 and 31 December 2009 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 2010	31 December 2009
Rating by Fitch		
- BBB+	23	114
- BBB	2,474	1,019
- BBB-	4	7
- BB	86	267
- BB-	-	3
- B+	53	17
- B	1	-
- B-	-	11
Rating by Moody's		
- Baa2	340	1,961
Other		
- Unrated	103	586
- Cash on hand	5	5
Total	**3,089**	**3,990**

17 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 2009	34,270	799	530	(892)	5,337	1,438
At 31 December 2010	34,270	799	530	(724)	5,062	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2009: 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 2010, treasury shares include 799 thousand ordinary shares of the Group (31 December 2009: 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 2010, the net statutory profit for the Company reported in the published annual statutory reporting financial statements was RR 4,802 (2009: loss RR 5,021) and the closing balance of the accumulated profit including the current reporting period net statutory profit was RR 8,432 (31 December 2009: RR 3,630). 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 declared at the General Shareholders' Meetings for the year ended 31 December 2010 (2009: nil).

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

During the year ended 31 December 2009, the Group disposed of 807 thousand of ordinary shares and acquired an additional 130 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.

17 Shareholders' equity (continued)

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 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 (2009: no options were exercised).

18 Borrowings

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

	31 December 2010	31 December 2009
Bank loans	13,088	16,908
Bonds	3,965	-
Total long-term borrowings	**17,053**	**16,908**

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

		31 December 2010	31 December 2009
Borrowings denominated in:	- Russian Roubles	13,727	15,012
	- US Dollars	2,041	-
	- Euros	1,285	1,896
Total long-term borrowings		**17,053**	**16,908**

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 14 for information on inventories pledged as security for borrowings. The fair value of long-term borrowings amounted to RR 17,145 at 31 December 2010 (31 December 2009: RR 16,908), comprising bonds RR 4,057 (31 December 2009: nil) and bank loans RR 13,088 (31 December 2009: RR 16,908).

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

	31 December 2010	31 December 2009
Bank loans	7,478	5,962
Bonds	-	4,325
Total short-term borrowings	**7,478**	**10,287**

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

		31 December 2010	31 December 2009
Borrowings denominated in:	- Russian Roubles	6,372	6,570
	- US Dollars	213	2,893
	- Euros	893	824
Total short-term borrowings		**7,478**	**10,287**

18 Borrowings (continued)

As of 31 December 2010, the total amount of short-term borrowings included interest payable amounting to RR 278 (31 December 2009: RR 285). The carrying amounts of short-term borrowings approximates to their fair values as at 31 December 2010 and 31 December 2009.

Rouble-denominated bonds of RR 2,993 classified as long-term in prior 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%. Because the bond holders had the right to redeem their bonds during the renegotiation, these bonds have been classified as short-term as at 31 December 2009 in these consolidated financial statements. RR 1,965 of these bonds were not redeemed and accordingly have been classified as long-term borrowings effective from July 2010.

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 35.

In April 2010, the Group issued a RR-denominated bond on MICEX for RR 2,000. The maturity date is 1 May 2013 and the coupon rate per annum is 13%.

Property, plant and equipment and inventories of RR 15,910 (31 December 2009: RR 17,301) are pledged as collateral for long-term and short-term borrowings. Refer to Note 7 and Note 14.

19 Other long-term liabilities

	Note	31 December 2010	31 December 2009
Deferred income on Government grants	20	63	151
Other deferred income		5	3
Total other long-term liabilities		**68**	**154**

20 Deferred income on Government grants

The Group previously obtained a Government grant for a total of RR 500 for the development of a new diesel engine during the years 2003-2007. As at 31 December 2010, the Group had received RR 391 (31 December 2009: RR 391) of this grant that was used for the purchase of new equipment required for research and development and the remainder for the development of the diesel engine and capitalised as development costs in the balance sheet. Government grants received are recognised as deferred income in the consolidated balance sheet. During the year ended 31 December 2010, the Group recognised amortisation of deferred income of RR 88 (2009: RR 88) in the consolidated income statement.

During the year ended 31 December 2010, the Group continued to depreciate the non-current assets acquired and amortise deferred income as follows:

	31 December 2010	31 December 2009
Deferred income on government grant at beginning of year	151	239
Amortisation of deferred income	(88)	(88)
Deferred income on government grant at end of year	**63**	**151**

21 Advances received and other payables

	31 December 2010	31 December 2009
Dividends payable	47	692
Liabilities for purchased property, plant and equipment	291	464
Accrued liabilities and other creditors	97	103
Total financial liabilities within other payables	*435*	*1,259*
Advances received	898	1,047
Accrued employee benefit costs	260	221
Vacation accrual	239	113
Bonus accrual	108	56
Total advances received and other payables	**1,940**	**2,696**

There were no overdue payables as at 31 December 2010, including in respect of trade payables (31 December 2009: nil).

The bonus accrual relates to performance based on productivity of employees at a subsidiary during the year ended 31 December 2010 of RR 108 (31 December 2009: 56).

22 Taxes payable

	31 December 2010	31 December 2009
Value-added tax	271	893
Payments to the State Pension Fund and other social taxes	96	81
Income tax	73	62
Property tax	49	29
Personal income tax	31	23
Tax penalties and interest	7	8
Other taxes	49	64
Total	**576**	**1,160**

The Group had no tax liabilities past due at 31 December 2010 or 31 December 2009.

23 Warranty and other provisions

During the year ended 31 December 2010 and the year ended 31 December 2009, the following movements in warranty and other provisions were recorded:

	Warranty	Tax and other claims	Total
Balance at 31 December 2008	**167**	**14**	**181**
Additional provision	105	16	121
Utilised in the year	(174)	(14)	(188)
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**

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, and two and three-year warranty periods on passenger cars produced at OAO "Sollers-Naberezhnye Chelny". The Group undertakes to repair or replace items that fail to perform satisfactorily. A provision has also been recognised for Rexton 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.

24 Sales

	Year ended 31 December 2010	Year ended 31 December 2009
Vehicles	46,139	27,700
Automotive components	4,117	3,479
Engines	1,261	1,169
Services	1,180	1,096
Other sales	2,569	1,299
Total	**55,266**	**34,743**

25 Cost of sales

	Year ended 31 December 2010	Year ended 31 December 2009
Materials and components	36,184	18,804
Labour costs	3,946	3,203
Other production costs	2,227	1,514
Depreciation and amortisation	1,477	1,210
Change in finished goods and work in progress	2,480	5,559
Total	**46,314**	**30,290**

26 Distribution costs

	Year ended 31 December 2010	Year ended 31 December 2009
Transportation	942	614
Advertising	478	434
Labour costs	335	349
Check and inspection performed by dealers	100	131
Materials	144	109
Other	177	198
Total	**2,176**	**1,835**

27 General and administrative expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Labour costs	2,289	2,121
Services provided by third parties	356	592
Depreciation and amortisation	476	350
Rent	268	248
Taxes other than income	247	181
Business travel	140	146
Fire brigade and security costs	159	100
Repairs and maintenance	171	90
Transportation	106	76
Materials	96	58
Insurance	84	54
Training costs	17	8
Movement in the provision for impairment of receivables	51	(114)
Other	49	44
Total	**4,509**	**3,954**

28 Other operating expenses/ (income) – net

	Year ended 31 December 2010	Year ended 31 December 2009
Net losses on disposals of property, plant, equipment and investments	39	148
Charitable donations	39	67
Social expenses	28	42
Loss on disposal of materials	52	28
Research and development expenses	34	11
Government grant amortisation	(88)	(88)
Profit on disposal of OOO "Sollers-Finance" (Note 11)	(38)	-
Other	(66)	25
Total	**-**	**233**

29 Finance costs, net

	2010	2009
Interest expense	3,239	3,596
Foreign exchange losses	2,562	5,115
Foreign exchange gains	(2,566)	(4,067)
Total finance costs, net	**3,235**	**4,644**
Less capitalised finance costs	(241)	(453)
Total finance costs, net	**2,994**	**4,191**

The Group's capitalised borrowing costs of RR 241 mainly arising on financing attributable to the construction of property, plant and equipment at the Elabuga plant (2009: RR 453).

30 Expenses by nature

Labour expenses comprise wages, salaries, bonuses, payroll taxes, vacation. Labour expenses included in different captions of the consolidated income statement were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Cost of sales	3,946	3,203
General and administrative expenses	2,289	2,121
Distribution costs	335	349
Total	**6,570**	**5,673**

Labour expenses include state pension contributions of RR 1,249 for the year ended 31 December 2010 (2009: RR 650). In addition, labour expenses include payments under share based compensation of RR 38 (2009: 57 RR).

Depreciation and amortisation included in different captions of the consolidated income statement were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Cost of sales	1,477	1,210
General and administrative expenses	476	350
Total	**1,953**	**1,560**

Materials included in the different captions of the consolidated income statement were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Cost of sales	36,184	18,804
Distribution costs	144	109
General and administrative expenses	96	58
Total	**36,424**	**18,971**

31 Income tax expense

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

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax expense	623	236
Deferred tax benefit	(109)	(985)
Income tax expense	**514**	**(749)**

The income tax rate applicable to the majority of the Group's income is 20% (2009: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2010	Year ended 31 December 2009
Loss before income tax	**(726)**	**(5,760)**
Theoretical tax charge /(benefit) at statutory rate (2010: 20%; 2009: 20%)	38	(351)
Theoretical tax benefit at statutory rate (2010: 17%; 2009: 20%)	147	-
Theoretical tax benefit at statutory rate (2010: 16%; 2009: 16%)	(330)	(470)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses 20%	460	53
- Non-deductible expenses 17%	17	-
- Non-deductible expenses 16%	214	19
Effect of increase in tax rate from 16% to 20% in Sollers-Naberezhnye Chelny	(32)	-
Income tax charge/ (credit)	**514**	**(749)**

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 2009: 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.

The deferred tax liability that has been netted off with deferred tax assets at the subsidiary level within the Group amounted to RR 998 as of 31 December 2010 (31 December 2009: RR 748).

31 Income tax expense (continued)

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.

	1 January 2009	Movement in the year ended 31 December 2009	31 December 2009	Movement in the year ended 31 December 2010	31 December 2010
Tax effects of deductible temporary differences:					
Long-term borrowings	8	3	11	(11)	-
Losses carried forward	545	1,094	1,639	100	1,739
Accounts payable and provisions	67	(10)	57	88	145
Taxes payable	-	38	38	12	50
Inventories	(471)	773	302	112	414
Total	**149**	**1,898**	**2,047**	**301**	**2,348**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(1,369)	(72)	(1,441)	12	(1,429)
Accounts receivable	617	(841)	(224)	(204)	(428)
Total	**(752)**	**(913)**	**(1,665)**	**(192)**	**(1,857)**
Recognised deferred tax asset, net	371	929	1,300	189	1,489
Recognised deferred tax liability, net	(974)	56	(918)	(80)	(997)
Total net deferred tax assets/(liabilities)	**(603)**	**985**	**382**	**109**	**492**

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 10,196 at 31 December 2010 (31 December 2009: RR 5,515).

32 Loss per share

Basic loss per share is calculated by dividing the 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 2010	Year ended 31 December 2009
Basic and diluted loss per share (in RR per share)	(54.2)	(151.55)
Loss attributable to equity holders of the Company	(1,815)	(5,027)
Basic and diluted weighted average number of shares outstanding (thousands)	33,472	33,170

The Group does have potentially dilutive instruments 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.

33 Segment information

The Group has implemented IFRS 8, Operating segments with effect from 1 January 2009. 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.

The Chief Executive Officer considers information in relation to the following business segments:

(1) Automotive segment – representing the manufacture and distribution of vehicles on a wholesale basis; and

(2) Engine segment – representing the manufacture and sale of engines.

In 2010, the Group began to restructure its retail network following changes to the Group's distribution strategy. As a result of these changes, the retail segment has became immaterial for review by the Chief Executive Officer and thus is no longer disclosed as a separate segment but instead included within the automotive segment. The corresponding information regarding the segments disclosure as of 31 December 2009 and the year then ended has been restated to be presented consistently with the 2010 information.

Included within "other" are aspects of the Group's business that are not included in any of these reporting segments.

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

Each of the operating segments identified represents a component that engages in business activities that earn revenues and incur expenses and whose operating results are regularly reviewed by the Chief Executive Officer and for which discrete financial information is available.

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; warranty provisions and other adjustments. From 2009, a new basis of internal reporting has been implemented to provide information on a more timely basis. During 2010, the information was more closely aligned to the financial information prepared in accordance with International Financial Reporting Standards.

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 24. Management considers that across the range of vehicles and models produced, these are considered as similar products and presented within the vehicles category. The Group did not have transactions with a single external customer that amounted to ten per cent or more of the Group's revenues (2009: no transactions).

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

33 Segment information (continued)

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2010 is as follows:

	Automotive segment	Engine segment	Other	Total
Segment revenue	50,490	7,275	270	58,035
Intra-segment revenue	(161)	(2,338)	(270)	(2,769)
Revenues from external customers	**50,329**	**4,937**	**-**	**55,266**
Operating profit/ (loss) per management accounts	**2,523**	**110**	**-**	**2,633**
Inventory provision	78	(2)	-	76
Receivables provision	(80)	(5)	-	(85)
Warranty provision	(225)	-	-	(225)
Other adjustments	(78)	(54)	-	(132)
Operating profit as reported in the financial statements	**2,218**	**49**	**-**	**2,267**
Foreign exchange losses				4
Interest expense				(2,998)
Income tax expense				(514)
Net profit before non-controlling interest				**(1,241)**
Non-controlling interest				**574**
Net profit				**(1,815)**
Depreciation and amortisation	**(1,582)**	**(457)**		**(2,039)**

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2009 is as follows. This information has been restated so as to be presented on a consistent basis with the information disclosed in respect of 2010:

	Automotive segment	Engine segment	Other	Total
Segment revenue	30,482	5,546	25	36,053
Intra-segment revenue	(65)	(1,338)	-	(1,403)
Revenues from external customers	**30,417**	**4,208**	**25**	**34,650**
Reclassifications and other adjustments	93	-	-	93
Revenue from external customers are reported in the financial statements	**30,510**	**4,208**	**25**	**34,743**
Operating profit/ (loss) per management accounts	**(1,413)**	**(341)**	**-**	**(1,754)**
Inventory provision	29	-	-	29
Receivables provision	79	-	-	79
Sales returns	81	-	-	81
Warranty provision	49	19	-	68
Other adjustments	(49)	(23)	-	(72)
Operating profit/ (loss) as reported in the financial statements	**(1,224)**	**(345)**	**-**	**(1,569)**
Foreign exchange losses				(1,048)
Interest expense				(3,143)
Income tax expense				749
Net loss before non-controlling interest				**(5,011)**
Non-controlling interest				16
Net loss				**(5,027)**
Depreciation and amortisation	**(1,339)**	**(494)**	**-**	**(1,833)**

34 Financial risk management

34.1 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 "Sollers-Naberezhyne Chelny"; OAO "Sollers" and OOO "Sollers-Elabuga". Management considers hedging of these positions unsuitable.

The positions are monitored monthly. 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 table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2009:

	Monetary financial assets		**Monetary financial liabilities**		
	Cash and cash equivalents	**Accounts receivable**	**Accounts payable**	**Bonds and borrowings**	**Net balance sheet position**
US Dollars	25	106	(45)	(2,893)	**(2,807)**
Euros	3	-	(3,744)	(2,720)	**(6,461)**
Japanese Yen	-	-	(3,511)	-	**(3,511)**
Total foreign currencies	**28**	**106**	**(7,300)**	**(5,613)**	**(12,779)**
Russian Roubles	3,962	4,554	(4,308)	(21,582)	**(17,374)**
Total	**3,990**	**4,660**	**(11,608)**	**(27,195)**	**(30,153)**

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.

34 Financial risk management (continued)

34.1 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 balance sheet date relative to the Group's functional currency, with all other variables held constant:

	2010	2009
Impact on profit and loss and on equity of:		
US Dollar strengthening by 10% (10% for 2009)	(463)	(281)
US Dollar weakening by 10% (10% for 2009)	463	281
Euro strengthening by 10% (10% for 2009)	(842)	(646)
Euro weakening by 10% (10% for 2009)	842	646
Korean Won strengthening by 10% (10% for 2009)	3	-
Korean Won weakening by 10% (10% for 2009)	(3)	-
Japanese Yen strengthening by 10% (10% for 2009)	(312)	(351)
Japanese Yen weakening by 10% (10% for 2009)	312	351

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 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**

	Demand and less than 3 month	From 3 to 12 months	More than 1 year	More than 5 years	Total
31 December 2009					
Fixed interest rates	2,173	7,014	14,533	60	**23,780**
EURIBOR based interest rates	232	583	1,703	192	**2,710**
MOSPRIME based interest rates	-	-	420	-	**420**
Total	**2,405**	**7,597**	**16,656**	**252**	**26,910**

At 31 December 2010, if interest rates at that date had been 200 basis points lower (31 December 2009: 200 basis points lower) with all other variables held constant, the interest expense for the year would have been RR 444 lower (2009: RR 472 lower). If interest rates at that date had been 100 basis points higher (31 December 2009: 100 basis points higher) with all over variables held constant, the interest expense for the year would have been RR 222 higher (31 December 2009: RR 236 higher).

34 Financial risk management (continued)

34.1 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:

		2010			2009	
In % p.a.	**RR**	**US$**	**Euro**	**RR**	**US$**	**Euro**
Assets						
Cash and cash equivalents	0%-3%	0%-3%	-	0%-9.5%	-	-
Liabilities						
Borrowings	9%-11%, CB RF refinancing rate + 4%	10%	EURIBOR+ 0.25% to 2.375%	7%-18% MOSPRIME +4.5%	LIBOR +1.75%	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 2010	**31 December 2009**
Cash and cash equivalents	3,089	3,990
Accounts receivable	5,670	4,399
Other receivables	-	617
Finance lease receivables	-	261
Total	**8,759**	**9,267**

All of the financial assets of the Group, except for RR 35 (31 December 2009: RR 76) 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 15.

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 predominately maintained in the top-20 Russian banks. 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 2010 or 31 December 2009.

34 Financial risk management (continued)

34.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit risks concentration

No single debtor of the Group accounts for more than 2.6% (31 December 2009: 3%) 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 26 banks (31 December 2009: 22 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.

34 Financial risk management (continued)

34.1 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 2010 and 31 December 2009. 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 2010 and 31 December 2009.

	Demand and less than 3 months	From 3 to 12 months	More than 1 year	More than 5 years	Total
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)**
31 December 2009					
Total monetary financial assets	**8,864**	**259**	**144**	**-**	**9,267**
Cash and cash equivalents	3,990	-	-	-	**3,990**
Trade receivables	4,257	259	-	-	**4,516**
Other receivables	617	-	-	-	**617**
Other financial assets	-	-	144	-	**144**
Total monetary financial liabilities	**(10,015)**	**(9,185)**	**(19,351)**	**(252)**	**(38,803)**
Loans and bonds	(2,690)	(7,597)	(16,656)	(252)	**(27,195)**
Trade payables	(6,802)	(852)	(2,695)	-	**(10,349)**
Other payables	(523)	(736)	-	-	**(1,259)**
Future interest payments	**(1,256)**	**(2,308)**	**(5,895)**	**(3)**	**(9,462)**
Net monetary financial liabilities at 31 December 2009	**(2,407)**	**(11,234)**	**(25,102)**	**(255)**	**(38,998)**

The Group did not have any derivative financial instruments issued/held during the year ended 31 December 2010 or the year ended 31 December 2009.

34.2 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 2010 to be RR 30,434 (31 December 2009: RR 33,491).

34 Financial risk management (continued)

34.2 Capital risk management (continued)

The gearing ratios at 31 December 2010 and 31 December 2009 were as follows:

	31 December 2010	31 December 2009
Long-term borrowings	17,053	16,908
Short-term borrowings	7,478	10,287
Less: cash and cash equivalents	(3,089)	(3,990)
Net debt	**21,442**	**23,205**
Equity	8,958	10,286
Total net debt and equity	30,400	33,491
Gearing ratio	**70%**	**69%**

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 18. The carrying value of other financial instruments approximates to their fair value.

35 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 of its own estimates 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 and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. 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.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

35 Contingencies, commitments and operating risks (continued)

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective 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. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Capital commitments. Contractual obligations to purchase, construct or develop property, plant and equipment totalled RR 727 at 31 December 2010 (31 December 2009: RR 3,744).

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 2010 (31 December 2009: no exceptions). Where requirements were not complied with at certain times during the year, all these instances had been remedied prior to 31 December 2010 (2009: 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.

36 Principal subsidiaries

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

Entity	Country of incorporation	Activity	31 December 2010 % of effective interest (total share capital)	31 December 2009 % of effective interest (total share capital)
OAO "Sollers-Naberezhnye Chelny (previously OAO "Small Car Plant")	Russia	Manufacture and sale of passenger automobiles	100	100
OOO "Sollers-Elabuga (previously OOO "Severstalavto-Elabuga")	Russia	Manufacture and sale of commercial vehicles	100	100
OOO "DC Sollers" (previously OOO «Severstalavto»)	Russia	Auto trading	100	100
OOO "Torgoviy dom Sollers" (previously OOO "Torgoviy dom Severstalauto")	Russia	Auto trading	100	100
OOO "Sollers-development" (previously OOO Severstalauto-Invest)	Russia	Auto trading	100	100
OOO "Turin-Auto"	Russia	Auto trading	100	100
OAO "Zavolzhskiy Motor Works"	Russia	Manufacture and sale of engines for passenger automobiles, trucks and buses	73	78
OAO "Ulyanovsky Avtomobilny Zavod"	Russia	Manufacture and sale of passenger automobiles, light trucks and minibuses	66	66
ZAO "Sollers-Isuzu" (previously ZAO "Severstalauto-Isuzu")	Russia	Manufacture and sale of commercial vehicles	66	66
OOO "Sollers-Shtamp"	Russia	Stamping	100	100
OOO "Sollers-Dal'niy Vostok"	Russia	Vehicle production	100	100
Newly established companies:				
OOO DC UAZ	Russia	Auto trading	66	-
OOO UAZ-service	Russia	Service and trading	66	-
OOO ZMZ-service	Russia	Service and trading	73	-
TOO SaryarkaAutoProm	Kazakhstan	Manufacture and sale of vehicles	51	-

The table presents the Group's voting rights attaching to its percentage interest in ordinary shares, and the Group's effective interest attaching to its percentage effective interest in total share capital comprising of ordinary shares and preference shares.

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.

During the year ended 31 December 2009, 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 430 is recognised in the Statement of Changes in Equity.

37 Events after the balance sheet date

In February 2011, the Group announced the signing of a memorandum of understanding with Ford to establish a Joint Venture in Russia. Ford and the Group plan to launch a 50:50-owned joint venture in Russia. The proposed joint venture called Ford Sollers will manufacture and distribute Ford vehicles. The Joint Venture will include Ford and the Group's local production facilities in the St. Petersburg region and in the Republic of Tatarstan. Ford and the Group have submitted a joint application to the Russian government for participation in the new Industrial Assembly policy framework and are working towards the finalisation of the Joint Venture.

In February 2011, the Group and Fiat SpA announced the mutually agreed intention to pursue independent strategies to further develop their respective presence in Russia. The Group retains its existing licences to continue manufacturing Fiat vehicles in Russia.

In March 2011, the Group announced the establishment of a Joint Venture with Mitsui&Co. Ltd. This 50:50-owned Joint Venture, OOO Sollers-Bussan, will produce vehicles in the Far East with technical support provided from Toyota Motor Corporation.

After the balance sheet date, the Group agreed further credit facilities of RR 1,141 available until 2014 and an additional RR 450 available until 2012.

On 27 April 2011, it was resolved by the Board of Directors that no dividends will be paid in relation to the year ended 31 December 2010. This decision is subject to the approval of the General Shareholders' Meeting.