SOLLERS GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR’S REPORT

31 DECEMBER 2014

CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of OJSC "Sollers":

We have audited the accompanying consolidated financial statements of OJSC "SOLLERS" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of comprehensive income, , changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

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Translation note: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

10 April 2015

Moscow, Russian Federation

E. G. Lukovkina, Director (licence no. №01-000264),

ZAO PricewaterhouseCoopers Audit

Audited entity: OJSC "Sollers"

State registration certificate № 207, issued by Cherepovets

Chamber on March, 14 2002

Certificate of inclusion in the Unified State Register of Legal Entities issued on October, 14 2002 under registration № 1023501244524

123317, Testovskaya str. 10, Moscow
The Russian Federation

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Translation note: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

(in millions of Russian Roubles)

		RR million		Supplementary information US$ million (Note 2)	
	Note	At 31 December 2014	At 31 December 2013	At 31 December 2014	At 31 December 2013
ASSETS					
Non-current assets					
Property, plant and equipment	7	9,602	9,451	171	289
Goodwill	8	1,484	1,484	26	45
Development costs	9	434	361	8	11
Other intangible assets	10	149	167	3	5
Deferred income tax assets	27	616	196	11	6
Investments in associates and joint ventures	11	9,756	14,947	173	456
Other financial assets		51	20	1	1
Other non-current assets	12	869	515	15	16
Total non-current assets		**22,961**	**27,141**	**408**	**829**
Current assets					
Inventories	13	5,675	4,526	100	138
Trade and other receivables	14	6,050	6,894	108	211
Other current assets		10	40	-	1
Cash and cash equivalents	15	6,484	6,020	115	184
Total current assets		**18,219**	**17,480**	**323**	**534**
TOTAL ASSETS		**41,180**	**44,621**	**731**	**1,363**
LIABILITIES AND EQUITY					
Equity					
Share capital	16	530	530	9	16
Share premium	16	4,538	4,538	81	139
Additional paid-in capital	16	1,438	1,438	26	44
Retained earnings	16	5,862	9,187	104	280
Equity attributable to the Company's owners		**12,368**	**15,693**	**220**	**479**
Non-controlling interest	32	1,092	5,083	19	155
Total equity		**13,460**	**20,776**	**239**	**634**
Liabilities					
Non-current liabilities					
Long-term borrowings	17	3,396	5,716	60	175
Deferred income tax liabilities	27	947	514	17	16
Other long term liabilities		2	2	-	-
Total non-current liabilities		**4,345**	**6,232**	**77**	**191**
Current liabilities					
Trade accounts payable		9,560	10,115	170	309
Advances received and other payables	18	2,741	1,362	48	42
Taxes payable	19	2,034	1,376	36	42
Warranty and other provisions	20	526	965	10	29
Short-term borrowings	17	8,514	3,795	151	116
Total current liabilities		**23,375**	**17,613**	**415**	**538**
Total liabilities		**27,720**	**23,845**	**492**	**729**
TOTAL LIABILITIES AND EQUITY		**41,180**	**44,621**	**731**	**1,363**

Approved for issue and signed on behalf of the Board of Directors on 9 April 2015.

General Director
V.A. Shvetsov

Chief Financial Officer
N.A. Sobolev

		RR million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	**2014**	**2013**	**2014**	**2013**
Sales	21	47,907	61,317	1,247	1,925
Cost of sales	22	(39,710)	(49,878)	(1,034)	(1,566)
Gross profit		**8,197**	**11,439**	**213**	**359**
Distribution costs	23	(2,156)	(2,554)	(56)	(80)
General and administrative expenses	24	(3,162)	(4,167)	(82)	(130)
Other operating income, net	25	682	523	18	16
Operating profit		**3,561**	**5,241**	**93**	**165**
Finance costs, net	26	(1,948)	(1,144)	(51)	(36)
Share of result of joint ventures and associates	11	(4,825)	574	(126)	18
(Loss)/profit before income tax		**(3,212)**	**4,671**	**(84)**	**147**
Income tax expense	27	(524)	(1,093)	(13)	(34)
(Loss)/profit for the year		**(3,736)**	**3,578**	**(97)**	**113**
Total comprehensive income for the year		**(3,736)**	**3,578**	**(97)**	**113**
(Loss)/profit is attributable to:					
Owners of the Company		(3,739)	3,625	(97)	114
Non-controlling interest	32	3	(47)	-	(1)
Profit for the year		**(3,736)**	**3,578**	**(97)**	**113**
Total comprehensive income is attributable to:					
Owners of the Company		(3,739)	3,625	(97)	114
Non-controlling interest		3	(47)	-	(1)
Total comprehensive income for the year		**(3,736)**	**3,578**	**(97)**	**113**
Weighted average number of shares outstanding during the period (in thousands of shares) – basic	28	34,270	34,270	34,270	34,270
Weighted average number of shares outstanding during the period (thousands) - diluted	28	34,270	34,281	34,270	34,281
(Loss)/profit per share (in RR and US$) – basic	28	(109.10)	105.78	(2.84)	3.32
Profit per share (in RR and US$) - diluted	28	(109.10)	105.75	(2.84)	3.32

Other than as presented above, the Group did not have in year 2014 any items to be recorded as other comprehensive income in the statement of comprehensive income (2013: no items).

(in millions of Russian Roubles)

	Note	RR million Year ended 31 December 2014	RR million Year ended 31 December 2013	Supplementary information US$ million (Note 2) Year ended 31 December 2014	Supplementary information US$ million (Note 2) Year ended 31 December 2013
Cash flows from operating activities					
(Loss)/profit before income tax		**(3,212)**	**4,671**	**(84)**	**147**
Adjustments for:					
Depreciation		804	985	21	31
Amortisation		190	161	5	5
Share options		-	8	-	-
Provision for impairment of receivables and write-offs		89	2	2	-
Provision for inventories	13	303	19	8	1
Other provision movements		(301)	(153)	(8)	(5)
Loss on disposal of other non-current assets		1	-	-	-
Amortisation of Government grants		-	(29)	-	(1)
Development expenses write-off		7	-	-	-
Net gain on disposal of property, plant and equipment		(566)	(563)	(15)	(18)
Gain on disposal of investments		(229)	31	(6)	1
Share of result of JV and associates	11	4,825	(574)	126	(18)
Finance costs, net		1,027	1,003	27	32
Operating cash flows before working capital changes		**2,938**	**5,561**	**76**	**175**
Increase in inventories		(1,459)	(91)	(38)	(3)
Decrease in trade and other receivables		230	3,210	6	101
Decrease in other current assets		39	192	1	6
Increase/(decrease) in trade accounts payable, advances received and other payables		926	(499)	24	(16)
Increase in taxes payable		924	262	24	8
Cash provided from operations		**3,598**	**8,635**	**93**	**271**
Income taxes paid		(815)	(1,220)	(21)	(38)
Interest paid		(912)	(1,252)	(24)	(39)
Net cash from operating activities		**1,871**	**6,163**	**48**	**194**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(1,386)	(1,162)	(36)	(36)
Proceeds from the sale of property, plant and equipment and advances received		1,175	2,072	31	65
Development costs	9	(194)	(88)	(5)	(3)
Purchase of other non-current assets		(61)	(25)	(2)	(1)
Investment in joint venture	11	-	(100)	-	(3)
Dividends received from participation in joint venture		340	22	9	1
Proceeds from sale of subsidiary net of cash disposed		(56)	41	(2)	1
Net cash (used in)/from investing activities		**(182)**	**760**	**(5)**	**24**
Cash flows from financing activities					
Proceeds from borrowings		15,169	15,141	395	475
Repayment of borrowings		(12,799)	(15,943)	(333)	(501)
Dividends paid to the Group's shareholders		(1,815)	(1,761)	(47)	(55)
Change in non-controlling interest in subsidiaries		(1,780)	(900)	(46)	(28)
Net cash used in financing activities		**(1,225)**	**(3,463)**	**(31)**	**(109)**
Net increase in cash and cash equivalents		**464**	**3,460**	**12**	**109**
Effect of exchange rate changes on cash and cash equivalents		-	-	(81)	(9)
Cash and cash equivalents at the beginning of the year		**6,020**	**2,560**	**184**	**84**
Cash and cash equivalents at the end of the year		**6,484**	**6,020**	**115**	**184**

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

(in millions of Russian Roubles)

	Note	Share capital	Share options	Share premium	Additional paid-in-capital	Retained earnings	Total Attributable to equity holders of the Group	Non-controlling interest	Total equity
Balance at 1 January 2013		**530**	**50**	**4,480**	**1,438**	**6,340**	**12,838**	**7,042**	**19,880**
Profit for the year		-	-	-	-	3,625	**3,625**	(47)	**3,578**
Total comprehensive income for 2013		**-**	**-**	**-**	**-**	**3,625**	**3,625**	**(47)**	**3,578**
Change of interest in subsidiary	32	-	-	-	-	774	**774**	(774)	**-**
Purchase of non-controlling interest in subsidiary	32	-	-	-	-	238	**238**	(1,138)	**(900)**
Dividends	16	-	-	-	-	(1,790)	**(1,790)**	-	**(1,790)**
Share options	6, 16	-	(50)	58	-	-	**8**	-	**8**
Balance at 31 December 2013		**530**	**-**	**4,538**	**1,438**	**9,187**	**15,693**	**5,083**	**20,776**
Loss for the year		-	-	-	-	(3,739)	**(3,739)**	3	**(3,736)**
Total comprehensive income for 2014		**-**	**-**	**-**	**-**	**(3,739)**	**(3,739)**	**3**	**(3,736)**
Change of interest in subsidiary	32	-	-	-	-	1,275	**1,275**	(1,275)	**-**
Purchase of non-controlling interest in subsidiary	32	-	-	-	-	939	**939**	(2,719)	**(1,780)**
Dividends	16	-	-	-	-	(1,800)	**(1,800)**	-	**(1,800)**
Balance at 31 December 2014		**530**	**-**	**4,538**	**1,438**	**5,862**	**12,368**	**1,092**	**13,460**

1. The Sollers Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for Sollers OJSC, previously called OAO “Severstal-auto”, (the “Company”) and its subsidiaries (the “Group”). The Group adopted its new name “Sollers” in 2008.

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

Since February 2013 the Group relocated SsangYong SUVs’ production from the Group’s subsidiary site to JV Mazda-Sollers’ production facilities. The Group continues exclusive distribution of the SsangYong SUVs.

In 2011 the Group established the joint venture with Ford. Joint venture’s production assets are located in Vsevolozhsk in the St.Petersburg region, Naberezhnye Chelny and Elabuga in the Republic of Tatarstan. Ford-Sollers joint venture is exclusive manufacturer and distributor of Ford branded vehicles in Russia.

By the end of 2011 the Group established the joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok. Toyota vehicles production started in February 2013.

During the second half 2012 the Group finalized the foundation of the joint venture with Mazda Motor Corporation in Vladivostok also for production of Mazda SUVs and passenger cars. Mazda-Sollers joint venture launched the production of Mazda SUVs in September 2012 and of passenger cars in April 2013.

In August 2012 the Group disposed 16% stake in joint venture Sollers-Isuzu and recognised the remained investment as 50%-50% joint venture. The Sollers-Isuzu production of lights-duty trucks is located in Ulyanovsk.

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

The immediate parent company is ERFIX LLC. The ultimate controlling party of the Group is Vadim Shvetsov who is the principal shareholder of the Company.

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

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

These consolidated financial statements were approved for issue by the General Director and Chief Financial Officer on 9 April 2015.

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 31).

During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the CBRF exchange rate increased from RR 32.7292 per USD at the beginning of the reporting period to RR 56.2584 per USD at the end of the reporting period;

- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;

1. The Sollers Group and its operations (continued)

Operating Environment of the Group (continued)

- the RTS stock exchange index ranged between 1 443 and 791;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBRF exchange rate changed from RR 56,2584 per USD to RR 54,0270 per USD by 9 April 2015;
- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 14.0% p.a. by 9 April 2015;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. Moody's Investors Service and Fitch Ratings still have Russia as investment grade. However, all these rating agencies indicated a negative outlook, meaning further downgrades are possible.
- the RTS stock exchange index ranged between 791 and 986 by 9 April 2015; and
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

Given macroeconomic factors resulted in certain operational cost reduction measures implemented by management in order to maintain short to medium-term profitability. Management is confident that long-term business plans of the joint ventures are sustainable.

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

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

2. Basis of preparation and significant accounting policies

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

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

2.1 Presentation currency

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

2.2 Supplementary information

US Dollar ("US$") amounts shown in the consolidated financial statements are translated from the Russian Rouble ("RR") amounts as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2014 of RR 56.2584 = US$1 (31 December 2013: RR 32.7292 = US$1). The profit or loss statement and cash flow statement have been translated at the average exchange rates during the years ended 31 December 2014 of RR 38.4217 = US$1 (2013: RR 31.8478 = US$1). The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group.

2.3 Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value. Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

2 Basis of preparation and significant accounting policies (continued)

2.3 Consolidated financial statements (continued)

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

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

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

2.4 Purchases and sales of non-controlling interests

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

2.5 Purchases of subsidiaries from parties under common control

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

2.6 Associates and joint ventures

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

However, 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.

2 Basis of preparation and significant accounting policies (continued)

2.6 Associates and joint ventures (continued)

Joint ventures are those joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. When a joint venture is created through loss of control of a subsidiary, the initial carrying amount is recognised at fair value. Subsequently, they are accounted for using the equity method of accounting. The share of joint ventures' results is recognised in the consolidated financial statements from the date that joint control commences until the date at which it ceases.

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

2.7 Disposals of subsidiaries, associates or joint ventures

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

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

2.8 Financial instruments – key measurement terms

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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.

2 Basis of preparation and significant accounting policies (continued)

2.8 Financial instruments – key measurement terms (contined)

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 the 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 the related items in the statement of financial position.

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.

2.9 Classification of financial assets

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

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

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

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

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

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

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2 Basis of preparation and significant accounting policies (continued)

2.10 Classification of financial liabilities

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

2.11 Initial recognition of financial instruments

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

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

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

2.12 Derecognition of financial assets

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

2.13 Valuation of investments

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

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

(in millions of Russian Roubles – RR)

2 Basis of preparation and significant accounting policies (continued)

2.13 Valuation of investments (continued)

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

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

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

2.14 Property, plant and equipment

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

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

At each reporting date, management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

2.15 Depreciation

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.16 Operating leases

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

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

2.17 Finance lease receivables

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

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

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

2.18 Share based compensation

Until 16 May 2013 the Group operated equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated profit or loss for the year, 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 Basis of preparation and significant accounting policies (continued)

2.19 Goodwill

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

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

2.20 Other intangible assets

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

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

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

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

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

2.21 Inventories

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

2.22 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different periods, in other comprehensive income or 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.

2 Basis of preparation and significant accounting policies (continued)

2.22 Income taxes (continued)

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

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

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

2.23 Trade and other receivables

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

2.24 Impairment of financial assets carried at amortised cost

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

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

2 Basis of preparation and significant accounting policies (continued)

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

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 profit or loss for the year.

2.25 Prepayments

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

2.26 Cash and cash equivalents

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

2.27 Share capital

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

2.28 Treasury shares

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

2 Basis of preparation and significant accounting policies (continued)

2.29 Dividends

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

2.30 Value added tax

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

2.31 Borrowings

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

2.32 Government grants and subsidies

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

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

In 2014 started the government programm of vehicle park renewal. Government subsidies partly compensate production costs and general expenses of the Group (notes 22 and 24).

2.33 Trade and other payables

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

2.34 Provisions for liabilities and charges

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

2 Basis of preparation and significant accounting policies (continued)

2.35 Foreign currency translation

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

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

At 31 December 2014, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 56.2584, Euro 1 = RR 68.3427 (2013: US$ 1 = RR 32.7292, Euro 1 = RR 44.9699). The principal average rate of exchange used for translating income and expenses was US$ 1 = RR 38.4217 (2013: US$ 1 = RR 31.8478).

2.36 Revenue recognition

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

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

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

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

2 Basis of preparation and significant accounting policies (continued)

2.37 Research and development costs

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

2.38 Employee benefits

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

Labour expenses include state pension contributions of RR 1,576 for the year ended 31 December 2014 (2012: RR 1,795). In addition, payments under share based compensation included in labour expenses amounted to nil in the year ended 31 December 2014 (2013: RR 8), (note 6).

2.39 Earnings per share

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

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

2.40 Offsetting

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

2.41 Segment reporting

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

3.1 Remaining useful life of property, plant and equipment

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

3.2 Impairment of assets (including goodwill)

Management have used judgement when evaluating any indicators of potential impairment of the Group's non-current assets (including property, plant and equipment, intangibles and goodwill), or, when testing for impairment as at 31 December 2014 as required.

Management have determined that there are two cash-generating units ("CGU") within the Group: OAO "UAZ" and OAO "ZMZ".

During the year 2014 there was a slowdown of 10% in the Russian automotive market. The total market sales amounted to 2.5 mln. units. The slowdown was driven mostly by macroeconomic factors, such as an increase in interest rates together with negative changes in foreign currency exchange rates escalated at the end of the year.

Market analyst researches forecast further decline for 2015 automotive market in general with major decreases in foreign branded vehicles segments due to unfavourable changes in foreign currencies exchange rates, increasing prices for the cars and higher interest rates for autoloans. However, the Group's production and sales volumes are planned to increase primarily due to opportunity to increase its market share following re-positioning of key players on the market, as well as increased export sales focus, bringing in profitable growth perspectives based on the primarily rouble based cost of production at the groups plants.

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

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

Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3% for both CGUs (31 December 2013: 3% for both CGUs); these growth rates do not exceed the forecasted inflation rates as well as account for specific Groups's opportunities in the current market environment described above. The discount rate used of 17% for OAO "ZMZ" and 17% for OAO "UAZ" (31 December 2013: 15% and 15% respectively) are pre-tax and reflect specific risks related to the relevant CGU.

The inherence of no impairment of OAO "UAZ" CGU is sensitive to the level of future revenues. With all other assumptions held constant, a reduction in revenues by 25% in each future period would not result in a need to reduce the carrying value of goodwill by RR 693.

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

3.2 Impairment of assets (including goodwill) (continued)

The inherence of no impairment of OAO "ZMZ" CGU is sensitive to the level of future revenues. With all other assumptions held constant, a reduction in revenues by 10% in each future period would result in a need to reduce the carrying value of goodwill by RR 277 and other non-current assets in aggregate by RR 345.

The fair value of Ford Sollers JV have been tested by management for impairment using value-in-use calculations. The calculations use business plans and cash flows projections developed and approved by the management. The discounting rate used estimated based on weighted average cost of capital, which is post-tax and reflects specific risks related to the CGU and time value of money.

The cash flow projections cover an initial five-year period. Cash flows beyond five-year period are extrapolated using basic assumptions such as profit before tax levels, expected cash flows growth rate and discounting rate specific for the JV. Management determined PBT levels on the basis of the past performance and it's best estimations as well as its expectations for the market development. The business plan includes investments in localisation of component manufacturing and new product launches, which in aggregate will improve the operating efficiency of the joint venture.

Other major assumptions included in the model are the company's specific Debt/Equity ratio and the effective interest rate on the bank financing. Those two factors significantly affect the discounting rate used – WACC of 12% which is lower than market average due to the company's high level of Debt/Equity ratio and the low level of the effective interest rate which is subsidised by the government. Such assumptions are based on the approved business plan of the company and financing agreed under the plan.

The inherence of no impairment of the investment in Ford Sollers JV is sensitive to the level of WACC. With all other assumptions held constant, an increase of WACC level of 1.5% in each future period would result in a need to reduce the carrying value of the investment by RR 1,984.

3.3 Tax legislation and deferred income tax recognition

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

Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on taxable profits earned in the past three years; the possibility of challenges to the deductibility of expenses; the time period available in order to utilise the losses and expectations of future taxable income that are believed to be reasonable under the circumstances. For details of the deferred tax assets recognised as at 31 December 2014, see Note 27. The balance includes RR 616 (2013: RR 196). Management expects the losses to be utilised in the next few years based on current profit forecasts.

4. Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2014:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The amended Standard did not have any material impact on the Group’s consolidated financial statements.

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

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amendment is not relevant to the Group.

IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The amended Standard did not have any material impact on the Group's consolidated financial statements.

Recoverable Amount Disclosures for Non-financial Assets – Amendments to IAS 36 (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standards did not have any material impact on the Group's consolidated financial statements other than application of the relief from disclosure of certain information in the notes to the financial statements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended Standard did not have any material impact on the Group's consolidated financial statements.

5. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later and which the Group has not early adopted.

Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

5. New accounting pronouncements (continued)

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Group is considering the implications of the amendment and its impact on the Group.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Group is considering the implications of the amendment and its impact on the Group.

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is considering the implications of the amendment and its impact on the Group.

5. New accounting pronouncements (continued)

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is considering the implications of the amendment and its impact on the Group.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is considering the implications of the amendment and its impact on the Group.

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

The stated bellow pronouncements cannot be early adopted in consolidated financial statements filed in accordance with Federal Law "About consolidated financial statment":

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

5. New accounting pronouncements (continued)

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is considering the implications of the amendment and its impact on the Group.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is considering the implications of the amendment and its impact on the Group.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards.

IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

The Group is considering the implications of the amendment and its impact on the Group.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is considering the implications of the amendment and its impact on the Group.

(in millions of Russian Roubles – RR)

5. New accounting pronouncements (continued)

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Group is considering the implications of the amendment and its impact on the Group.

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 2014 and 31 December 2013 consist of the following:

Balances

Nature of relationship	**Parent company**	**Other related parties**	**Joint ventures**	**Total**
As at 31 December 2014				
Accounts receivable	-	45	23	68
Trade and other accounts payable	-	370	3,688	4,058
As at 31 December 2013				
Accounts receivable	-	-	539	539
Trade and other accounts payable	-	2	5,708	5,710

Transactions with related parties of the Group for the years ended 31 December 2013 and 31 December 2012 consist of the following:

Transactions

Nature of relationship	**Parent company**	**Other related parties**	**Joint ventures**	**Total**
Year ended 31 December 2014				
Sales of vehicles and components	-	-	179	179
Sale of non-current assets and services	-	3	137	140
Purchases	-	117	14,015	14,132
Dividends paid	969	-	-	969
Year ended 31 December 2013				
Sales of vehicles and components	-	-	207	207
Sale of non-current assets and services	-	931	2,975	3,906
Purchases	-	342	18,872	19,214
Dividends paid	920	-	-	920

(in millions of Russian Roubles – RR)

6. Balances and transactions with related parties (continued)

6.2 Key management compensation

The compensation paid to the nine members of key management (year ended 31 December 2013: nine people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Each director receives a fee for serving in that capacity and is reimbursed reasonable expenses in conjunction with their duties. No additional fees, compensation or allowances are paid.

Total key management compensation included in expenses in the consolidated profit or loss for the year ended 31 December 2014 comprises:

- short-term employee benefits amounting to RR 716 (2013: RR 670); and
- expenses recognised under equity-settled, share based compensation amounting to nil (2013: RR 8).

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

On 16 May 2013 share option programme for the key management was ceased. All expenses related to share options were recognised immediately with the corresponding change in equity. The compensation for termination of the option programme amounted to RR 40 and recognised in labour costs of the reporting period.

7. Property, plant and equipment

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

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2013	**7,072**	**8,709**	**2,684**	**1,090**	**19,555**
Additions	-	-	-	1,725	1,725
Disposals	(1,650)	(422)	(239)	(985)	(3,296)
Transfers	876	198	266	(1,340)	-
Balance at 31 December 2013	**6,298**	**8,485**	**2,711**	**490**	**17,984**
Additions	-	-	-	1,400	1,400
Disposals	(412)	(228)	(163)	(50)	(853)
Transfers	122	514	292	(928)	-
Balance at 31 December 2014	**6,008**	**8,771**	**2,840**	**912**	**18,531**
Accumulated depreciation					
Balance at 1 January 2013	**(2,069)**	**(4,208)**	**(1,739)**	**-**	**(8,016)**
Depreciation expense for year	(172)	(383)	(384)	-	(939)
Disposals	104	116	202	-	422
Balance at 31 December 2013	**(2,137)**	**(4,475)**	**(1,921)**	**-**	**(8,533)**
Depreciation expense for year	(140)	(375)	(289)	-	(804)
Disposals	114	161	133	-	408
Balance at 31 December 2014	**(2,163)**	**(4,689)**	**(2,077)**	**-**	**(8,929)**
Net book value					
Balance at 31 December 2013	**4,161**	**4,010**	**790**	**490**	**9,451**
Balance at 31 December 2014	**3,845**	**4,082**	**763**	**912**	**9,602**

(in millions of Russian Roubles – RR)

7. Property, plant and equipment (continued)

As at 31 December 2014, 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 2,310 (31 December 2013: RR 2,790). See Note 17.

Construction in progress consists mainly of equipment. Upon completion, assets are transferred to plant and equipment. During the year ended 31 December 2014, the Group capitalised borrowing costs of RR 56 (2013: RR 36) as part of the cost of the qualifying assets (see Note 2.14). The annual capitalisation rate was 9.9% (2013: 11.7%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2014, the cost of the land amounted to RR 635 (2013: RR 678).

8. Goodwill

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

	31 December 2014	**31 December 2013**
OAO “UAZ”	1,207	1,207
OAO “ZMZ”	277	277
Total goodwill	**1,484**	**1,484**

Impairment tests for goodwill

Management have tested goodwill for impairment at 31 December 2014. Goodwill is allocated to two of the Group’s CGUs: OAO “UAZ” and OAO “ZMZ”. See details of impairment testing in Note 3.2.

As a result of the assessment performed by management, no impairment loss has been identified as at 31 December 2014 (31 December 2013: nil).

9. Development costs

Following an assessment of future economic benefits to the Group for each individual project, as at 31 December 2014, RR 7 of development costs were written off (31 December 2013: RR 3). Management do not consider that the write-off would be materially different in the event of applying reasonable changes to the underlying assumptions used in reaching this conclusion.

	31 December 2014	**31 December 2013**
Cost		
Balance at the beginning of the year	1,568	1,479
Additions	194	92
Write-off	(7)	(3)
Balance at the end of the year	**1,755**	**1,568**
Accumulated amortisation		
Balance at the beginning of the year	(1,207)	(1,086)
Amortisation charge	(114)	(121)
Write-off	-	-
Balance at the end of the year	**(1,321)**	**(1,207)**
Net book value		
Balance at the end of the year	**434**	**361**

(in millions of Russian Roubles – RR)

9. Development costs (continued)

Breakdown of development costs

	31 December 2014	31 December 2013
Development of new off-road vehicle (UAZ Patriot)	156	26
Development of Euro-4 engine for UAZ	36	51
Development of new light commercial vehicle (UAZ-2360)	9	3
Improvement of selected vehicle component parts	66	65
Improvement of vehicles and engines to satisfy Euro-2 requirements	-	2
Vehicles with ABS	-	7
Improvement of vehicles and engines to satisfy Euro-4 requirements	64	96
Other	103	111
Total development costs	**434**	**361**

10. Other intangible assets

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

	31 December 20134	31 December 2013
Cost		
Balance at the beginning of the year	584	559
Additions	61	25
Disposals	(5)	-
Balance at the end of the year	**640**	**584**
Accumulated amortisation		
Balance at the beginning of the year	(417)	(377)
Amortisation charge	(76)	(40)
Disposals	2	-
Balance at the end of the year	**(491)**	**(417)**
Net book value		
Balance at the end of the year	**149**	**167**

11. Investments in joint ventures and associates

Investments in joint ventures and associates are presented by followings assets:

	31 December 2014	31 December 2013
Ford-Sollers JV	6,973	12,438
Mazda-Sollers JV	1,015	961
Sollers-Isuzu JV	1,036	887
Sollers-Bussan JV	282	213
Sollers-Finance JV	450	414
DaeWon-Sollers (previously DaeWon-SeverstalAuto Elabuga)	-	34
Total	**9,756**	**14,947**

(in millions of Russian Roubles – RR)

11. Investments in joint ventures and associates (continued)

The table below summarises the movements in the carrying amount of the Group's investment in joint ventures and associates.

	31 December 2014	31 December 2013
Carrying amount at 1 January	**14,947**	**14,492**
Share of profit of joint venture and associates	(4,825)	574
Unrealised profit from sales to joint venture	10	(197)
Cash contribution to joint ventures	-	100
Associates disposal due to liquidation	(36)	-
Dividends received from joint venture	(340)	(22)
	9,756	**14,947**

Sollers-Finance JV

In November 2010, the Group established a joint venture with a bank for the development of leasing services and contributed OOO "Sollers-Finance", a previously wholly owned subsidiary, to the joint venture. During the year ended 31 December 2014 the dividends of RR 40 were received from the Sollers-Finance JV (2013: RR 22).

Sollers-Isuzu JV

During 2013 the additional shares issue was performed by the joint venture. In December 2013 the Group paid its contribution amounted to RR 100. The JV structure remained 50%-50%.

In 2012 the Group disposed of its 16% stake of ZAO Sollers-Isuzu to the other venture and the Group's share declined to 50%.

Mazda-Sollers JV

In August 2012 the Group paid its contribution to share capital of joint venture with Mazda Motor Co in amount of RR 750 and finalized the foundation of 50%-50% joint venture with Mazda Motor Corporation. The production of Mazda SUVs and passenger cars was launched in September 2012.

The Group has pledged it's share in OOO "DC SanYong" as a collateral for working capital facility related to SsangYong business at Mazda-Sollers JV.

Sollers-Bussan JV

By the end of 2011 the Group established 50%-50% joint venture with Japanese Mitsui&Co., Ltd located in Vladivostok, where Toyota vehicles are produced.

During the year ended 31 December 2014 the dividends of RR 300 were received from the Sollers-Bussan JV (2013: dividends were not declared and paid).

(in millions of Russian Roubles – RR)

11. Investments in joint ventures and associates (continued)

Ford-Sollers JV

In February 2011, the Group announced cancellation of the alliance with FIAT SPA and the signing of Memorandum of understanding to establish a new joint venture in Russia with Ford. In May 2011 Sollers and Ford signed an Agreement to establish a joint venture for exclusive production and distribution of Ford vehicles in the Russian Federation.

On 1 October 2011 the Group completed formation of 50%-50% Ford-Sollers JV and the commencement of the joint venture was announced. Ford Sollers JV manufactures a range of Ford passenger cars and light commercial vehicles in the St. Petersburg region and in the Republic of Tatarstan. The project implies development of large-scale production facilities with a high level of localization as well as maintaining of R&D activities.

At 31 December 2014 the Ford-Sollers JV has contractual capital expenditure commitments in respect of property, plant and equipment amounted to RR 9,568 (2013: RR 12,490) and operating lease commitments for RR 439 (2013: RR 298).

On 31 March 2015 the Group and Ford Motor Company agreed on certain changes to the joint venture structure and shareholders agreement to support the Ford Sollers business in the near term and provide a platform for future growth. Under these agreements, Ford Motor Company will provide additional financial support to Ford Sollers and will obtain a controlling interest in the joint venture through the acquisition of preferred shares. Ford Motor Company and the Group will each retain 50 percent of the ordinary shares in the joint venture. In addition the agreements provide for certain future rights for the partners to redeem Sollers 50% interest in the joint venture at a minimum amount valued at USD 135 mln. payable at the date of redemption.

The financing for the joint ventures Mazda-Sollers, Sollers-Bussan and Ford-Sollers have been agreed and obtained from Vnesheconombank (further “VEB”). The borrowings are secured by joint ventures’ property, plant and equipment. Additionally the Group together with the co-investors Mazda Motor Co, Mitsui&Co and Ford, respectively, have pledged 100% interest in the joint ventures to the VEB.

For Joint ventures’ contingencies refer to note 31.

At 31 December 2014 and 2013, the Group held 50% interest in joint ventures Ford-Sollers, Mazda Sollers, Sollers-Isuzu, Sollers-Bussan and Sollers-Finance and also the Group held 30% interest in OOO DaeWon-Sollers as of 31 December 2013. In the year ended 31 December 2014 the Group has disposed of it's 30% interest in OOO DaeWon-Sollers. The summarised financial information of the Joint ventures, including full amounts of total assets, liabilities, revenues, operating and net profit/(loss), is as follows:

	Total assets	**Total liabilities**	**Revenue**	**Operating profit/(loss)**	**Profit/(loss)**
Joint ventures:					
Total at 31 December 2014	**104,061**	**84,326**	**118,297**	**(6,898)**	**(9,655)**
Ford-Sollers JV	80,582	66,764	52,169	(11,112)	(10,929)
Mazda-Sollers JV	12,550	10,146	41,008	2,553	88
Sollers-Isuzu JV	4,227	2,103	3,682	607	298
Sollers-Bussan JV	4,474	3,909	20,878	860	738
Sollers-Finance JV	2,228	1,404	560	194	150
Total at 31 December 2013	**85,988**	**55,912**	**134,248**	**2,596**	**1,148**
Ford-Sollers JV	64,048	39,302	82,362	400	(319)
Mazda-Sollers JV	12,276	9,961	39,068	1,376	722
Sollers-Isuzu JV	3,154	1,329	1,987	170	227
Sollers-Bussan JV	4,176	3,749	10,232	425	336
Sollers-Finance JV	2,334	1,571	599	225	182

(in millions of Russian Roubles – RR)

12. Other non-current assets

	31 December 2014	31 December 2013
Advances for construction in progress and equipment	800	449
Other non-current assets	69	66
Total other non-current assets	**869**	**515**

13. Inventories

	31 December 2014	31 December 2013
Raw materials	2,018	1,655
Less: provision	(39)	(120)
Total raw materials	**1,979**	**1,535**
Work in progress	378	398
Less: provision	-	-
Total work in progress	**378**	**398**
Finished products	3,767	2,657
Less: provision	(449)	(64)
Total finished products	**3,318**	**2,593**
Total	**5,675**	**4,526**

At 31 December 2014 and 31 December 2013 there were no any pledged inventories.

14. Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables	2,633	6,045
Less: provision for impairment	(113)	(39)
Total trade receivables	**2,520**	**6,006**
Other receivables	2,416	217
Less: provision for impairment	(61)	(13)
Total other receivables	**2,355**	**204**
Advances to suppliers, other than for equipment	501	357
Less: provision for impairment	(3)	(3)
Total advances to suppliers, other than for equipment	**498**	**354**
Taxes prepayments	221	162
VAT recoverable, net	443	155
Other prepayments	13	13
Total	**6,050**	**6,894**

At 31 December 2014, trade receivables arising from revenue contracts of RR 887 were pledged as a security for a working capital facility related to SsangYong business (at 31 December 2013: RR 2,913).

(in millions of Russian Roubles – RR)

14. Trade and other receivables (continued)

Trade receivables are represented by currency as follows:

Currency	31 December 2014	31 December 2013
Russian Roubles	2,509	6,003
US Dollars	11	3
Total	**2,520**	**6,006**

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

	31 December 2014	31 December 2013
Current and not impaired – exposure to		
- Group 1 – large corporate clients	713	300
- Group 2 – dealers	1,546	4,733
- Group 3 – other clients	207	877
Total current and not impaired	**2,466**	**5,910**
Past due but not impaired		
- less than 30 days overdue	38	37
- 30 to 90 days overdue	8	36
- 90 to 180 days overdue	2	9
- 180 to 360 days overdue	3	5
- over 360 days overdue	3	9
Total past due but not impaired	**54**	**96**
Individually determined to be impaired (gross)		
- over 360 days overdue	113	39
Total individually impaired	**113**	**39**
Less impairment provision	**(113)**	**(39)**
Total	**2,520**	**6,006**

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 2014 was RR 54 (31 December 2013: RR 96) and the fair value of the collateral for the individually determined to be impaired receivables was RR 113 (31 December 2013: RR 39).

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

	31 December 2014			31 December 2013		
	Trade receivables	**Other financial receivables**	**Advances to suppliers**	**Trade receivables**	**Other financial receivables**	**Advances to suppliers**
Provision for impairment at start of year	**39**	**13**	**3**	**60**	**21**	**9**
Amounts written off during the year as uncollectible	(7)	(4)	-	(18)	-	-
Provision for impairment during the year	81	52	-	(3)	(8)	(6)
Provision for impairment at end of year	**113**	**61**	**3**	**39**	**13**	**3**

(in millions of Russian Roubles – RR)

15. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash on hand and balances with banks	581	1,657
Cash deposits	5,903	4,363
Total	**6,484**	**6,020**

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

	<1%	1%-3%	9%-13%	13%-18%	>18%	Non-interest bearing	Total
As at 31 December 2014							
Cash on hand and balances with banks	4	44	-	-	-	533	581
Cash deposits	-	-	261	4,777	865	-	5,903
Total	**4**	**44**	**261**	**4,777**	**865**	**533**	**6,484**

	<1%	1%-3%	3%-5%	5%-7%	7%-9%	Non-interest bearing	Total
As at 31 December 2013							
Cash on hand and balances with banks	702	387	-	-	-	568	1,657
Cash deposits	-	-	503	3,860	-	-	4,363
Total	**702**	**387**	**503**	**3,860**	**-**	**568**	**6,020**

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

Currency	31 December 2014	31 December 2013
US Dollars	412	78
Euro	1	5
Total	**413**	**83**

The carrying value of cash and cash equivalents as at 31 December 2014 and 31 December 2013 is approximately equal to their fair value. The Group holds cash and cash equivalents in the top-12 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 2014	31 December 2013
Rating by Fitch		
- AAA (rus)	2,990	5,326
- AA+ (rus)	6	59
- AA- (rus)	13	513
- A+ (rus)	44	7
- A- (rus)	4	9
Rating by Moody's		-
- Baa1.ru	164	90
Rating by S&P		
- ru AAA	3,263	-
- ru A-	-	13
Other		
- Unrated	-	3
Total	**6,484**	**6,020**

(in millions of Russian Roubles – RR)

16. Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital	Share premium	Additional paid-in capital
At 31 December 2014	34,270	530	4,538	1,438
At 31 December 2013	34,270	530	4,538	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2013: 82,074 thousand). The nominal value of all shares is 12.5 roubles per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

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

In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the accumulated profit. For the year ended 31 December 2014, the net statutory profit for the Company reported in the published annual statutory reporting financial statements was RR 2,998 (2013: net profit RR 1,786) and the closing balance of the accumulated profit including the current reporting period net statutory profit was RR 3,602 (31 December 2013: RR 2,399). 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.

By the date of approval of these consolidated financial statements, no dividends were proposed by the Board of Directors for the year ended 31 December 2014. In May 2014 the General Shareholders' Meeting declared the dividends per results of the year ended 31 December 2013 totally amounted to RR 1,800, or 52.52 Roubles per ordinary share.

In May 2013 the General Shareholders' Meeting declared the dividends per results of the year ended 31 December 2012 totally amounted to RR 1,800, or 52.52 Roubles per ordinary share.

Share based compensation

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

On 16 May 2013 share option programme was ceased. For further details please see Note 6.2.

(in millions of Russian Roubles – RR)

17. Borrowings

The Group's long-term borrowings consisted of bank loans amounted to RR 3,396 (31 December 2013: RR 5,716).

The Group's long-term borrowings are denominated in Russian Roubles at 31 December 2014 and 31 December 2013. The carrying amounts of long-term borrowings approximates to their fair values as at 31 December 2014 and 31 December 2013.

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

	31 December 2014	31 December 2013
Bank loans	8,420	3,730
Interest payable	94	65
Total short-term borrowings	**8,514**	**3,795**

The Group's short-term borrowings are denominated in Russian Roubles at 31 December 2014 and 31 December 2013. The carrying amounts of short-term borrowings approximates to their fair values at 31 December 2014 and at 31 December 2013.

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

Property, plant and equipment of RR 2,310 (31 December 2013: RR 2,790) are pledged as collateral for long-term and short-term borrowings. See Note 7.

At 31 December 2014 long-term borrowings of 663 were secured by 100% share in the Group's subsidiary OOO Rosalit, besides property, plant and equipment.

As of 31 December 2013 the short-term borrowings from Repurchase agreement for RR 250 are secured by 9.6% shares of the Group's subsidiary OAO "UAZ". As of 31 December 2014 – nil.

18. Advances received and other payables

	31 December 2014	31 December 2013
Dividends payable	41	56
Liabilities for purchased property, plant and equipment	49	38
Accrued liabilities and other creditors	51	94
Total financial liabilities within other payables	*141*	*188*
Advances received	1,902	197
Accrued employee benefit costs	90	244
Vacation accrual	266	214
Bonus accrual	342	519
Total advances received and other payables	**2,741**	**1,362**

There were no overdue payables as at 31 December 2014, including in respect of trade payables (31 December 2013: nil).

The bonus accrual relates to performance based on productivity of employees at a subsidiary during the year ended 31 December 2014 of RR 342 (31 December 2013: RR 519).

(in millions of Russian Roubles – RR)

19. Taxes payable

	31 December 2014	31 December 2013
Value-added tax	230	755
Payments to the State Pension Fund and other social taxes	150	183
Income tax	147	353
Property tax	19	26
Personal income tax	11	36
Utilisation tax	1,458	-
Other taxes	19	23
Total	**2,034**	**1,376**

The Group had no tax liabilities past due at 31 December 2014 (31 December 2013: nil).

20. Warranty and other provisions

During the year ended 31 December 2014 and 31 December 2013, the following movements in warranty and other provisions were recorded:

	Warranty	Tax and other claims	Total
Balance at 1 January 2013	**531**	**73**	**604**
Additional provision	459	261	720
Utilised in the year	(358)	(1)	(359)
Balance at 31 December 2013	**632**	**333**	**965**
Additional provision	350	17	367
Disposed with sold subsidiary	-	(260)	(260)
Utilised in the year	(486)	(60)	(546)
Balance at 31 December 2014	**496**	**30**	**526**

The Group provides a one-year warranty on most UAZ vehicles, except a three-year warranty on the UAZ Patriot; one and two-year warranty on ZMZ engines; and a three-year warranty period on sport utility vehicles. The Group undertakes to repair or replace items that fail to perform satisfactorily. A provision has also been recognised for SsangYong 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.

21. Sales

	Year ended 31 December 2014	Year ended 31 December 2013
Vehicles	40,634	51,704
Automotive components	4,645	5,595
Engines	1,216	1,845
Services	731	1,145
Other sales	681	1,028
Total	**47,907**	**61,317**

(in millions of Russian Roubles – RR)

22. Cost of sales

	Year ended 31 December 2014	Year ended 31 December 2013
Materials and components	35,678	41,438
Government subsidies	*(4,298)*	-
Labour costs	4,524	5,485
Government subsidies	*(2,392)*	-
Other production costs	6,227	2,401
Government subsidies	*(160)*	-
Depreciation and amortisation	836	998
Change in finished goods and work in progress	(705)	(444)
Total	**39,710**	**49,878**

The utilisation tax of RR 4 444 is recognised in other production costs in 2014 (2013: was not accrued).

23. Distribution costs

	Year ended 31 December 2014	Year ended 31 December 2013
Transportation	903	1,284
Advertising	508	488
Labour costs	460	401
Check and inspection performed by dealers	37	63
Materials	106	44
Commission fee	27	174
Other	115	100
Total	**2,156**	**2,554**

24. General and administrative expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Labour costs	2,283	2,776
Government subsidies	*(675)*	-
Services provided by third parties	374	317
Depreciation and amortisation	168	157
Rent	130	120
Taxes other than income	170	203
Business travel	170	150
Fire brigade and security costs	132	136
Repairs and maintenance	100	130
Transportation	50	17
Materials	52	38
Insurance	11	19
Training costs	18	30
Movement in the provision for impairment of receivables	89	3
Other	90	71
Total	**3,162**	**4,167**

(in millions of Russian Roubles – RR)

25. Other operating income – net

	Year ended 31 December 2014	Year ended 31 December 2013
Net income on disposals of property, plant, equipment and investments	(813)	(557)
Accounts payables written-off	(15)	(7)
Charitable donations	33	111
Social expenses	51	70
Loss on disposal of materials	18	93
Research and development expenses	7	-
Government grant amortisation	-	(29)
Other	37	(204)
Total	**(682)**	**(523)**

26. Finance costs, net

	Year ended 31 December 2014	Year ended 31 December 2013
Interest expense, net	1,133	1,039
Government subsidy of interest expenses	(84)	(18)
Foreign exchange losses/(gain), net	955	159
Total finance costs, net	**2,004**	**1,180**
Less capitalised finance costs	(56)	(36)
Total finance costs, net	**1,948**	**1,144**

The Group's capitalised borrowing costs of RR 56 mainly arising on financing attributable to the construction of property, plant and equipment (2013: RR 36).

Interests paid during 2014 and 2013 to State banks were partly compensated under Government Decrees #640 dated 1 August 2011 and #357 dated 6 June 2005. The compensation was recognised within finance costs of the consolidated profit or loss of the reporting periods to match it with the costs that they are intended to compensate.

27. Income tax expense

The income tax expense recorded in the consolidated statement of comprehensive income for the year comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax expense	559	1,358
Deferred tax charge	(35)	(265)
Income tax expense	**524**	**1,093**

(in millions of Russian Roubles – RR)

27. Income tax expense (continued)

The income tax rate applicable to the majority of the Group's income is 20% (2013: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income tax	**(3,212)**	**4,671**
Theoretical tax charge at statutory rate (2014: 20%; 2013: 20%)	(642)	925
Theoretical tax charge/(benefit) at different statutory rate (2014: 16%; 2013: 16%)	-	9
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses at 20%	1,166	158
- Non-deductible expenses at 16%	-	1
Income tax expense	**524**	**1,093**

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (31 December 2013: 20%).

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

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Deferred tax assets may be realised in different periods than the deferred tax liabilities may be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets. See Note 3.3.

The recognised tax losses carried forward generally expire in the period to 2024, being ten years after the end of the fiscal period when the losses were generated.

	1 January 2013	Movement in the year ended 31 December 2013	31 December 2013	Movement in the year ended 31 December 2014	31 December 2014
Tax effects of deductible temporary differences:					
Losses carried forward	61	60	121	227	348
Accounts payable and provisions	224	106	330	146	476
Taxes payable	74	(74)	-	-	-
Inventories	1,078	(347)	731	(436)	295
Total	**1,437**	**(255)**	**1,182**	**(63)**	**1,119**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(970)	114	(856)	(1)	(857)
Accounts receivable	(1,045)	401	(644)	196	(448)
Equity investments	-	-	-	(145)	(145)
Total	**(2,015)**	**515**	**(1,500)**	**50**	**(1,450)**
Recognised deferred tax asset, net	276	(80)	196	420	616
Recognised deferred tax liability, net	(854)	340	(514)	(433)	(947)
Total net deferred tax assets/(liabilities)	**(578)**	**260**	**(318)**	**(13)**	**(331)**

(in millions of Russian Roubles – RR)

27. Income tax expense (continued)

During the year ended 31 December 2014 movement of RR 48 (31 December 2013: RR 5) was due to disposal of subsidiaries.

The Group has not recorded a deferred tax liability in respect of temporary differences associated with investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and does not intend for them to reverse in the foreseeable future. Un-remitted earnings from subsidiaries and joint ventures were RR 12,375 at 31 December 2014 (31 December 2013: RR 15,882), mostly being subject to tax rate on dividends of 0%.

28. Loss/earning per share

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

	Year ended 31 December 2014	**Year ended 31 December 2013**
Basic (loss)/earnings per share (in RR per share)	(109.10)	105.78
Diluted earnings per share (in RR per share)	(109.10)	105.75
(Loss)/profit attributable to equity holders of the Company	(3,739)	3,625
Basic weighted average number of shares outstanding (thousands)	34,270	34,270
– Adjustment for share options (thousands)	-	11
Diluted weighted average number of shares outstanding (thousands)	34,270	34,281

29. Segment information

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

Since 2011 the Group restructured its automotive, engine and autocomponents segments after OAO UAZ has become the major customer of OAO ZMZ. The sales of engine and autocomponents segments became immaterial in terms of segment reporting and are no longer disclosed separately. As at 31 December 2014 the Group activities are considered as one reporting segment: vehicles.

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

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

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

Revenues from external customers are presented in Note 21. Management considers that across the range of vehicles and models produced, these are considered as similar products. During the year ended 31 December 2014 and 31 December 2013 the Group did not have transactions with a single external customer that amounted to 10% or more of the Group’s revenues.

(in millions of Russian Roubles – RR)

30. Financial risk management

30.1 Financial risk factors

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

(a) Market risk

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

(i) Currency risk

The Group is exposed to currency risk from changes in the exchange rate of following currencies: Euro and US Dollars. 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 did not expose to currency risk arising on open loan positions denominated in Euros and US Dollars.

The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2014:

	Monetary financial assets		Monetary financial liabilities		
	Cash and cash equivalents	**Accounts receivable**	**Accounts payable**	**Bonds and borrowings**	**Net balance sheet position**
US Dollars	412	11	(574)	-	**(151)**
Euros	1	-	(10)	-	**(9)**
Total foreign currencies	**413**	**11**	**(584)**	**-**	**(160)**
Russian Roubles	6,071	2,619	(9,117)	(11,910)	**(12,337)**
Total	**6,484**	**2,630**	**(9,701)**	**(11,910)**	**(12,497)**

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2013:

	Monetary financial assets		Monetary financial liabilities		
	Cash and cash equivalents	**Accounts receivable**	**Accounts payable**	**Bonds and borrowings**	**Net balance sheet position**
US Dollars	78	3	(874)	-	**(793)**
Euros	5	-	(116)	-	**(111)**
Total foreign currencies	**83**	**3**	**(990)**	**-**	**(904)**
Russian Roubles	5,937	6,167	(9,313)	(9,511)	**(6,720)**
Total	**6,020**	**6,170**	**(10,303)**	**(9,511)**	**(7,624)**

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.

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

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

	2014	**2013**
Impact on profit and loss and on equity of:		
US Dollar strengthening by 20% (10% for 2013)	(30)	(79)
US Dollar weakening by 20% (10% for 2013)	30	79
Euro strengthening by 20% (10% for 2013)	(2)	(11)
Euro weakening by 20% (10% for 2013)	2	11

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

(ii) Price risk

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

(iii) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. 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 2014					
Fixed interest rates	2,995	5,425	3,396	-	**11,816**
Total	**2,995**	**5,425**	**3,396**	**-**	**11,816**

	Demand and less than 3 month	**From 3 to 12 months**	**More than 1 year**	**More than 5 years**	**Total**
31 December 2013					
Fixed interest rates	130	3,600	5,716	-	**9,446**
Total	**130**	**3,600**	**5,716**	**-**	**9,446**

At 31 December 2014, if interest rates at that date had been 200 basis points lower (31 December 2013: 200 basis points lower) with all other variables held constant, the interest expense for the year would have been RR 212 lower (2013: RR 196 lower). If interest rates at that date had been 100 basis points higher (31 December 2013: 100 basis points higher) with all over variables held constant, the interest expense for the year would have been RR 106 higher (31 December 2013: RR 98 higher).

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

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

In % p.a.	**2014**	**2013**
Assets		
Cash and cash equivalents	0%-25%	0%-7.4%
Liabilities		
Borrowings	8.25%-14.25%	8.6%-12%

(b) Credit risk

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

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

	31 December 2014	**31 December 2013**
Cash and cash equivalents	6,484	6,020
Accounts receivable, including long-term accounts receivable	2,589	6,072
Other receivables	9	68
Other financial assets	32	30
Total on-balance sheet exposure	**9,114**	**12,190**
Financial guarantees, Note 31	4,305	5,404
Total maximum exposure to credit risk	**13,419**	**17,594**

All of the financial assets of the Group, except for RR 51 (31 December 2013: RR 20) in shares, categorised as available for sale, are loans and receivables.

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

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

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

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

The Group's cash and cash equivalents are held with over 12 banks (31 December 2013: 17 banks) thus there is no significant exposure of the Group to a concentration of credit risk. Management monitor Moody's, Fitch and S&P ratings of the banks used to manage the level of credit risk that the Group is exposed to. Management considers that the credit risk associated with these banks is negligible.

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit risks concentration

No single debtor of the Group accounts for more than 6.3% (31 December 2013: 2.1%) of the trade accounts receivable of the Group. However, the majority of the Group's trade receivables represent dealers who sell the Group's vehicles to consumers, and therefore are exposed in similar ways to reductions in the demand from consumers for new vehicle sales, and their ability to obtain access to credit in the financial markets in order to finance their businesses. As the Group maintains the PTS registration certificates to each vehicle and has insurance arrangements in place covering the vehicles held by the dealers, this mitigates the potential exposure of the Group in the event that a number of dealers are impacted in similar ways and are not able to repay amounts owed.

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

(c) Liquidity risk

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

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

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

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

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

The analysis below represents management expectations of repayment schedule of monetary assets and liabilities of the Group as of 31 December 2013 and 31 December 2012. 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 2013 and 31 December 2012.

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Demand and less than 3 months	From 3 to 12 months	More than 1 year	More than 5 years	Total
31 December 2014					
Total monetary financial assets	**8,981**	**64**	**69**	**-**	**9,114**
Cash and cash equivalents	6,484	-	-	-	**6,484**
Trade receivables	2,456	64	69	-	**2,589**
Other receivables	32	-	-	-	**32**
Other financial assets	9	-	-	-	**9**
Total monetary financial liabilities	**(12,857)**	**(5,464)**	**(3,396)**	**-**	**(21,717)**
Loans and bonds	(3,089)	(5,425)	(3,396)	-	**(11,910)**
Trade payables	(9,628)	(38)	-	-	**(9,666)**
Other payables	(140)	(1)	-	-	**(141)**
Future interest payments	**(254)**	**(428)**	**(597)**	**-**	**(1,279)**
Net monetary financial liabilities at 31 December 2014	**(4,130)**	**(5,828)**	**(3,924)**	**-**	**(13,882)**
31 December 2013					
Total monetary financial assets	**12,127**	**-**	**63**	**-**	**12,190**
Cash and cash equivalents	6,020	-	-	-	**6,020**
Trade receivables	6,009		63		**6,072**
Other receivables	68	-	-	-	**68**
Other financial assets	30	-	-	-	**30**
Total monetary financial liabilities	**(10,423)**	**(3,675)**	**(5,716)**	**-**	**(19,814)**
Loans and bonds	(195)	(3,600)	(5,716)	-	**(9,511)**
Trade payables	(10,040)	(75)	-	-	**(10,115)**
Other payables	(188)	-	-	-	**(188)**
Future interest payments	**(237)**	**(642)**	**(322)**	**-**	**(1,201)**
Net monetary financial liabilities at 31 December 2013	**1,467**	**(4,317)**	**(5,975)**	**-**	**(8,825)**

The Group did not have any derivative financial instruments issued/held during the year ended 31 December 2014 or the year ended 31 December 2013.

In the year ended 31 December 2014 SsangYong distributor issued a financial guarantee for working capital facility at its joint venture operations related to SsangYong business in amount of RR 4,305 (31 December 2013: RR 5,404) (Note 31).

(in millions of Russian Roubles – RR)

30 Financial risk management (continued)

30.2 Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by a sum of total equity and net debt. The Group considers total capital under management at 31 December 2014 to be RR 18,886 (31 December 2013: RR 24,267).

The gearing ratios at 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	**31 December 2013**
Long-term borrowings	3,396	5,716
Short-term borrowings	5,814	3,795
Less: cash and cash equivalents	(6,484)	(6,020)
Net debt	**5,426**	**3,491**
Equity	13,460	20,776
Total net debt and equity	18,886	24,267
Gearing ratio	**29%**	**14%**

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

Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

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 and short-term borrowings is disclosed in Note 17. The carrying value of other financial instruments approximates to their fair value. Level three measurements were applied.

31. Contingencies, commitments and operating risks

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

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

31. Contingencies, commitments and operating risks (continued)

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

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

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

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with the new transfer pricing legislation and do not anticipate any tax exposures will arise in practice.

Russian transfer pricing legislation is also applicable to all the Joint ventures in which the Group participates. Management of respective companies has also implemented internal controls to be in compliance with the new transfer pricing regulations and do not anticipate any tax exposures will arise in practice. The impact of any such exposure cannot be reliably estimated but may have a material effect on the joint ventures' financial results.

Capital commitments. Company's commitments totalled RR 367 at 31 December 2014 (31 December 2013: RR 1,694) including contractual obligations to purchase, construct or develop property, plant and equipment.

Guarantees. Guarantees are irrevocable assurance that the Group will make payments in the event that another party cannot meet its obligations. SsangYong distributor has issued a financial guarantee for working capital facility at its joint venture operations related to SsangYong business in amount of RR 4,305 as of 31 December 2014 (31 December 2013: RR 5,404).

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

Management have validated that the Group was in full compliance with all covenants attached to contracts entered into, including borrowing agreements with lenders, as at 31 December 2014 (31 December 2013: no exceptions).

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

Environmental matters. Environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(in millions of Russian Roubles – RR)

32. Principal subsidiaries

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

		31 December 2014	31 December 2013
Entity	**Activity**	**% of effective interest (total share capital)**	**% of effective interest (total share capital)**
OOO "DC SanYong"	Auto trading	100	100
OOO "Torgoviy dom Sollers"	Auto components trading	100	100
OAO "Zavolzhskiy Motor Works" (further "ZMZ")	Manufacture and sale of engines for passenger automobiles, trucks and buses	92	68
OAO "Ulyanovsky Avtomobilny Zavod" (further "UAZ")	Manufacture and sale of passenger automobiles, light trucks and minibuses	96	79
OOO "Sollers-Dal'niy Vostok"	Vehicle production	100	100
OOO DC UAZ	Auto trading	100	100

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

During the year ended 31 December 2014, as a result of a minority stake acquisition, the Group's effective interest in OAO "Zavolzhskiy Motor Works" increased. During 2014 the Group bought-out from third parties shares of OAO "Zavolzhskiy Motor Works" for RR 512. The Group's result of RR 750 was recognised in equity.

During the year ended 31 December 2014 the Group's effective interest in OAO "Ulyanovsky Avtomobilny Zavod" increased through a minority's stake acquisition. During 2014 the Group bought-out from third parties shares of OAO "Ulyanovsky Avtomobilny Zavod" for RR 1,268. The Group's result of RR 189 was recognised in equity.

During the year ended 31 December 2013, as part of an internal Group reorganisation, the Group's effective interest in OAO "Zavolzhskiy Motor Works" was increased in comparison with prior year although the Group retained a majority effective interest and there were no changes in voting rights. As a result of this reorganisation, an amount of RR 774 is recognised in the Statement of Changes in Equity.

In November 2013 the Group bought-out 13% of UAZ shares from the State for RR 900. The Group's result amounted to RR 238 was recognised in equity.

At 31 December 2014 and 2013 the Group has two subsidiaries with non-controlling interests that are material:

	31 December 2014		31 December 2013	
	Carrying amount	**The non-controlling interest's share**	**Carrying amount**	**The non-controlling interest's share**
ZMZ	786	8%	3,320	32%
UAZ	306	4%	1,763	21%
Total	**1,092**		**5,083**	

The table below summarises the movements in the carrying amount of the non-controlling interest in the Group's subsidiaries:

	ZMZ	UAZ
Carrying amount at 1 January 2013	**3,630**	**3,412**
Non-controlling interest in current year result	(60)	13
Dilution factor effect	(250)	(524)
Decrease of non-controlling interest due purchase by the Group	-	(1,138)
Carrying amount at 31 December 2013	**3,320**	**1,763**
Non-controlling interest in current year result	(87)	90
Dilution factor effect	(1,185)	(90)
Decrease of non-controlling interest due purchase by the Group	(1,262)	(1,457)
Carrying amount at 31 December 2014	**786**	**306**

(in millions of Russian Roubles – RR)

32. Principal subsidiaries (continued)

The summarised financial information of the Group's subsidiaries with significant non-controlling interest, including full amounts of total assets, liabilities, revenues and profit/(loss), is as follows:

	Total assets	Total liabilities	Revenue	Profit/ (loss)	Net cash flows
Total at 31 December 2014					
ZMZ	13,026	(3,714)	5,073	(1,030)	699
UAZ	27,348	(18,745)	23,889	2,567	828
Total at 31 December 2013					
ZMZ	11,908	(1,564)	6,583	(176)	(170)
UAZ	23,483	(14,892)	28,304	38	1,477