

SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

31 DECEMBER 2008

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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 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 financial statements. The procedures selected depend on the auditor's judgment, 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 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 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

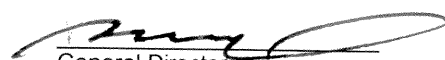
ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
10 September 2009

Sollers Group
Consolidated Balance Sheet at 31 December 2008
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million		Supplementary information US\$ million (Note 2)	
		At 31 December 2008	At 31 December 2007	At 31 December 2008	At 31 December 2007
ASSETS					
Non-current assets					
Property, plant and equipment	7	23,122	17,861	787	729
Development costs	8	938	870	32	35
Goodwill	9	1,484	1,484	51	60
Other intangible assets	10	970	481	33	20
Other financial assets	12	106	54	4	2
Other non-current assets	11	755	496	25	20
Total non-current assets		27,375	21,246	932	866
Current assets					
Inventories	13	20,977	7,770	714	317
Trade and other receivables	14	14,189	6,970	483	284
Other current assets		10	16	-	1
Cash and cash equivalents	15	899	2,030	31	82
Total current assets		36,075	16,786	1,228	684
TOTAL ASSETS		63,450	38,032	2,160	1,550
LIABILITIES AND EQUITY					
Equity					
	16				
Share capital		530	530	18	22
Treasury shares		(1,609)	(735)	(55)	(30)
Share option		-	39	-	2
Share premium		6,058	6,019	206	245
Additional paid-in capital		1,438	1,438	49	59
Retained earnings		4,063	6,697	139	273
Total capital and reserves attributable to the Company's equity holders		10,480	13,988	357	571
Minority interest		4,764	4,426	162	180
Total equity		15,244	18,414	519	751
Liabilities					
Non-current liabilities					
Long-term borrowings	17	7,197	6,146	245	250
Long-term taxes payable		1	4	-	-
Post-retirement benefit obligation	19	-	53	-	2
Deferred income on Government grants and other non-current liabilities	20	239	327	8	13
Deferred income tax liabilities	31	974	1,180	33	48
Total non-current liabilities		8,411	7,710	286	313
Current liabilities					
Trade accounts payable	21	20,512	6,094	698	248
Advances received and other payables	21	2,508	2,605	86	106
Taxes payable	18	606	579	21	24
Warranty and other provisions	22	181	139	6	6
Short-term borrowings	23	15,988	2,491	544	102
Total current liabilities		39,795	11,908	1,355	486
Total liabilities		48,206	19,618	1,641	799
TOTAL LIABILITIES AND EQUITY		63,450	38,032	2,160	1,550

Approved for issue and signed on behalf of the Board of Directors on 10 September 2009.


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.

Sollers Group**Consolidated Income Statement for the year ended 31 December 2008***(in millions of Russian Roubles)**(Amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	RR million		Supplementary information US\$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
		2008	2007	2008	2007
Sales	24	61,630	49,136	2,480	1,921
Cost of sales	25	(50,253)	(38,925)	(2,022)	(1,522)
Gross profit		11,377	10,211	458	399
Distribution costs	26	(2,527)	(2,019)	(102)	(79)
General and administrative expenses	27	(4,545)	(3,301)	(183)	(129)
Other operating (expenses)/income	28	(338)	105	(13)	4
Operating profit		3,967	4,996	160	195
Finance costs, net	29	(4,145)	(309)	(167)	(12)
(Loss)/ profit before income tax		(178)	4,687	(7)	183
Income tax expense	31	(198)	(1,318)	(8)	(52)
(Loss)/ profit for the year		(376)	3,369	(15)	131
(Loss)/ profit is attributable to:					
Equity holders of the Company		(954)	2,603	(38)	102
Minority interest		578	766	23	29
(Loss)/ profit for the year		(376)	3,369	(15)	131
Weighted average number of shares outstanding during the period – basic (thousands)	32	33,197	33,982	33,197	33,982
Weighted average number of shares outstanding during the period – diluted (thousands)	32	33,197	34,323	33,197	34,323
Earnings per share (in RR and US\$) – basic	32	(28.77)	76.60	(1.16)	3.00
Earnings per share (in RR and US\$) – diluted	32	(28.77)	75.84	(1.16)	3.00

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 2008
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million		Supplementary information US\$ million (Note 2)	
		Year ended 31 December 2008	2007	Year ended 31 December 2008	2007
Cash flows from operating activities					
(Loss)/ profit before income tax		(178)	4,687	(7)	183
Adjustments for:					
Depreciation		1,177	942	47	37
Amortisation	8,10	328	258	13	10
Share options		-	39	-	2
Provision for impairment of receivables	14	249	(5)	10	-
Provision for inventories	13	271	(6)	11	-
Provision movements		(77)	(26)	(3)	(1)
Excess of acquired share of net assets over purchase consideration	9	-	(32)	-	(1)
Loss on disposal of other non-current assets		11	-	-	-
Post-retirement benefit obligations	19	(53)	(4)	(2)	-
Amortisation of Government grants	20	(88)	(42)	(4)	(2)
Development expenses write-off	8, 28	26	89	1	3
Net losses on disposal of property, plant and equipment	28	171	100	7	4
Gain on disposal of subsidiary	28	-	(338)	-	(13)
Finance costs	29	1,251	333	50	13
Operating cash flows before working capital changes		3,088	5,995	123	235
Increase in inventories		(13,478)	(1,445)	(542)	(57)
Increase in trade and other receivables and other current assets		(7,462)	(2,327)	(300)	(91)
Increase in trade accounts payable, advances received and other payables		13,798	2,099	555	82
Change in taxes payable		693	(141)	28	(6)
Cash (used in)/ provided from operations		(3,361)	4,181	(136)	163
Income taxes paid		(1,444)	(1,125)	(58)	(44)
Interest paid		(760)	(269)	(31)	(10)
Net (used in)/ cash from operating activities		(5,565)	2,787	(225)	109
Cash flows from investing activities:					
Purchase of property, plant and equipment	7	(6,500)	(5,075)	(261)	(198)
Proceeds from the sale of property, plant and equipment	7	134	135	5	5
Development costs	8	(334)	(397)	(13)	(16)
Purchase of other non-current assets		(661)	(582)	(27)	(23)
Acquisition of minority interest in subsidiaries, net of cash acquired	9	(498)	(316)	(20)	(12)
Proceeds from disposal of subsidiary, net of cash disposed		-	505	-	20
Net cash used in investing activities		(7,859)	(5,414)	(316)	(212)
Cash flows from financing activities					
Proceeds from borrowings		29,403	22,644	1,183	885
Repayment of borrowings		(15,346)	(17,289)	(617)	(676)
Contribution from joint venture partner		120	-	5	-
Dividends paid to the Group's shareholders		(1,010)	(680)	(41)	(26)
Purchase of treasury shares		(874)	(735)	(35)	(28)
Net cash from financing activities		12,293	3,624	495	143
Net (decrease)/increase in cash and cash equivalents		(1,131)	997	(46)	40
Effect of exchange rate changes on cash and cash equivalents		-	-	(5)	2
Cash and cash equivalents at the beginning of the year	15	2,030	1,033	82	40
Cash and cash equivalents at the end of the year	15	899	2,030	31	82

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

Sollers Group

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

(in millions of Russian Roubles)

(Amounts translated into US Dollars for convenience purposes, Note 2)

RR million	Note	Share capital	Treasury shares	Share options	Share premium	Additional paid-in-capital	Retained earnings	Total Attributable to equity holders of the Group	Minority interest	Total equity
Balance at 1 January 2007										
		530	-	-	6,019	1,438	4,769	12,756	4,008	16,764
Profit for the year										
		-	-	-	-	-	2,603	2,603	766	3,369
Total recognised income for 2007										
		-	-	-	-	-	2,603	2,603	766	3,369
Treasury shares 16										
		-	(735)	-	-	-	-	(735)	-	(735)
Share options										
		-	-	39	-	-	-	39	-	39
Share of net assets acquired from minority shareholders 9										
		-	-	-	-	-	-	-	(348)	(348)
Dividends declared 16										
		-	-	-	-	-	(675)	(675)	-	(675)
Balance at 31 December 2007										
		530	(735)	39	6,019	1,438	6,697	13,988	4,426	18,414
Loss for the year										
		-	-	-	-	-	(954)	(954)	578	(376)
Total recognised income for 2008										
		-	-	-	-	-	(954)	(954)	578	(376)
Treasury shares 16										
		-	(874)	-	-	-	-	(874)	-	(874)
Share options										
		-	-	(39)	39	-	-	-	-	-
Increase in share capital of subsidiary										
		-	-	-	-	-	-	-	120	120
Acquisition of subsidiary (Sollers-Stola)										
		-	-	-	-	-	-	-	6	6
Share of net assets acquired from minority shareholders 9										
		-	-	-	-	-	(132)	(132)	(366)	(498)
Dividends declared 16										
		-	-	-	-	-	(1,548)	(1,548)	-	(1,548)
Balance at 31 December 2008										
		530	(1,609)	-	6,058	1,438	4,063	10,480	4,764	15,244
Supplementary information US\$ million (Note 2)										
Balance at 31 December 2007										
		22	(30)	2	245	59	273	571	180	751
Balance at 31 December 2008										
		18	(55)	-	206	49	139	357	162	519

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

1 The Group and its operations

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

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 Nizhny Novgorod region, the city of Naberezhnye Chelny and Elabuga 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 "Ulyanovskiy 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 2008 the Group incorporated six subsidiaries: OOO "Severstalavto-Finance", Aviaction Incorporated, Sollers Korea (previously PDL Supervisory Assistance), OOO "Severstalauto-FPT", OOO "Automobiles of Italy", where the Group controls 100% of voting rights and OOO "Severstalauto-Stola", where the Group controls 51% of voting rights. OOO "Severstalauto-Finance" is intended for providing customers with financial services. Aviaction Incorporated and Sollers Korea are logistic companies. OOO "Severstalauto-FPT" is intended for engine production. OOO "Severstalauto-Stola" is intended for stamping and sub-assembly. OOO "Automobiles of Italy" is intended for passenger car assembly and distribution in cooperation with FIAT.

During the year 2008 the Group incorporated an associate company with Korean OEM DaeWon – OOO "DaeWon Severstal-Auto Elabuga", where the Group has 30% of voting rights. OOO "DaeWon Severstal-Auto Elabuga" will produce vehicle components.

During the year 2008, the Group acquired 100% stakes in three new subsidiaries for development of its own dealership network (Note 9).

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 10 September 2009.

Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (US\$) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 31.57 at 31 August 2009.

The international reserves of the Russian Federation decreased from US\$ 556 813 000 thousand at 30 September 2008 to US\$ 427 080 000 thousand at 31 December 2008 and US\$ 383 905 000 thousand at 1 May 2009. The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price per barrel of Urals oil decreased from US\$ 91.15 at 29 September 2008 to US\$ 41.83 at 31 December 2008 and US\$ 68.63 at 31 August 2009.

A number of measures have been undertaken to support the Russian financial markets, including:

- In October 2008, the CBRF reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the state deposit insurance scheme to RR 700 thousand per individual in case of the withdrawal of a license of a bank or a CBRF-imposed moratorium on payments.
- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

1 The Group and its operations (continued)

Operating Environment of the Group (continued)

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 in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2008 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other companies, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The global market downturn has a negative impact on the automotive industry all around the world and in particular the Group operations. The sales in Russian automotive market decreased significantly as a result of the Global crisis and this had a negative impact on Group sales in the second half of 2008.

The Group sells a significant amount of vehicles to dealers who have been adversely impacted by the crisis. Lower sales and limited access to credit facilities by dealers has resulted in a substantial increase in accounts receivable and inventories. The Group is undertaking every effort to ensure repayment of all amounts due from the customers including daily monitoring of payments from debtors and control of overdue debts; and daily monitoring of dealers' sales. On a weekly basis, management reviews all outstanding receivables and agree on the actions being taken in order to recover the amounts due.

Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Debtors of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. One of Group's major customers which accounts for 60% of engine segment sales has experienced financial difficulties. In the second half of 2008, Group engine segment sales decreased due to lower purchase volumes by this customer. This resulted in lower sales and increased overdue accounts receivable from the customer. The Group carefully monitors the financial position of this customer to ensure the collectability of amounts owed. The Group is continuing to hold negotiations with the customer to have a full understanding of its position and agree on future prospects for mutual business. Management believes that accounts receivable from the customer will be repaid in full in due course. Management considered the effect of lower sales to the major customer and included this fact into the impairment test of goodwill and other non current assets.

To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

For the Group's sales to dealers, as the Group retains the vehicle registration documents, it has the ability to receive back the vehicle in the event of the non payment of amounts owed. To the extent that the level of non payment by dealers increases, the level of sale reversals estimated and additional inventory balances recorded as at the balance sheet may be required to be increased.

Inventories may require a longer time period in order to be disposed of in the current environment, and this increases the risk of inventory obsolescence and potentially a reduction in its net realisable value. Management have taken measures to limit production and manage inventory balances in order to minimise any losses.

One of the Group's major suppliers of kits for vehicle production has also experienced financial difficulties. The Group was informed of the situation and took steps to protect the Group's position on the market. In particular the Group has built up a stock of kits to ensure continuous production of SUVs at its Sollers-Naberezhnye Chelny production facility. This also contributed to the Group's increased level of inventories as at the year 2008 end.

The availability of external funding in financial markets has significantly reduced since August 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Significant increases in working capital required financing with additional short-term debts at the year end. The sharp rise in bank interest rates in the second half of 2008 also contributed to an increase in the interest expense as recorded in the Group's consolidated financial statements.

1 The Group and its operations (continued)

Operating Environment of the Group (continued)

The Group imports assembly kits from foreign partners for assembly of foreign brand vehicles. The prices for kits are set in foreign currencies: Euro, US Dollar and Japanese Yen. Consequently, the major part of Group accounts payable is denominated in foreign currencies. A significant weakening of the Russian Rouble exchange rate in relation to US Dollar, Euro and Japanese Yen in the fourth quarter 2008 resulted in substantial foreign exchange losses to the Group.

In response to the adverse conditions referred to above, Group management has assessed the current position of the Group and developed a revised business plan with significant adjustments to ensure the sustainability of the business for the long term. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current difficult circumstances. See Note 3.1.

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

2.2 Supplementary information

U.S. 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 2008 of RR 29.38 = US\$1 (at 31 December 2007 of RR 24.55 = US\$1). The income statement and cash flow statement have been translated at the average exchange rates during the years ended 31 December 2008 (RR 24.86 = US\$1) and 31 December 2007 (RR 25.58 = US\$1). The difference is recognised in equity. 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 in accordance with IFRS.

Exchange restrictions and currency controls exist relating to converting the Russian Rouble into other currencies. The Russian Rouble is not freely convertible in most countries outside of the Russian Federation.

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 economic 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. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

2 Basis of preparation and significant accounting policies (continued)

2.3 Consolidated financial statements (continued)

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 minority interest, except for contingent income tax liabilities, which are measured in accordance with IAS 12 "Income Taxes". The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

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 Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest forms a separate component of the Group's equity.

2.4 Purchases and sales of minority interests

The Group applies economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as gain or loss directly in the statement of changes in equity. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss 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 reserve within equity.

2.6 Associates

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. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. 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.

Unrealised gains on transactions between the Group and its associates 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 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, sales, total assets or total liabilities.

2 Basis of preparation and significant accounting policies (continued)

2.7 Financial instruments - key measurement terms (continued)

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).

2.8 Classification of financial assets

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.8 Classification of financial instruments (continued)

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.

2.9 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.

2.10 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.

2.11 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.

2.12 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 deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit and loss.

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 removed from equity and recognised in profit and loss. Impairment losses on equity instruments are not reversed through profit and loss. 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.

2 Basis of preparation and significant accounting policies (continued)

2.12 Valuation of investments (continued)

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.

2.13 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 the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the 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.

2.14 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.

2.15 Operating leases

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

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

2 Basis of preparation and significant accounting policies (continued)

2.16 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.

2.17 Share based compensation

The Group operated an equity-settled, share-based compensation plan. 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 entity 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 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.

2.18 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. 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 group of units represent the lowest level at which the Group monitors goodwill and are not larger than a 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.

2.19 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 Basis of preparation and significant accounting policies (continued)

2.20 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.

2.21 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.

2.22 Trade and other receivables

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

2.23 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:

2 Basis of preparation and significant accounting policies (continued)

2.23 Impairment of financial assets carried at amortised cost (continued)

- 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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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.

2.24 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.

2.25 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 Basis of preparation and significant accounting policies (continued)

2.26 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.

2.27 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.

2.28 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 financial statements are authorised for issue are disclosed in the subsequent events note.

2.29 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.

2.30 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.

2.31 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.

2.32 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.

2.33 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 Basis of preparation and significant accounting policies (continued)

2.34 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.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised as a separate component of equity.

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was US\$ 1 = RR 29.3804, Euro 1 = 41.4411, Japanese yen 1 = 32.5779 (2007: US\$ 1 = RR 24.5462, Euro 1 = 35.9332, Japanese yen 1 = 21.8441). The principal average rate of exchange used for translating income and expenses was US\$ 1 = RR 24.86 (2007: US\$ 1 = RR 25.58).

2.35 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 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.

2.36 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 10 years.

Sollers Group

Notes to the Consolidated Financial Statements at 31 December 2008

(in millions of Russian Roubles - RR)

2 Basis of preparation and significant accounting policies (continued)

2.37 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.

2.38 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.

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.

2.39 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.

2.40 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Critical accounting estimates and judgements in applying accounting policies

The Global economic crisis has had an adverse effect on the Russian economic environment (see Note 1) and as a result has increased the uncertainties involved in making accounting estimates and therefore the level of judgement required.

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.

For the year ended 31 December 2008, the Group's current liabilities exceeded its current assets by RR 3,720, and as detailed in Note 34, the Group had net monetary financial liabilities, excluding future interest payments, at 31 December 2008 of RR 33,848, of which RR 25,849 relates to net monetary financial liabilities, excluding future interest payments, due within one year. This position reflects a significant increase in the Group's borrowings during the year ended 31 December 2008, following a sharp and unprecedented reversal in market conditions from rapid growth to decline. The expected interest payments based on borrowings as at 31 December 2008 are disclosed in Note 34.1, and will remain significant until the Group is able to reduce the level of borrowings in the future.

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

3.1 Going concern (continued)

This reflects the implications of recent global events, as set out in Note 1, that have had a significant impact on the global automotive industry in general, and the Russian industry and the Group in particular, and the ability of entities across all industries in Russia to obtain new or extended term borrowings from Russian and International Financial Institutions, and where available, the cost of funding has typically increased. Management's plans for addressing this position are in part dependent on improvements in sales volumes in the Russian automotive industry in general and the actual sales volumes achieved by the Group, together with the ability to either reduce the working capital requirements and/or secure additional financing from existing or new financial institutions in order to enable the Group to continue to meet its obligations as they fall due for at least twelve months from the balance sheet date. Additional debt finance may be required should management's plans not be fulfilled, including sales and profitability materially lower than planned, and/or working capital requirements materially higher than planned.

In response to this situation, management are actively managing the Group's financial position and as a result of the following actions believe that the Group will have access to sufficient resources in order to continue to meet its obligations as they fall due, even where market conditions continue to be difficult or decline further:

1. management have agreed terms with the Group's lenders for the re-financing of its existing borrowings at terms and conditions similar to those applied to earlier transactions. To ensure financial stability, the Group expects to maintain existing credit lines with two large Russian banks in total of RR 21,117 (see Note 23 and Note 34.1 (c)) and to drawdown loans under these facilities as required, and also expects to have access to continued financing from other Russian and International financial institutions as required. The Group has available financing of RR 10,000 under a Government financing programme, including RR 5,000 of direct Government guarantees, which has been allocated to support the credit lines with the two large Russian banks referred to above (see Note 37.2);
2. management are focused on reducing the Group's overall working capital requirements, including (i) accelerating cash generated from operations including a reduction in the credit terms afforded to distributors; (ii) collection of outstanding receivables; and (iii) a reduction in inventory levels particularly of finished goods. The Group will further benefit from lower raw material prices during 2009 and the manufacture of existing kits included in inventory imported from overseas suppliers at more favourable exchange rates;
3. management have concluded negotiations with two of the Group's major suppliers in relation to restructuring of accounts payable (see Note 37.3). In addition, management are evaluating the establishment of new joint venture arrangements with major suppliers for the mutual benefit of the suppliers and the Group going forward. This is expected to result in further positive improvements in the Group's financial position;
4. the Group has benefited from a number of measures announced by the Government to stimulate and support the Russian automotive market, as noted in 3.1 (1) above, including RR 10,000 under the Government financing programme on loans to automotive producers (to provide enhanced credit facilities); significant orders from the Government for vehicles (to support the Group's direct sales) (see Note 37.2); and the securing of RR 5,000 of financial support for the development of a production facility in the Far East of the Russian Federation. This is expected to be a self-financing project which will expand the Group's production capabilities and improve efficiency in other areas of the Group's operations;
5. the Group expects to benefit indirectly from other measures, for example, interest rate subsidies (to encourage consumer demand); the provision of leasing finance (to promote commercial vehicle sales) and other measures currently being considered to stimulate the Russian automotive sector; and
6. management have implemented a cost reduction programme, including reduction in headcount and reduced production.

The Group's cash flow forecast for the year ending 31 December 2009 indicates that the cash funds generated from the Group's operating and financing activities are expected to be sufficient to cover operational costs, interest payments on existing borrowings and facilitate a net reduction in overall borrowings by 31 December 2009. To the extent that the recovery in sales volumes and other factors are not in line with management's forecasts, management considers that the existing and potential funding sources available to the Group will be sufficient to meet any funding gap that may reasonably be foreseen.

Subsequent to the year end, following successful negotiations with providers of finance to the Group, the receipt of Government guarantees and success in tendering for significant State orders and improvements in the Group's working capital position, management believe that the Group will have sufficient access to finance to cover its obligations as and when they fall due for the foreseeable future. See Note 37 for events subsequent to the balance sheet date.

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

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 2008, the carrying value of buildings would have been RR 259 higher or RR 388 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 2008, the carrying value of plant and equipment would have been RR 533 higher or RR 799 lower respectively.

3.3 Impairment of assets (including goodwill)

Management have tested the Group's non-current assets (including property, plant and equipment; intangibles and goodwill) for impairment as at 31 December 2008. The recoverable amounts of a Group's cash-generating units ("CGU") are 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 (2007: 7.7% and 8.7% respectively). 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.

Factors that management have considered and the key assumptions around management's estimates used in each of the models prepared to assess impairment are detailed below.

OAO "Sollers-Naberezhnye Chelny" CGU:

- as a modern production facility, management consider that sales volumes of Russian-built passenger cars will increase as a result of forecast market growth commencing in 2010. High quality, Russian-built cars will present the Group with a strong competitive advantage over more expensive imported Western-built vehicles, especially following the higher custom tariffs introduced on imported vehicles in January 2009;
- the EBITDA and working capital position will be improved as demand increases and production is increased to use the available capacity; and
- the discount rate used is 17.8%.

OOO "Sollers-Elabuga" and ZAO "Sollers-Isuzu" CGU:

- the project is currently in a start-up phase, but the high quality, competitively priced vehicles to be produced are targeted at what management consider is an underdeveloped market segment;
- 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 these 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;
- the EBITDA and working capital position will be improved as demand increases as production is increased to use the available capacity; and
- the discount rate used is 18.12%.

OAO "ZMZ" CGU:

- a decline of sales to its major customer to nil in 2009, but with a subsequent gradual recovery in volumes from 2010 onwards although with sales remaining lower in each year by at least 15% of the actual volumes achieved in 2008;
- the Group maintains a close dialogue and working relationship with its major customer, and management believe that the Group's advantage of providing high quality engines at a favourable price compared to alternatives will result in the projected volumes of sales being achieved in the future;
- maintain the current profitable sales in the secondary market for spare parts, with these sales accounting for up to 30% of revenues. These sales retain a higher level of certainty due to the maintenance needs of previously sold vehicles. Management have forecast these sales to be 50% lower in 2009 compared to actual volumes in 2008, but for this market to recover more quickly to reach the actual 2008 levels again in 2010 and each year thereafter;
- the EBITDA and working capital position will be improved following initiatives aimed at reducing production costs, including headcount and other cost reductions achieved to date; and
- the discount rate used is 16.92%.

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

3.3 Impairment of assets (including goodwill) (continued)

The inference of no impairment of OAO "ZMZ" CGU is sensitive to the discount rate used in the model, and potential impairment may arise where the discount rate was increased by more than 2.2 percentage points. If the discount rate was to increase by ten percentage points, the Group would need to reduce the carrying value of goodwill by RR 277 and other non current assets in aggregate by RR 1,111. The impairment of assets would amount to RR 2,153, including impairment of goodwill of RR 277, if while keeping the discount rate and all other assumptions unchanged, the sales of the OAO "ZMZ" CGU to its major customer were nil in 2009 and in all future years, and all other sales were 50% lower in 2009 compared to the actual sale volumes in the year ended 31 December 2008.

OAO "UAZ" CGU:

- capital expenditures will be maintained at the level of RR 150 per annum;
- low cost vehicle demand will decline slower than that of the industry average;
- prices are assumed to increase in 2009 by an inflationary price increase;
- a significant cost reduction programme will continue to be implemented, and the benefits from this will continue after 2009;
- EBITDA and working capital position will be improved following initiatives aimed at reducing production costs, including headcount and other cost reductions achieved to date; and
- the discount rate used is 16.64%.

The inference of no impairment of OAO "UAZ" CGU is sensitive to the discount rate used in the model, and potential impairment may arise where the discount rate was increased by more than 2.2 percentage points. If the discount rate was to increase by ten percentage points, the Group would need to reduce the carrying value of goodwill by RR 1,207 and other non current assets in aggregate by RR 1,870.

3.4 Provision for doubtful debts

Management have assessed the level of provision required for doubtful debts as at the balance sheet date. This estimation involves judgement based on those individual receivable balances that are considered at risk and may not be recovered in full. The bad debt provision of the Group was calculated based on an analysis of financial sustainability, post-balance sheet payments and evaluation of the results of testing for every individual dealer with an outstanding balance due to the Group. The revised credit terms provided by the Group in the final quarter of 2008 have been considered by management as part of this analysis (see Note 34).

A full provision has been created on outstanding balances where the contracting party is in process of bankruptcy or if no significant payments had been made in settlement of the amounts owed subsequent to the year end.

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 limits the Group's exposure to only the sales margin earned on the vehicle as in the event of non payment, the Group will be able to collect the vehicle back from the dealer. The insurance coverage maintained over the vehicles provides protection in the event of damage or other factors impacting the ability of the Group to subsequently sell the vehicle to another party.

Where vehicles have been returned to the Group subsequent to the year end due to a dealers inability to settle amounts owing to the Group, the related sales, profit margin and receivables balances have been adjusted and the vehicles returned included as inventory in these financial statements as at 31 December 2008.

To the extent that an additional 5% of dealers were subject to bankruptcy proceedings, then the provision for doubtful debts would have been increased by RR 363.

To the extent that management's estimate of the adjustment required for sales returns after 31 December 2008 was 10% higher, then the provision for doubtful debts would have been increased by RR 35.

3.5 Assessment of the net realisable value of inventories

Management has evaluated the net realisable value of the Group's inventories based on prevailing market prices at the balance sheet date. The estimate of the total vehicles to be returned from dealers subsequent to the period end has been included as part of this assessment as at 31 December 2008. The estimation of the provision has had regard to the nature of inventory items and the expected ability of the Group to realise value in the future. This includes a significant proportion of inventory that was acquired from overseas suppliers in foreign currencies. The replacement cost of such inventories in Russian Rouble terms as at 31 December 2008 was higher following the depreciation of the Russian Rouble against global currencies commencing in the final quarter of 2008. Management have also assessed the number of days in stock for each vehicle brand, and the days required to sell based on forecasted sales volumes, and discounted market prices based on the calculated period needed to dispose of all inventory held at the balance sheet date. Costs to sell each vehicle have been based on the actual costs of selling each vehicle in 2008. The most critical judgement as part of this evaluation is related to the assessment of the market prices as at 31 December 2008, including the gross margin that would be earned on the sale of inventories as finished goods. If the assumed margin was reduced by five percentage points from management's budgeted margin levels in 2009, the inventories provision may have been higher by RR 500 (2007: nil).

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

3.6 Capitalisation of development costs

The Group capitalises development costs in accordance with the accounting policy stated in Note 2.36. Judgement is required to assess the probability that future economic benefits attributable to these assets will flow to the Group. If the assumptions made by management as at 31 December 2008 in relation to the flow of future economic benefits were not fulfilled, the additional write off for development costs that do not meet recognition criteria would reduce the Group's operating profit by RR 938 at 31 December 2008 (RR 870 at 31 December 2007).

4 Adoption of new or revised standards and interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- **IFRIC 11, IFRS 2—Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007);
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008); and
- **IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the year.

5 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management is currently assessing what impact the standard will have on segment disclosures in the Group's consolidated financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. Management does not expect the amendment to affect the Group's consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. Management expects the revised IAS 1 to affect the presentation of the Group's consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

5 New accounting pronouncements (continued)

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group's accounting policy prior to the amendment to the standard was to capitalise borrowing costs relating to such assets, and therefore the amendment is not expected to impact the Group's 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 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires 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 will have to be measured at its fair value. Management is currently assessing the impact of this amended standard on the Group's financial statements

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management are currently assessing the impact of the amended standard on the Group's 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 will allow entities to choose to measure non-controlling interests using the existing 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 will have 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 and loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be 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. Management are currently assessing the impact of the amended standard on the Group's consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit and loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these consolidated financial statements as the Group does not apply hedge accounting.

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 is not expected to have any impact on the Group's consolidated financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate Government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit and loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Management are currently assessing the impact of the amended standard on the Group's consolidated financial statements.

Sollers Group

Notes to the Consolidated Financial Statements at 31 December 2008

(in millions of Russian Roubles - RR)

5 New accounting pronouncements (continued)

Improving Disclosures about Financial Instruments—Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. Management are currently assessing the impact of the amendment on disclosures in the Group's 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 and loss 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. Management are currently assessing the impact of the amended standard on the Group's consolidated financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- 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).
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009).
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009).
- Embedded Derivatives - IFRIC 9, IAS 39 amendments (effective for annual periods ending on or after 30 June 2009).
- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

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

Sollers Group**Notes to the Consolidated Financial Statements at 31 December 2008***(in millions of Russian Roubles - RR)***6 Balances and transactions with related parties**

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

6.1 Balances and transactions with related parties

Balances with related parties of the Group as at 31 December 2008 and 31 December 2007 consist of the following:

Balances	Newdeal Investments Limited	Severstal group companies	Other related parties	Total
		Significant influence through common shareholder	Significant influence	
Nature of relationship	Parent company			
Year ended 31 December 2008				
Accounts receivable	-	-	82	82
Accounts payable	-	-	1	1
Year ended 31 December 2007				
Accounts receivable	-	-	-	-
Prepayments	-	-	25	25

Transactions with related parties of the Group for the years ended 31 December 2008 and 31 December 2007 consist of the following:

Transactions	Newdeal Investments Limited	Severstal group companies	Other related parties	Total
		Significant influence through common shareholder	Significant influence	
Nature of relationship	Parent company			
Year ended 31 December 2008				
Cost of sales (purchases)	-	-	6	6
Sales	-	-	697	697
Dividends paid	898	-	-	898
Year ended 31 December 2007				
Cost of sales (purchases)	-	91	-	91
Sales	-	3	757	760
Dividends paid	411	-	-	411

6.2 Key management compensation

The compensation paid to the nine members of key management (year ended 31 December 2007: 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. Additional fees, compensation and allowances to directors for their services in that capacity, and also for attending board meetings and board committees' meetings were not paid.

On 30 May 2007, the Group granted the members of key management 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 3 months preceding the grant date. The market share price at the grant date was US\$30. The options are exercisable for 3 years after a 1 year vesting period (150,000 shares) and for 2 years after a 2 year vesting period (640,000 shares), subject to certain conditions, including the members of key management remaining in employment in the Group up until the vesting date.

On 30 May 2008, the Group granted the members of key management options to acquire 80,000 of the Group's ordinary shares at an exercise price of US\$60.86 which represented the average market share price for the 3 months preceding the grant date. The market share price at the grant date was US\$63.25. These options are exercisable for 3 years after a 1 year vesting period subject to the employer meeting certain conditions, including remaining in employment in the Group up until the date of vesting.

Management considers outstanding share options will not be exercised.

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6 Balances and transactions with related parties (continued)

6.2 Key management compensation (continued)

During the year ended 31 December 2008, one member of key management exercised an option for 20,000 ordinary shares at an exercise price of US\$ 30.50.

Total key management compensation included in expenses in the consolidated income statement comprises:

- short-term employee benefits amounting to RR 117 for year 2008 (RR 120 for the year ended 31 December 2007);
- expenses recognised under equity-settled, share based compensation amounting to nil (RR 39 for the year ended 31 December 2007).

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 31 December 2006	5,938	8,364	1,405	1,035	16,742
Additions	-	-	-	6,167	6,167
Disposals	(62)	(276)	(25)	(99)	(462)
Transfers	301	1,289	398	(1,988)	-
Balance at 31 December 2007	6,177	9,377	1,778	5,115	22,447
Additions	-	-	-	6,856	6,856
Disposals	(44)	(101)	(200)	(76)	(421)
Transfers	2,718	4,965	999	(8,682)	-
Balance at 31 December 2008	8,851	14,241	2,577	3,213	28,882
Accumulated depreciation					
Balance at 31 December 2006	(1,124)	(2,080)	(526)	-	(3,730)
Depreciation expense for year	(205)	(511)	(228)	-	(944)
Disposals	7	70	11	-	88
Balance at 31 December 2007	(1,322)	(2,521)	(743)	-	(4,586)
Depreciation expense for year	(237)	(717)	(335)	-	(1,289)
Disposals	6	37	72	-	115
Balance at 31 December 2008	(1,553)	(3,201)	(1,006)	-	(5,760)
Net book value					
Balance at 31 December 2007	4,855	6,856	1,035	5,115	17,861
Balance at 31 December 2008	7,298	11,040	1,571	3,213	23,122

As at 31 December 2008, 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 6,232 (31 December 2007: RR 1,168). See Note 17 and Note 23.

Construction in progress consists mainly of equipment. Upon completion, assets are transferred to plant and equipment. During the year ended 31 December 2008, the Group capitalised borrowing costs of RR 437 (year ended 31 December 2007: RR 156) as part of the cost of the qualifying assets (see Note 2.13). The annual capitalisation rate was 7% (year ended 31 December 2007: 6%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2008, the cost of the land amounted to RR 1,031 (31 December 2007: RR 931). The recoverability of the Group's assets has been assessed as part of the impairment test performed as at 31 December 2008 for each individual CGU within the Group (see Note 3.3 and Note 9).

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8 Development costs

	Completed	In process	31 December 2008 Total	31 December 2007 Total
Cost				
Balance at the beginning of the year	718	443	1,161	870
Additions	88	266	334	397
Write-off	(39)	(3)	(44)	(106)
Balance at the end of the year	767	706	1,451	1,161
Accumulated amortisation and impairment				
Balance at the beginning of the year	(291)	-	(291)	(67)
Amortisation charge	(262)	-	(240)	(224)
Write-off	18	-	18	-
Balance at the end of the year	(535)	-	(513)	(291)
Net book value				
Balance at 31 December	232	706	938	870

Following an assessment of future economic benefits to the Group for each individual project, the write-off above represents those projects where impairment was identified and accordingly the development costs have been written-off. 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.

Breakdown of development costs

	31 December 2008	31 December 2007
Development of new off-road vehicle (UAZ Patriot)	148	153
Development of diesel engine funded by Government grant	137	206
Expenditures related to establishing production of diesel engine	121	134
Development of FIAT Ducato production	103	21
Development of stamping in relation to FIAT Ducato	94	51
Development of SYMC production process	52	64
Improvement of vehicles and engines to satisfy Euro-4 requirements	69	-
Development of Fiat passenger cars production process	38	39
Development of new light commercial vehicle (UAZ-2360)	33	23
Improvement of vehicles and engines to satisfy Euro-3 requirements	34	67
Improvement of some vehicle component parts	21	25
Improvement of vehicles and engines to satisfy Euro-2 requirements	10	22
Improvement of diesel engine funded by internal financing	3	7
ISUZU light trucks	1	1
Other	74	57
Total development costs	938	870

Since 1 January 2008, the Group changed the depreciation period of development costs related to the development of diesel engines, a project in part funded by a Government grant (see Note 20). Management now expect that the period of manufacture and sale of these engines will be 5 years, reduced from 11.5 years, and that a revised, shorter, period of depreciation is appropriate to match the period of expected economic benefits to be obtained from these assets.

9 Goodwill

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

	31 December 2008	31 December 2007
OAO "UAZ" (vehicles)	1,207	1,207
OAO "ZMZ" (engines)	277	277
Total goodwill	1,484	1,484

Impairment tests for goodwill

The Group tested its goodwill for impairment at 31 December 2008. Goodwill is allocated to the Group's cash generating units (CGUs): OAO "UAZ" (vehicle segment) and OAO "ZMZ" (engine segment). See details of impairment testing in Note 3.3.

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9 Goodwill (continued)

As a result of the assessment performed by management, no impairment loss for the Group's CGUs has been recognised as at 31 December 2008 (31 December 2007: nil).

Increase in holding stake of OAO "ZMZ"

The holding stake in OAO "ZMZ" was further increased by step acquisition from 79% to 82% of total share capital in the year ended 31 December 2008.

	Year ended 31 December 2008	Year ended 31 December 2007
Step increase in % of ownership	3%	4%
Purchase consideration	498	316
Share of net assets acquired from minority shareholders	(366)	(348)
Excess of purchase consideration over acquired share in the net identifiable assets	132	(32)

Acquisition of OOO "Transportnik-12"

In February 2008, the Group completed the purchase of a 100% stake of equity of OOO "Transportnik-12" (Nizhny Novgorod) for cash consideration of RR 179.

This acquisition of net assets which did not comprise a business was accounted for by allocating the cost of the net assets between the identifiable assets and liabilities acquired based on their relative fair values at the date of acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value
Property, plant and equipment	150
Intangible assets	41
Accounts receivable	1
Trade and other accounts payable	(3)
Short-term borrowings	(10)
Net identifiable assets acquired	179

Acquisition of OOO "Autocentre na Kolomyazhskom"

In March 2008, the Group completed the purchase of a 100% stake of equity of OOO "Autocentre na Kolomyazhskom" (St. Petersburg) for cash consideration of RR 288.

This acquisition of net assets which did not comprise a business was accounted for by allocating the cost of the net assets between the identifiable assets and liabilities acquired based on their relative fair values at the date of acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value
Property, plant and equipment	623
VAT recoverable	41
Short-term borrowings	(376)
Net identifiable assets acquired	288

Acquisition of OOO "Saport"

In May 2008, the Group completed the purchase of a 100% stake of equity of OOO "Saport" (Moscow) for cash consideration of RR 115.

This acquisition of net assets which did not comprise a business was accounted for by allocating the cost of net assets between the identifiable assets and liabilities acquired based on their relative fair values at the date of acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value
Intangible assets	98
Property, plant and equipment	16
Accounts receivable	1
Net identifiable assets acquired	115

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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 31 December 2006	241
Additions	355
Disposals	(7)
Balance at 31 December 2007	589
Additions	578
Disposals	(56)
Balance at 31 December 2008	1,111
Accumulated amortisation	
Balance at 31 December 2006	(78)
Amortisation expense	(37)
Disposals	7
Balance at 31 December 2007	(108)
Amortisation expense	(88)
Disposals	55
Balance at 31 December 2008	(141)
Net book value	
Balance at 31 December 2007	481
Balance at 31 December 2008	970

11 Other non-current assets

	Note	31 December 2008	31 December 2007
Advances for equipment and other non-current assets		293	470
Advances for construction in progress		32	26
Financial lease receivables		59	-
Deferred income tax asset	31	371	-
Total other non-current assets		755	496

Finance lease receivables

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Total
Finance lease payments receivable at 31 December 2008	52	73	125
Unearned finance income	(18)	(14)	(32)
Present value of lease payments receivable at 31 December 2008	34	59	93

The carrying amount represents neither past due nor impaired finance lease receivables from small and medium sized companies. The finance lease receivables are effectively collateralised by the leased assets as the right to the asset reverts to the Group in case of the counterparty's default. Such collateral can be analysed as follows:

	31 December 2008	31 December 2007
Finance lease receivables collateralised by:		
- vehicles	93	-
Total finance lease receivables	93	-

The fair value of collateral as of 31 December 2008 amounted to RR 93 (2007: nil).

The fair value was determined by discounting expected cash flows using interest rates from 18% p.a. to 30% p.a. depending on the assessed credit risk of the counterparty (2007: no finance leases). Refer to Note 34.

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12 Other financial assets

	31 December 2008	31 December 2007
Unlisted securities	66	36
Investments in associates	34	-
Listed securities	6	18
Total other financial assets	106	54

Unlisted securities

Available-for-sale investments include equity securities with a carrying value of RR 66 (31 December 2007: RR 36) 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.

Investments in associates

At 31 December 2008, the Group's interests in its principal associate and its summarised financial information, including total assets, liabilities, revenues total loss, was as follows:

Name	Total assets	Total liabilities	Revenue	Loss	% interest held	Country of incorporation
OOO DaeWon-SeverstalAuto Elabuga	131	4	-	(14)	30%	Russian Federation
Total	131	4	-	(14)		

Listed securities

The Group holds corporate shares as available-for-sale investments. The fair value of these investments amounted to RR 6 as of 31 December 2008 (31 December 2007: RR 18).

13 Inventories

	31 December 2008	31 December 2007
Raw materials	7,335	4,935
Less: provision	(103)	(43)
	7,232	4,892
Work in progress	867	836
Less: provision	-	-
	867	836
Finished products	13,090	2,043
Less: provision	(212)	(1)
Total	12,878	2,042
	20,977	7,770

Inventories of RR 996 (31 December 2007: RR 221) have been pledged as security for borrowings, see Notes 17, 23. The collateral value of the pledged inventories amounted to RR 651 (31 December 2007: RR 144).

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14 Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	10,882	5,238
Less: provision for impairment	(238)	(46)
Total trade receivables	10,644	5,192
Other receivables	289	224
Less: provision for impairment	(20)	(7)
	269	217
Advances to suppliers, other than for equipment	721	612
Less: provision for impairment	(10)	(13)
	711	599
Taxes prepayments	470	492
VAT recoverable, net	2,081	455
Other prepayments	14	15
Total	14,189	6,970

Foreign currency denominated financial assets:

Currency	31 December 2008	31 December 2007
Russian Roubles	10,300	5,075
Euros	67	10
US Dollars	277	107
Total	10,644	5,192

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

	31 December 2008	31 December 2007
<i>Current and not impaired – exposure to</i>		
- Group 1 – large corporate clients (GAZ)	24	537
- Group 2 – dealers	7,265	3,683
- Group 3 – other clients	1,057	958
Total current and not impaired	8,346	5,178
<i>Past due but not impaired</i>		
- less than 30 days overdue	1,113	-
- 30 to 90 days overdue	929	1
- 90 to 180 days overdue	247	-
- 180 to 360 days overdue	8	2
- over 360 days overdue	1	11
Total past due but not impaired	2,298	14
<i>Individually determined to be impaired (gross)</i>		
- not overdue	62	-
- less than 30 days overdue	22	-
- 30 to 90 days overdue	39	-
- 90 to 180 days overdue	84	-
- 180 to 360 days overdue	3	4
- over 360 days overdue	28	42
Total individually impaired	238	46
Less impairment provision	(238)	(46)
Total	10,644	5,192

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 2008 was RR 2,298 (31 December 2007: RR 14) and the fair value of the collateral for the individually determined to be impaired receivables was RR 238 (31 December 2007: RR 46).

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14 Trade and other receivables (continued)

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

	31 December 2008			31 December 2007		
	Trade receivables	Other financial receivables	Advances to suppliers	Trade receivables	Other financial receivables	Advances to suppliers
Provision for impairment at start of year	46	7	13	48	8	16
Provision for impairment during the year	235	14	-	5	-	-
Amounts written off during the year as uncollectible/ (Recovery of provision) for impairment during the year	(43)	(1)	(3)	(7)	(1)	(3)
Provision for impairment at end of year	238	20	10	46	7	13

15 Cash and cash equivalents

	31 December 2008	31 December 2007
Cash on hand and balances with banks	841	784
Cash deposits	55	1,226
Short-term bank promissory notes	3	20
Total	899	2,030

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

	<1%	1-3%	4%-4.6%	5%-5.42%	4%-5%	6%-7.75%	non-interest bearing	Total
As at 31 December 2008								
Cash on hand and balances with banks	269	231	4	-	-	-	337	841
Cash deposits	-	-	55	-	-	-	-	55
Short-term bank promissory notes	-	-	3	-	-	-	-	3
Total	269	231	62	-	-	-	337	899

As at 31 December 2007

Cash on hand and balances with banks	-	232	-	-	363	-	189	784
Cash deposits	-	-	531	605	-	90	-	1,226
Short-term bank promissory notes	-	20	-	-	-	-	-	20
Total	-	252	531	605	363	90	189	2,030

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

Currency	31 December 2008	31 December 2007
Euro	41	17
US Dollars	12	9
Total	53	26

Sollers Group**Notes to the Consolidated Financial Statements at 31 December 2008***(in millions of Russian Roubles - RR)***15 Cash and cash equivalents (continued)**

The carrying value of cash and cash equivalents as at 31 December 2008 and 31 December 2007 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 2008	31 December 2007
<i>Rating by Fitch</i>		
- AA-	-	12
- A	-	38
- A-	37	11
- BBB+	381	701
- BB+	68	-
- BB	159	849
- B-	23	-
- Unrated	217	416
- Cash on hand	14	3
Total	899	2,030

Irrevocable letters of credit of RR 29 are included in cash and cash equivalents as of 31 December 2008 (31 December 2007: nil).

Management of the Group monitors both Standard and Poors and Fitch ratings of the banks used to manage the level of credit risk that the Group is exposed to.

16 Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Number of treasury shares (thousands)	Share capital (RR)	Treasury shares (RR)	Share premium (RR)	Additional paid-in capital (RR)
At 31 December 2007	34,270	750	530	(735)	6,019	1,438
At 31 December 2008	34,270	1,476	530	(1,609)	6,058	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2007: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share. The statutory share capital of the Group totalled RR 428 (31 December 2007: RR 428). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

At 31 December 2008, treasury shares include 1,476 thousand ordinary shares of the Group (2007: 750 thousand of ordinary shares) owned by wholly-owned subsidiaries 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 Group 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 2008, the net statutory profit for the Group as reported in the published annual statutory reporting financial statements was RR 2,162 (year ended 31 December 2007: RR 1,159) and the closing balance of the accumulated profit including the current reporting period net statutory profit was RR 8,654 (31 December 2007: RR 8,040). 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.

In April 2008, the General Shareholders' Meeting declared dividends of RR 1,000 for the year ended 31 December 2007, or 29.18 Roubles per ordinary share. In October 2008, the General Shareholders' Meeting declared interim dividends of RR 548 for 2008, or 16 Roubles per ordinary share. In June 2007, the General Shareholders' Meeting declared dividends of RR 675 for the year ended 31 December 2006, or 19.7 Roubles per ordinary share.

16 Shareholders' equity (continued)

During the year ended 31 December 2007, the Group acquired 750 thousand of ordinary shares of the Group on the market for RR 735 at an average price of 980 Roubles per share (the market price at the date of the share options agreement was \$30 per share). The Group has reserved these treasury shares for a share option programme for members of key management (see Note 6.2).

During the year ended 31 December 2008, the Group acquired 726 thousand of ordinary shares of the Group on the market for RR 874 at an average price of 1,203 Roubles per share.

17 Long-term borrowings

	31 December 2008	31 December 2007
Bank loans	2,709	1,661
Bonds	4,488	4,485
Total long-term borrowings	7,197	6,146

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

	31 December 2008	31 December 2007
Borrowings denominated in: - Russian Roubles	4,988	4,983
- Euros	2,209	1,163
Total long-term borrowings	7,197	6,146

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures. See Note 13 for information on inventories pledged as security for borrowings. The fair value of Group long-term borrowings amounted to RR 6,062 at 31 December 2008 (31 December 2007: RR 6,146), comprising bonds RR 3,353 (31 December 2007: RR 4,485) and bank loans RR 2,709 (31 December 2008: RR 1,661).

Property, plant and equipment and inventories of RR 7,228 (31 December 2007: RR 1,389) are pledged as collateral for long-term and short-term borrowings. Refer to Note 7 and Note 13.

18 Taxes payable

Current taxes payable

	31 December 2008	31 December 2007
Value-added tax	335	248
Payments to the Pension Fund and other social taxes	88	76
Income tax	49	125
Personal income tax	37	39
Property tax	32	25
Current portion of taxes restructured to long-term	6	6
Tax penalties and interest	3	3
Other taxes	56	57
Total	606	579

The Group had no tax liabilities past due at 31 December 2008 or 31 December 2007.

19 Post-retirement benefits

Until December 2008, OAO "ZMZ" and its subsidiaries provided post employment benefits in the form of a lump sum payment on retirement and monthly cash payments to retirees via the non-state pension fund "Stalfond". In December 2008, the Group ceased this programme. The decision to stop paying starting from the beginning 2009 was approved in September 2008. The effect of the discontinuance of these payments was assessed as part of evaluating post-employment obligations as at 31 December 2008. As a result the Group did not recognise any pension liability in the financial statements except those that the Group paid in the first 3 months after the decision was made. A provision for these subsequent payments was made in full as at 31 December 2008 in the amount of RR 1. The gain recognised during the year ended 31 December 2008 on the termination of the benefit is RR 53 (year ended 31 December 2007: nil).

20 Deferred income on Government grants and other non-current liabilities

The Group won 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 2008, the Group had received 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 as at 31 December 2007. As at 31 December 2008, the Group recognised amortisation of deferred income of RR 88 (2007: RR 42) in the consolidated income statement.

Initially, to fulfil the terms of the grant the Group was required to sell during the period from 2005 to 2007 diesel engines in the amount of RR 4,000. If the sales target was not met, the Group was subject to paying a fine to the Government equal to 20% of the difference between the designated sales volume and the actual sales made. As at 31 December 2006, management finalised renegotiating the conditions attached to the grant with the Government and the revised terms required the Group to sell diesel engines in the amount of RR 2,000 over the period from 2006 to 2009. The overall financing of the project was reduced to RR 391, which was fully utilised by 31 December 2006.

As at 31 December 2008, management had entered into negotiations with the Government over the extension of the term of the grant through to 2012 and if such an extension is granted, management believes that no fines will be payable in relation to not fulfilling the terms of this grant including where the designated sales volumes are not achieved by 31 December 2009. Accordingly, no provision has been established for any such penalties as at 31 December 2008 (31 December 2007: no penalties). Were the agreement not able to be renegotiated with the Government, based on current forecasts, the Group may be subject to a penalty of RR 172 as at 31 December 2009 under the existing agreement.

From 1 January 2008, the Group changed the amortisation period of deferred income, so as to reflect the revised period over which engines are expected to be produced from 11.5 years to 5 years. Management takes the view that the revised period reflects more accurately the shorter period over which the Group will now derive benefit from the underlying assets. The new period has been applied prospectively from 1 January 2008. Accordingly, the adoption of this change has no effect on the prior years. The total amount of amortisation for the year ended 31 December 2008 is consequently RR 88 (it would have been RR 42 had no revised period been adopted). See Note 8.

During the year ended 31 December 2008, the Group continued to depreciate the non-current assets acquired and amortise deferred income as follows:

	31 December 2008	31 December 2007
Deferred income at beginning of year	327	369
Amortisation of deferred income	(88)	(42)
Deferred income at end of year	239	327

21 Advances received and other payables

	31 December 2008	31 December 2007
Trade payables	20,512	6,094
Liabilities for purchased property, plant and equipment	1,209	1,103
Dividends payable	694	155
Accrued liabilities and other creditors	74	232
<i>Total financial liabilities within trade and other payables</i>	<i>22,489</i>	<i>7,584</i>
Accrued employee benefit costs	306	303
Vacation accrual	176	120
Bonus accrual	-	175
Advances received	49	517
Total advances received and other payables	23,020	8,699

Overdue payables totalled RR 5,446 as at 31 December 2008 (31 December 2007: nil). Subsequent to the year end, an agreement was made to restructure the timing of these payables, with the payment of late payment interest of RR 137. See Note 37.

There was no bonus declared in relation to performance during the year ended 31 December 2008 (2007: RR 175).

Included within trade payables of RR 20,512 (31 December 2007: RR 6,094) are balances denominated in foreign currencies of RR 16,359 (31 December 2007: RR 2,985). See Note 34.

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22 Warranty and other provisions

During the year ended 31 December 2008 and the year ended 31 December 2007, the following movement in warranty and other provisions was recorded:

	Warranty	Tax claims	Total
Balance at 31 December 2006	121	65	186
Additional provision	115	7	122
Utilised in the year	(104)	(65)	(169)
Balance at 31 December 2007	132	7	139
Additional provision	180	9	189
Utilised in the year	(145)	(2)	(147)
Balance at 31 December 2008	167	14	181

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.

23 Short-term borrowings

Short-term borrowings are represented by bank loans.

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

		31 December 2008	31 December 2007
Borrowings denominated in:	- Russian Roubles	15,001	1,813
	- US Dollars	471	369
	- Euros	516	309
Total short-term borrowings		15,988	2,491

As of 31 December 2008 the total amount of short-term borrowings included interest payable amounting to RR 296 (31 December 2007: RR 172). The carrying amounts of borrowings approximate to their fair values as at 31 December 2008 and 31 December 2007.

Property, plant and equipment and inventories of RR 7,228 (31 December 2007: RR 1,389) are pledged as collateral for long-term and short-term borrowings. Refer to Note 7 and Note 13. Additional assets have been pledged subsequent to the balance sheet date, see Note 37.

Included in the total short-term borrowings of RR 15,988, the Group had borrowings of RR 4,000 and RR 8,329 respectively with two large Russian banks.

For one of these banks, as at 31 December 2008, the Group had an approved credit limit of RR 12,000, part of which expires in 2011 and the remainder in 2012. RR 4,000 of this credit limit had been drawn-down and included within short-term borrowings as at 31 December 2008, and a further RR 3,500 had been utilised in providing letters of credit in relation to purchases from overseas suppliers, leaving a remaining unused amount of the facility of RR 4,500. Loan agreements entered into within this facility are subject to market interest rates.

For the second bank, as at 31 December 2008, the Group had an approved credit limit of RR 9,550, expiring in January 2010. RR 8,329 of this credit limit had been included within short-term borrowings as at 31 December 2008. Loan agreements entered into under this facility are subject to market interest rates. As detailed in Note 37, in September 2009, the Group received confirmation that a credit limit of RR 9,117 had been prolonged until 2012.

In total, as at 31 December 2008, the Group had approved credit limits of RR 21,550, of which RR 5,721 was unused and available to the Group as at 31 December 2008. Subsequent to the balance sheet date, this confirmed credit limit was reduced to RR 21,117, but the full amount available to 2011 and beyond. See Note 3.1, Note 34.1 and Note 37.3.

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24 Sales

	Year ended 31 December 2008	Year ended 31 December 2007
Vehicles	46,786	33,084
Engines	7,482	9,138
Automotive components	4,092	4,994
Assembly kits	3	19
Services	803	471
Other sales	2,464	1,430
Total	61,630	49,136

25 Cost of sales

	Year ended 31 December 2008	Year ended 31 December 2007
Materials and components	52,010	32,337
Labour costs	5,960	4,364
Depreciation	1,618	1,045
Other production costs	1,532	1,687
Change in finished goods and work in progress	(10,867)	(508)
Total	50,253	38,925

26 Distribution costs

	Year ended 31 December 2008	Year ended 31 December 2007
Transportation	1,198	932
Advertising	635	740
Labour costs	279	126
Materials	148	135
Check and inspection performed by dealers	77	3
Other	190	83
Total	2,527	2,019

27 General and administrative expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Labour costs	2,424	1,873
Services provided by third parties	502	411
Provision for impairment of receivables	249	(5)
Taxes other than income	218	268
Depreciation	176	168
Transportation	117	92
Materials	112	48
Fire brigade and security costs	110	93
Repairs and maintenance	90	38
Insurance	86	67
Training costs	18	19
Other	443	229
Total	4,545	3,301

Sollers Group**Notes to the Consolidated Financial Statements at 31 December 2008***(in millions of Russian Roubles - RR)***28 Other operating expenses/ (income) – net**

	Year ended 31 December 2008	Year ended 31 December 2007
Net losses on disposals of property, plant, equipment and investments	203	100
Social expenses	71	80
Charity	42	49
Research and development expenses write-off	26	89
Loss/(gain) on disposal of materials	16	(37)
Claims and similar charges	-	(22)
Gain on disposal of subsidiary	-	(338)
Excess of acquired shares over purchase consideration	-	(32)
Government grant amortisation	(88)	(42)
Other	68	48
Total	338	(105)

29 Finance costs, net

	2008	2007
Interest expense	1,291	501
Foreign exchange losses	5,400	461
Foreign exchange gains	(2,084)	(497)
Total finance costs, net	4,607	465
Less capitalised finance costs	(462)	(156)
Total finance costs, net	4,145	309

The Group's capitalised borrowing costs mainly arising on financing attributable to the construction of property, plant and equipment at the Elabuga plant.

30 Expenses by nature

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

	Year ended 31 December 2008	Year ended 31 December 2007
Cost of sales	5,960	4,364
General and administrative expenses	2,424	1,873
Distribution costs	279	126
Total	8,663	6,363

Labour expenses include state pension contributions of RR 1,450 for the year ended 31 December 2008 (year ended 31 December 2007: RR 1,357).

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

	Year ended 31 December 2008	Year ended 31 December 2007
Cost of sales	1,618	1,045
General and administrative expenses	176	168
Total	1,794	1,213

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

	Year ended 31 December 2008	Year ended 31 December 2007
Cost of sales	52,010	32,337
Distribution costs	148	135
General and administrative expenses	112	48
Total	52,270	32,520

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31 Income tax expense

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

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax expense	775	1,324
Deferred tax benefit	(577)	(6)
Income tax expense	198	1,318

The income tax rate applicable to the majority of the Group's income is 24% (2007: 24%). The income tax rate applicable to the majority of income of subsidiaries is 24% (2007: 24%). A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2008	Year ended 31 December 2007
(Loss)/ profit before income tax	(178)	4,687
Theoretical tax (benefit)/ charge at statutory rate (2008: 24%; 2007: 24%)	(43)	1,125
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	281	193
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	(121)	-
Effects of different tax rates in other regions (in Elabuga the tax rate in 2008 was 20%)	81	-
Income tax expense	198	1,318

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect with 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

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% (2007: 24%)

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.

The deferred tax liability that has been netted off with deferred tax assets at the subsidiary level within the Group amounted to RR 866 as of 31 December 2008 (31 December 2007: nil).

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31 Income tax expense (continued)

The tax loss carry forwards expire in 2018 (such period cover losses carried forward for which deferred tax asset was recognised).

	Movement in the year ended 31		Movement in the year ended 31		
	31 December 2006	December 2007	31 December 2007	December 2008	31 December 2008
Tax effects of deductible temporary differences:					
Accounts receivable	22	(2)	20	597	617
Financial assets	3	(2)	1	(1)	-
Investments	-	3	3	(3)	-
Long-term borrowings	9	9	18	(10)	8
Losses carried forward	3	32	35	510	545
Accounts payable and provisions	106	17	123	(56)	67
Total	143	57	200	1,037	1,237
Tax effects of taxable temporary differences:					
Property, plant and equipment	(1,337)	(45)	(1,382)	13	(1,369)
Inventories	8	(6)	2	(473)	(471)
Total	(1,329)	(51)	(1,380)	(460)	(1,840)
Recognised deferred tax asset	-	-	-	371	371
Recognised deferred tax liability	(1,186)	6	(1,180)	206	(974)
Total net deferred tax assets/(liabilities)	(1,186)	6	(1,180)	577	(603)

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 12,914 at 31 December 2008 (31 December 2007: RR 10,614).

32 Earnings per share

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

	Year ended 31 December 2008	Year ended 31 December 2007
Basic (loss)/ earnings per share (in RR per share)	(28.77)	76.60
Income attributable to equity holders of the Company	(954)	2,603
Weighted average number of shares outstanding (thousands)	33,197	33,982
	Year ended 31 December 2008	Year ended 31 December 2007
Diluted (loss)/ earnings per share (in RR per share)	(28.77)	75.84
Income attributable to equity holders of the Company	(954)	2,603
Weighted average number of ordinary shares in issue (thousands)	33,197	34,323

33 Segment information

Primary reporting format – business segments

At 31 December 2008, the Group is organised into two main business segments:

- (1) manufacture and sale of vehicles; and
- (2) manufacture and sale of engines.

Management consider that the other Group operations are not sufficiently significant to record as separate reportable segments.

Transactions between the business segments are on normal commercial terms and conditions. Internal charges between segments have been reflected in the performance of each business segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions through business combinations. Impairment loss provisions relate only to those charges made against allocated assets.

The segment results for the year ended 31 December 2008 and balances as at 31 December 2008 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	50,605	12,687	-	63,292
Inter-segmental sales	(51)	(1,611)	-	(1,662)
Net sales	50,554	11,076	-	61,630
Segment results	2,745	1,222	-	3,967
Interest expense	-	-	(854)	(854)
Net foreign exchange gain/(loss)	(3,124)	(10)	(157)	(3,291)
Segment results	(380)	1,212	(1,010)	(178)
Income tax expense				(198)
Loss for the year				(376)
Segment assets	52,390	8,590	2,470	63,450
Segment liabilities	37,752	4,093	6,361	48,206
Capital expenditures	6,392	1,103	-	7,495
Depreciation and amortisation	1,029	476	-	1,505
Non-cash (losses)/gains other than depreciation	(653)	179	-	(474)

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33 Segment information (continued)

The segment results for the year ended and balances at 31 December 2007 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	36,287	14,240	-	50,527
Inter-segmental sales	(43)	(1,348)	-	(1,391)
Net sales	36,244	12,892	-	49,136
Segment results	2,456	2,159	381	4,996
Interest expense	-	-	(345)	(345)
Net foreign exchange gain	31	5	-	36
Segment results	2,487	2,164	36	4,687
Income tax expense				(1,318)
Profit for the year				3,369
Segment assets	27,528	8,067	2,437	38,032
Segment liabilities	12,240	2,426	4,952	19,618
Capital expenditures	5,242	817	-	6,059
Depreciation and amortisation	768	432	-	1,200
Non-cash losses other than depreciation	(63)	(56)	2	(117)

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

The Group's sales take place mainly within Russia, with export sales to other countries, mainly within the Commonwealth of Independent States represent less than 10% of the total Group sales.

All assets of the Group are located in the Russian Federation.

34 Financial risk management

34.1 Financial risk factors

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), 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 exchange rate of three currencies: Euro, US Dollars and Japanese Yen. 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 ZMA, UAZ and Severstalavto Elabuga. Management considers hedging of these positions unsuitable.

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34 Financial risk management (continued)

34.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2008:

	Monetary financial assets		Monetary financial liabilities		Net balance sheet position
	Cash and cash equivalents	Accounts receivable	Accounts payable	Bonds and borrowings	
US Dollars	12	277	(5,247)	(471)	(5,429)
Euros	41	67	(6,382)	(2,725)	(8,999)
Japanese Yen	-	-	(4,730)	-	(4,730)
Total foreign currencies	53	344	(16,359)	(3,196)	(19,158)
Russian Roubles	846	10,300	(6,130)	(19,989)	(14,973)
Total	899	10,644	(22,489)	(23,185)	(34,131)

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2007:

	Monetary financial assets		Monetary financial liabilities		Net balance sheet position
	Cash and cash equivalents	Accounts receivable	Accounts payable	Bonds and borrowings	
US Dollars	9	10	(898)	(369)	(1,248)
Euros	17	107	(1,500)	(1,469)	(2,845)
Japanese Yen	-	-	(587)	-	(587)
Total foreign currencies	26	117	(2,985)	(1,838)	(4,680)
Russian Roubles	2,004	5,075	(4,599)	(6,799)	(4,319)
Total	2,030	5,192	(7,584)	(8,637)	(8,999)

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.

Investments and non-monetary assets are not considered to give rise to 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.

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:

	2008	2007
<i>Impact on profit and loss and on equity of:</i>		
US Dollar strengthening by 30% (10% for 2007)	(1,629)	(125)
US Dollar weakening by 30% (10% for 2007)	1,629	125
Euro strengthening by 30% (10% for 2007)	(2,700)	(285)
Euro weakening by 30% (10% for 2007)	2,700	285
Japanese Yen strengthening by 30% (10% for 2007)	(1,419)	(59)
Japanese Yen weakening by 30% (10% for 2007)	1,419	59

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 quoted equity securities.

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34 Financial risk management (continued)

34.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 2008					
Fixed interest rate	3,130	10,645	4,490	-	18,265
EURIBOR based interest rates	215	260	1,685	522	2,682
LIBOR based interest rates	-	441	-	-	441
MOSPRIME based interest rates	-	1,001	500	-	1,501
Total	3,345	12,347	6,675	522	22,889
	Demand and less than 3 month	From 3 to 12 months	More than 1 year	More than 5 years	Total
31 December 2007					
Fixed interest rate	91	1,570	4,483	-	6,144
EURIBOR based interest rates	34	256	914	249	1,453
LIBOR based interest rates	368	-	-	-	368
MOSPRIME based interest rates	-	-	500	-	500
Total	493	1,826	5,897	249	8,465

At 31 December 2008, if interest rates at that date had been 100 basis points lower with all other variables held constant, the interest expense for the year would have been RR 5 lower (year ended 31 December 2007: RR 22 lower).

If interest rates had been 100 basis points higher, with all other variables held constant, the interest expense for the year would have been RR 38 higher (year ended 31 December 2007: RR 24 higher).

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

<i>In % p.a.</i>	RR	2008 US\$	Euro	RR	2007 US\$	Euro
Assets						
Cash and cash equivalents	0%-4%	-	-	0%-8%	-	-
Liabilities						
Borrowings	7%-18% MOSPRIME E +1.5%	LIBOR +1.75%	EURIBOR +0.25% to 2.375%	6.8%-8.0%, MOSPRIME +1.5%	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.

During the year ended 31 December 2008, the Group granted extended credit terms to a number of customers within the terms of existing contractual arrangements. As at 31 December 2008, the maximum credit term extended to customers of the Group was 120 days (31 December 2007: 30 days), although in most cases it did not exceed 90 days. As a result, this change has increased the level of credit risk that the Group is exposed to, although management consider that this to be a short-term impact and that credit terms available subsequent to the balance sheet date have been reduced.

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34 Financial risk management (continued)

34.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

	31 December 2008	31 December 2007
Cash and cash equivalents	899	2,030
Accounts receivable	10,644	5,192
Other receivables	269	174
Other prepayments	14	15
Finance lease receivables	93	-
Total	11,919	7,411

All of the financial assets of the Group, except for RR 6 (2007: RR 18) in shares, categorised as available for sale, are loans and receivables.

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

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

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

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

The Group's cash and cash equivalents are maintained in the top-20 Russian banks. 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 2008 or 31 December 2007.

Credit risks concentration

No single debtor of the Group accounts for more than 3% (2007: 3%) of 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 22 banks (2007: 17 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 and matching the maturity profiles of financial assets and liabilities.

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. Due to the recent changes in the economic environment, management reviews 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.

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34 Financial risk management (continued)

34.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Management considers the targeted ratios sustainable for the foreseeable future. See also Note 3.

Management believes that the Group has access to additional credit facilities if required. As of 31 December 2008, out of the credit lines opened in 2008 the unused credit facilities amounted to RR 5,721 (see Note 23) which could be utilised in operating activity in 2009 (2007: RR 1,807). As at 31 December 2008, of the available credit facilities of RR 21,550, RR 9,550 expires in January 2010 and the remainder during 2011 and 2012. Subsequent to the year end date, the credit facility of RR 9,550 with a large Russian bank was amended to a facility of RR 9,117 but extended through to 2012 (see Note 23 and Note 37).

The analysis below represents management expectations of repayment schedule of monetary assets and liabilities of the Group as of 31 December 2008 and 31 December 2007. 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 2008 and 31 December 2007.

	Demand and less than 3 months	From 3 to 12 months	More than 1 year	More than 5 years	Total
31 December 2008					
Total monetary financial assets	11,670	154	2	-	11,826
Cash and cash equivalents	899	-	-	-	899
Trade receivables	10,488	154	2	-	10,644
Other receivables	269	-	-	-	269
Other financial assets	14	-	-	-	14
Total monetary financial liabilities	(24,817)	(12,856)	(7,479)	(522)	(45,674)
Loans and bonds	(3,641)	(12,347)	(6,675)	(522)	(23,185)
Trade payables	(19,869)	(489)	(154)	-	(20,512)
Other payables	(1,307)	(20)	(650)	-	(1,977)
Future interest payments	(694)	(1,512)	(1,148)	(12)	(3,366)
Net monetary financial liabilities at 31 December 2008	(13,841)	(14,214)	(8,625)	(534)	(37,214)
31 December 2007					
Total monetary financial assets	7,409	2	-	-	7,411
Cash and cash equivalents	2,030	-	-	-	2,030
Trade receivables	5,190	2	-	-	5,192
Other receivables	174	-	-	-	174
Other financial assets	15	-	-	-	15
Total monetary financial liabilities	(6,936)	(2,984)	(6,052)	(249)	(16,221)
Loans and bonds	(665)	(1,826)	(5,897)	(249)	(8,637)
Trade payables	(4,936)	(1,158)	-	-	(6,094)
Other payables	(1,335)	-	(155)	-	(1,490)
Future interest payments	(152)	(377)	(1,289)	(189)	(2,007)
Net monetary financial liabilities at 31 December 2007	321	(3,359)	(7,341)	(438)	(10,817)

For the purposes of comparability the amount of other payables as of 31 December 2007 in the table above was changed.

The Group did not have any derivative financial instruments issued/held during the year ended 31 December 2008 or the year ended 31 December 2007.

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 2008 to be RR 37,530 (2007: RR 25,021).

34 Financial risk management (continued)

34.2 Capital risk management (continued)

The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Long-term borrowings	7,197	6,146
Short-term borrowings	15,988	2,491
Less: cash and cash equivalents	(899)	(2,030)
Net debt	22,286	6,607
Equity	15,244	18,414
Total net debt and equity	37,530	25,021
Gearing ratio	59%	26%

The Group management constantly monitors 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 was disclosed in Note 17. 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%.

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.

35 Contingencies, commitments and operating risks (continued)

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 entity.

Capital commitments. Contractual obligations to purchase, construct or develop property, plant and equipment totalled RR 1,654 at 31 December 2008 (2007: RR 942).

Covenants. Management considers that the Group is in compliance with all covenants attached to contracts entered into, including borrowing agreements with lenders, and that no breaches of contracts or defaults occurred as at 31 December 2008 or in the year ended 31 December 2008 (year ended 31 December 2007: none). No significant or special covenants were imposed on the Group during the year ended 31 December 2008 (year ended 31 December 2007: none).

Nevertheless, the Group holds long-term loan contracts that contain standard terms regarding events that may have a material adverse effect on the Group, and in such cases, the Group might be required to repay the loan on demand and earlier than the contractual maturity date.

As of the balance sheet date and the date of issuance of the financial statements, the Group had not been informed by any lender that the global economic downturn and the related impact on the Group's sales and profitability would be considered to be such an event with a material adverse effect, nor does management believe that under any circumstances the global economic downturn could be interpreted as such a trigger for a breach of such loan agreements. Management maintains a regular dialogue with all lenders and provides management information on a regular basis, typically quarterly.

Accordingly, management has not reclassified any long term borrowings as current, including where loan agreements include such clauses. In the event of any alternative interpretations being reached, the maximum impact on the Group's classification between long and short-term borrowings as at 31 December 2008 would be RR 2,194.

Subsequent to 31 December 2008, the Group has breached the requirement to provide audited consolidated financial statements within 180 days of the financial year end date. This breach will be rectified following the approval of these consolidated financial statements. Since this is a non-adjusting post balance sheet event, no changes to the classification of this loan have been made as at 31 December 2008.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. 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 enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

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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 2008		31 December 2007	
			% of total share capital	% of ordinary shares	% of total share capital	% of ordinary shares
ОАО "Sollers-Naberezhnye Chelny" (previously ОАО "Small Car Plant")	Russia	Manufacture and sale of passenger automobiles	100	100	100	100
ООО "Sollers-Elabuga" (previously ООО "Severstalavto-Elabuga")	Russia	Manufacture and sale of commercial vehicles	100	-	100	-
ООО "DC Sollers" (previously ООО «Severstalavto»)	Russia	Auto trading	100	-	100	-
ООО "Torgoviy dom Sollers" (previously ООО "Torgoviy dom Severstalauto")	Russia	Auto trading	100	-	100	-
ООО "Sollers-development" (previously ООО Severstalauto-Invest)	Russia	Auto trading	100	-	100	-
ООО "Turin-Auto"	Russia	Auto trading	100	-	100	-
ZАО "Kapital"	Russia	Rent services	100	100	100	100
ООО "Severstalauto-Kama"	Russia	Manufacture and sale of commercial vehicles	100	-	100	-
ООО "Severstalauto-Chelny"	Russia	Manufacture and sale of commercial vehicles	100	-	100	-
ООО "Severstalauto-ST"	Russia	Auto trading	100	-	100	-
ОАО "Zavolzhskiy Motor Works"	Russia	Manufacture and sale of engines for passenger automobiles, trucks and buses	82	89	79	88
ООО "RosALit"	Russia	Manufacture and sale of metals products	82	-	79	-
ООО "Zavod "Metalloform"	Russia	Manufacture and sale of metals products	82	-	79	-
ООО "Specinstrument"	Russia	Manufacture and sale of tooling equipment	82	-	79	-
ООО "ZMZ-Transservice"	Russia	Transport services	82	-	79	-
ООО "Remservis"	Russia	Repair services	82	-	79	-
ОАО "Ulyanovskiy Avtomobilny Zavod"	Russia	Manufacture and sale of passenger automobiles, light trucks and minibuses	66	68	66	68
ZАО "Sollers-Isuzu" (previously ZАО "Severstalauto-Isuzu")	Russia	Manufacture and sale of commercial vehicles	66	66	66	66
ООО "UAZ-Metallurgia"	Russia	Manufacture and sale of metal products	66	-	66	-
ООО "UAZ-Autotrans"	Russia	Transport services	66	-	66	-
ООО "UAZ-Tekhinstrument"	Russia	Manufacture and sale of tooling equipment	66	-	66	-

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36 Principal subsidiaries (continued)

Entity	Country of incorporation	Activity	31 December 2008		31 December 2007	
			% of total share capital	% of ordinary shares	% of total share capital	% of ordinary shares
Companies acquired during the year ended 31 December 2008:						
OOO "Autocentre na Kolomyazhskom"	Russia	Auto trading	100	-	-	-
OOO "Transportnik-12"	Russia	Auto trading	100	-	-	-
OOO "Saport"	Russia	Auto trading	100	-	-	-
Newly established companies:						
OOO "Sollers-Finance"	Russia	Leasing	100	-	-	-
OOO "Severstalauto-FPT"	Russia	Engine production	100	-	-	-
OOO "Severstalauto-Stola"	Russia	Stamping	100	-	-	-
		Manufacture and sale of passenger automobiles				
OOO "Automobiles of Italy"	Russia	Transportation	100	-	-	-
Aviacion Inc.	BVI	Logistics	100	-	-	-
Sollers Korea Ltd.	Korea		100	-	-	-

For information on the changes in the Group's ownership during the year, refer to Note 9.

OOO "ZMZ-Transservice"; OOO "RosALit"; OOO "Zavod "Metalloform" and OOO "Specinstrument" are 100% owned by the Company's subsidiary OAO "ZMZ".

OOO "UAZ-Autotrans"; OOO "UAZ-Tekhinstrument" and OOO "UAZ-Metallurgia" are 100% owned by the Company's subsidiary OAO "UAZ".

Shares in OOO "ZMZ-Transservice"; OOO "UAZ-Metallurgia"; OOO "UAZ-Autotrans"; OOO "UAZ-Tekhinstrument"; OOO "RosALit"; OOO "Zavod "Metalloform"; OOO "Specinstrument"; OOO "Sollers-Elabuga"; OOO "DC Sollers"; OOO "Severstalauto-Kama"; OOO "Trade house Sollers"; OOO "Autocentre na Kolomyazhskom"; OOO "transportnik-12" and OOO "Saport" represent stockholders' stakes and not the actual number of shares held.

37 Events after the balance sheet date

37.1 New subsidiaries and branches

In April 2009, a new subsidiary OOO "Sollers-Partner" was established. The company is intended for providing corporate clients with car service and operating leasing.

In May 2009, a new subsidiary OOO "Sollers-Dal'niy Vostok" was established. The company is intended for manufacture and sale of passenger cars and trucks.

In July 2009, a new subsidiary OOO "Sollers-Shtamp" was established. The company is intended for stamping production.

Sollers-Finance Leasing Company opened branches in Novosibirsk and Yekaterinburg during the first quarter of 2009.

37.2 Government support

In April 2009, the Group signed a contract with its major customer as a part of a framework Government contract. The agreement includes the purchase of engines by the customer from the Group.

Following a number of tenders during 2009, the Group has been successful in securing orders for providing vehicles to the Government in the second half of 2009. Contracts have been concluded to cover the majority of these orders, and management anticipate that in total these orders and other direct sales will account for twenty percent of the total annual sales of the Group during the year ending 31 December 2009.

The Group has been included on a list of entities to be provided with financial support by the Government. In April 2009, the Group received a protocol from the Ministry of Finance setting out the support. Under the terms of this support, the Group is able to receive RR 10,000 of loan finance secured by RR 5,000 of direct Government guarantees and RR 5,000 supported by assets pledged by the Group. The Group has agreed to fully utilise this support package to secure financing provided by banks, and the first loan agreement under this arrangement was signed in August 2009 for a total of RR 1,700 including RR 850 of direct Government guarantees.

37 Events after the balance sheet date (continued)

37.2 Government support (continued)

As part of an initiative supported by the Government, the Group has established two new subsidiaries, OOO "Sollers-Dal'niy Vostok" and OOO "Sollers-Shtamp". In order to finance the activities of these subsidiaries, including the establishment of a production capability in the Far East of the Russian Federation, in August 2009, the Group entered into long-term loan agreements with a large Russian bank for a period of six years for RR 5,000. These borrowings bear a market interest rate and are secured through the pledge of fixed assets and land lease rights. This project is expected to be self-financing and will not require funding from other existing finance sources of the Group.

37.3 Financing

As detailed in Note 23, the Group had short-term borrowings of RR 15,988 as at 31 December 2008. Subsequent to the year end, the Group has entered into a number of new loan agreements, including the prolongation of existing agreements. This included the first instalment of RR 1,700 under the Government financing programme. These borrowings are with major Russian and international banks.

As at 1 September 2009, of the Group's total net borrowings RR 7,888 represented long-term financing available with a maturity in December 2010 or later. In addition, at the date of approval of the financial statements, the Group had a further RR 19,217 available under agreed credit facilities in place with two large Russian banks available until 2011 and 2012.

Included in the above is the extension of the existing loans with a large Russian bank agreed on 2 September 2009. The approved credit facility with this bank of RR 9,117 is available through until 2012. A total of RR 5,000 of this amount is to be secured through the Government financing programme. The Group is in the process of finalising the new borrowing agreements with the bank, including the prolongation of existing loans.

All borrowings bear market interest rates and a number are secured through the pledge of fixed assets and finished goods and Government guarantees under the Government financing programme.

The Group has agreed with two of its principal suppliers for the rescheduling of trade payables due. For one supplier, the total payable balance of RR 5,446 as at 31 December 2008 was rescheduled to be paid during the year ending 31 December 2009, with an additional late payment interest charge of RR 137.

Management are evaluating the establishment of new joint venture arrangements with major suppliers for the mutual benefit of the suppliers and the Group going forward. This is expected to result in further positive improvements in the Group's financial position.

For a further supplier with a trade payable balance as at 31 December 2008 of RR 4,730, the timing of making payments of the outstanding amount due as at 30 June 2009 of RR 3,866 was rescheduled, with RR 99 to be repaid by 31 December 2009 and the remainder to be paid in the years ending 31 December 2010 to 31 December 2012.

37.4 Operating environment

The operating environment of the Group is set out in the Note 1. Since December 2008, the financial situation globally has continued to deteriorate. The Russian market has experienced significant declines in the level of manufacturing, particularly in the automotive sector, and companies are continuing to announce either reductions in the staff working week, pay freezes or significant job losses. As a result, industrial and consumer demand remains low, with sales in the automotive sector significantly reduced compared to recent years.

Despite the challenging market conditions, based on the re-financing agreements obtained, other arrangements put in place and a continued focus on achieving improvements in working capital requirements, management believe that the Group will have access to sufficient finance to cover its obligations as and when they fall due for the foreseeable future. See Note 3.1.