

ОАО ГАЗ

Consolidated Financial Statements

for the year ended 31 December 2011

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Independent Auditors' Report

To the Board of Directors

OAO GAZ

We have audited the accompanying consolidated financial statements of OAO GAZ (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matter

The USD amounts in the accompanying consolidated financial statements, which are presented solely for the convenience of users as described in Note 2 (d), do not form part of the consolidated financial statements and are unaudited.

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10 April 2012

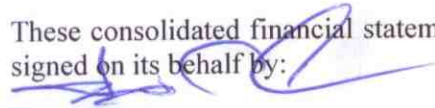
	Note	2011 '000 RUB	2010 '000 RUB	2011 '000 USD*	2010 '000 USD*
Revenue	7	132,444,824	96,720,797	4,113,692	3,004,115
Cost of sales	8	(105,902,386)	(79,326,883)	(3,289,292)	(2,463,866)
Gross profit		26,542,438	17,393,914	824,400	540,249
Distribution expenses	9	(5,770,265)	(3,490,432)	(179,223)	(108,412)
Administrative expenses	10	(8,278,852)	(7,111,759)	(257,138)	(220,889)
Other income	11	868,133	2,695,794	26,964	83,731
Other expenses	11	(1,667,509)	(2,106,605)	(51,792)	(65,430)
Financial income	13	254,449	329,145	7,903	10,223
Financial expenses	13	(2,345,805)	(5,432,005)	(72,860)	(168,716)
Net gain on foreign exchange differences		(145,232)	322,186	(4,511)	10,007
Profit before income tax		9,457,357	2,600,238	293,743	80,763
Income tax expense	14	(956,858)	(481,802)	(29,720)	(14,965)
Profit for the year		<u>8,500,499</u>	<u>2,118,436</u>	<u>264,023</u>	<u>65,798</u>
Other comprehensive income					
Foreign currency translation differences		(612)	543	(19)	17
Defined benefit plan actuarial losses	32	(21,950)	(25,220)	(682)	(783)
Other comprehensive income for the year		<u>(22,562)</u>	<u>(24,677)</u>	<u>(701)</u>	<u>(766)</u>
Total comprehensive income for the year		<u>8,477,937</u>	<u>2,093,759</u>	<u>263,322</u>	<u>65,032</u>
Profit attributable to:					
Owners of the Company		8,208,557	1,786,656	254,955	55,493
Non-controlling interests		291,942	331,780	9,068	10,305
Profit for the year		<u>8,500,499</u>	<u>2,118,436</u>	<u>264,023</u>	<u>65,798</u>
Total comprehensive income attributable to:					
Owners of the Company		8,185,995	1,761,979	254,254	54,727
Non-controlling interests		291,942	331,780	9,068	10,305
Total comprehensive income for the year		<u>8,477,937</u>	<u>2,093,759</u>	<u>263,322</u>	<u>65,032</u>

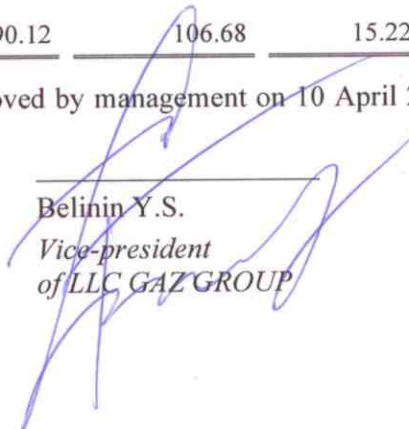
The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 89.

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

		2011	2010	2011	2010
		RUB	RUB	USD*	USD*
Earnings per share					
Basic and diluted earnings per share	27	490.12	106.68	15.22	3.31

These consolidated financial statements were approved by management on 10 April 2012 and were signed on its behalf by:


Bo Andersson
President
of LLC GAZ GROUP


Belinin Y.S.
Vice-president
of LLC GAZ GROUP

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 89.

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	Note	31 December 2011 '000 RUB	31 December 2010 '000 RUB	31 December 2011 '000 USD*	31 December 2010 '000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	15	22,771,096	20,254,949	707,263	629,112
Intangible assets	16	1,989,462	1,693,365	61,792	52,595
Other investments	17	481,409	42,782	14,952	1,329
Investment in equity accounted investees	18	4,990	-	155	-
Deferred tax assets	21	1,146,414	706,995	35,607	21,959
Other long-term financial assets	19	98,419	66,875	3,057	2,077
Loans issued	20	623,564	303,886	19,368	9,439
Total non-current assets		<u>27,115,354</u>	<u>23,068,852</u>	<u>842,194</u>	<u>716,511</u>
Current assets					
Inventories	22	10,932,294	8,686,203	339,553	269,791
Other investments	17	45	45	1	1
Loans issued	20	557,376	356,597	17,312	11,076
Accounts receivable	23	5,966,572	4,781,090	185,320	148,499
Prepayments for inventories and services		1,215,153	1,049,224	37,742	32,589
Other short-term assets	24	2,039,250	2,370,443	63,339	73,625
Income tax receivable		130,447	66,463	4,052	2,064
Cash and cash equivalents	25	9,844,128	4,780,059	305,755	148,467
Total current assets		<u>30,685,265</u>	<u>22,090,124</u>	<u>953,074</u>	<u>686,112</u>
Total assets		<u>57,800,619</u>	<u>45,158,976</u>	<u>1,795,268</u>	<u>1,402,623</u>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 89.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).*

	Note	31 December 2011 '000 RUB	31 December 2010 '000 RUB	31 December 2011 '000 USD*	31 December 2010 '000 USD*
EQUITY AND LIABILITIES					
Equity					
Share capital	26	2,311,772	2,311,772	71,803	71,803
Share premium		9,765,532	9,770,311	303,314	303,462
Treasury shares	26	(7,304,782)	(7,304,782)	(226,884)	(226,884)
Foreign currency translation reserve		2,776	3,388	86	105
Retained earnings		(16,106,458)	(24,293,065)	(500,261)	(754,534)
Total equity attributable to shareholders of the Company		(11,331,160)	(19,512,376)	(351,942)	(606,048)
Non-controlling interests		1,938,805	1,656,996	60,219	51,466
Total equity		(9,392,355)	(17,855,380)	(291,723)	(554,582)
Non-current liabilities					
Loans and borrowings	28	33,839,813	37,058,247	1,051,053	1,151,017
Employee benefits	32	699,429	681,636	21,724	21,171
Deferred tax liabilities	21	280,879	230,986	8,724	7,174
Other long-term liabilities and deferred income	29	47,832	432,321	1,486	13,428
Total non-current liabilities		34,867,953	38,403,190	1,082,987	1,192,790
Current liabilities					
Loans and borrowings	28	9,049,058	6,259,048	281,061	194,404
Accounts payable	30	16,107,465	11,555,286	500,292	358,903
Other short-term liabilities	31	3,475,234	3,334,996	107,940	103,584
Advances received		2,957,899	3,271,697	91,871	101,618
Income tax payable		735,365	190,139	22,840	5,906
Total current liabilities		32,325,021	24,611,166	1,004,004	764,415
Total liabilities		67,192,974	63,014,356	2,086,991	1,957,205
Total equity and liabilities		57,800,619	45,158,976	1,795,268	1,402,623

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 89.

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Note	2011 '000 RUB	2010 '000 RUB	2011 '000 USD*	2010 '000 USD*
OPERATING ACTIVITIES				
Profit for the year	8,500,499	2,118,436	264,023	65,798
<i>Adjustments for:</i>				
Depreciation	15(e) 2,026,182	2,488,962	62,933	77,306
Amortisation	16(b) 79,715	80,241	2,476	2,492
Impairment losses / (reversal of) impairment losses of property, plant, equipment and intangible assets	11 168,523	(602,495)	5,234	(18,713)
(Gain) / loss on disposal of property, plant and equipment and intangible assets	11 (116,309)	71,023	(3,613)	2,206
Accrual of fines and penalties	11 192,574	33,879	5,981	1,052
Accrual of unused vacation reserve and other remunerations to employees	559,914	1,788,303	17,390	55,544
Gain on payables write -off	11 (88,809)	(277,109)	(2,758)	(8,607)
Accrual of warranty provision	88,675	(43,805)	2,754	(1,361)
Loss on impairment of loans issued and other investments	13 1,250,278	120,190	38,833	3,733
Reversal of accrual of bad debt reserve, provision for inventory and VAT	11 (550,498)	(1,016,173)	(17,098)	(31,562)
Loss on disposal of financial assets	13 591,043	-	18,358	-
Change in defined benefit plan	32 (825)	306	(26)	10
Interest expense	13 4,456,607	5,289,366	138,421	164,286
Interest income and reversal of discount on long-term receivables	13 (254,449)	(329,145)	(7,903)	(10,223)
Income tax expense	14 956,858	481,802	29,720	14,965
Impairment of goodwill	-	199,389	-	6,193
Cash from operating activities before changes in working capital	17,859,978	10,403,170	554,725	323,119
Change in inventories	(2,151,157)	721,354	(66,814)	22,405
Change in receivables and other assets	(728,504)	2,546,764	(22,627)	79,102
Change in prepayments for goods and services	(165,929)	(151,762)	(5,153)	(4,714)
Change in payables and other liabilities	3,639,558	(4,705,724)	113,043	(146,158)
Change in advances received	(313,798)	1,388,605	(9,747)	43,130
Change in restructured taxes	-	(22,665)	-	(704)
Cash flows from operations before income taxes and interest paid	18,140,148	10,179,742	563,427	316,180
Income taxes paid	(865,143)	(584,138)	(26,871)	(18,143)
Interest paid	(5,961,434)	(5,039,948)	(185,161)	(156,539)
Cash flows from operating activities	11,313,571	4,555,656	351,395	141,498

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 89.

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Note	2011 '000 RUB	2010 '000 RUB	2011 '000 USD*	2010 '000 USD*
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant, equipment and intangible assets	43,043	324,793	1,337	10,088
Cash inflow from acquired subsidiaries	-	440	-	14
Proceeds from repayment of loans issued	1,838,803	182,436	57,113	5,666
Loans issued	(3,867,894)	(125,583)	(120,135)	(3,901)
Interest received	65,447	177,671	2,033	5,518
Acquisition of property, plant and equipment	(3,597,884)	(2,835,985)	(111,750)	(88,085)
Acquisition of intangible assets	(508,411)	(126,567)	(15,791)	(3,931)
Acquisition of interest in subsidiaries and equity accounted investees	(439,990)	-	(13,666)	-
Cash flows used in investing activities	(6,466,886)	(2,402,795)	(200,859)	(74,631)
FINANCING ACTIVITIES				
Proceeds from borrowings	45,378,343	40,877,959	1,409,436	1,269,656
Repayment of borrowings	(45,136,054)	(41,393,365)	(1,401,911)	(1,285,664)
Acquisition of non-controlling interests	6(a) (14,912)	(19,817)	(463)	(616)
Dividends paid	(9,993)	(62,476)	(310)	(1,940)
Cash flows from / (used) in financing activities	217,384	(597,699)	6,752	(18,564)
Net increase in cash and cash equivalents	5,064,069	1,555,162	157,288	48,303
Cash and cash equivalents at the beginning of the year	25 4,780,059	3,224,897	148,467	100,164
Cash and cash equivalents at the end of the year	25 9,844,128	4,780,059	305,755	148,467

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 89.

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'000 RUB

	Attributable to equity holders of the Company							
	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2010	2,311,772	9,776,846	(7,304,782)	2,845	(26,054,501)	(21,267,820)	1,338,498	(19,929,322)
Profit for the year	-	-	-	-	1,786,656	1,786,656	331,780	2,118,436
Other comprehensive income								
Foreign currency translation reserve	-	-	-	543	-	543	-	543
Defined benefit plan actuarial losses (Note 32)	-	-	-	-	(25,220)	(25,220)	-	(25,220)
Total other comprehensive income for the year	-	-	-	543	(25,220)	(24,677)	-	(24,677)
Total comprehensive income for the year	-	-	-	543	1,761,436	1,761,979	331,780	2,093,759
Transactions with non-controlling interests (Note 6(a))	-	(6,535)	-	-	-	(6,535)	(13,282)	(19,817)
Balance at 31 December 2010	2,311,772	9,770,311	(7,304,782)	3,388	(24,293,065)	(19,512,376)	1,656,996	(17,855,380)
Profit for the year	-	-	-	-	8,208,557	8,208,557	291,942	8,500,499
Other comprehensive income								
Foreign currency translation differences	-	-	-	(612)	-	(612)	-	(612)
Defined benefit plan actuarial losses (Note 32)	-	-	-	-	(21,950)	(21,950)	-	(21,950)
Total other comprehensive income for the year	-	-	-	(612)	(21,950)	(22,562)	-	(22,562)
Total comprehensive income for the year	-	-	-	(612)	8,186,607	8,185,995	291,942	8,477,937
Transactions with non-controlling interests (Note 6(a))	-	(4,779)	-	-	-	(4,779)	(10,133)	(14,912)
Balance at 31 December 2011	2,311,772	9,765,532	(7,304,782)	2,776	(16,106,458)	(11,331,160)	1,938,805	(9,392,355)

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 89.

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'000 USD*

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2010	71,803	303,666	(226,884)	88	(809,244)	(660,571)	41,573	(618,998)
Profit for the year	-	-	-	-	55,493	55,493	10,305	65,798
Other comprehensive income								
Foreign currency translation reserve	-	-	-	17	-	17	-	17
Defined benefit plan actuarial losses (Note 32)	-	-	-	-	(783)	(783)	-	(783)
Total other comprehensive income for the year	-	-	-	17	(783)	(766)	-	(766)
Total comprehensive income for the year	-	-	-	17	54,710	54,727	10,305	65,032
Transactions with non-controlling interests (Note 6(a))	-	(204)	-	-	-	(204)	(412)	(616)
Balance at 31 December 2010	71,803	303,462	(226,884)	105	(754,534)	(606,048)	51,466	(554,582)
Profit for the year	-	-	-	-	254,955	254,955	9,068	264,023
Other comprehensive income								
Foreign currency translation differences	-	-	-	(19)	-	(19)	-	(19)
Defined benefit plan actuarial losses (Note 32)	-	-	-	-	(682)	(682)	-	(682)
Total other comprehensive income for the year	-	-	-	(19)	(682)	(701)	-	(701)
Total comprehensive income for the year	-	-	-	(19)	254,273	254,254	9,068	263,322
Transactions with non-controlling interests (Note 6(a))	-	(148)	-	-	-	(148)	(315)	(463)
Balance at 31 December 2011	71,803	303,314	(226,884)	86	(500,261)	(351,942)	60,219	(291,723)

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 89.

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1 Background

(a) Organisation and its operations

OAO GAZ (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian Federation open joint stock (public) companies, closed joint stock companies and limited liability companies incorporated in accordance with the Civil Code of the Russian Federation. The Company was established as a state-owned enterprise in July 1932. It was privatised as a joint stock company in December 1992, as part of the Russian Federation privatisation program. In 1995 in accordance with changes in Russian legislation the Company was reorganized into an open joint stock company. The Company’s shares are traded over-the-counter in the Open Joint Stock Company “MICEX-RTS” Exchange (“MICEX-RTS”).

The business activities of the Group are managed by LLC GAZ Group.

The Company’s registered office is located at 88, Lenin prospect, Nizhny Novgorod, 603004, Russian Federation.

The Group’s principal activity is the production of:

- Light commercial vehicles and minivans;
- Middle commercial vehicles and trucks;
- Buses of different types;
- Road construction and special purpose vehicles;
- Engines and fuel injection equipment;
- Spare parts for all types of produced vehicles and various auto-components for produced cars.

These products are sold in the Russian Federation and abroad.

OAO Russkie Mashiny (the “Parent company”), a member of the Basic Element Limited Group (the “Basic Element Group”), owned 72.81% of Company’s shares as at 31 December 2011.

(b) Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Russian companies maintain accounting records and prepare financial statements in Russian Rubles in accordance with the requirements of Russian legislation on taxation and accounting.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis; certain items of property, plant and equipment were revalued at 1 January 2002 to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The functional currency of all the Group’s Russian entities is the Russian Rouble (“RUB”). Management has decided to use RUB as the presentation currency for the purposes of these consolidated financial statements because a substantial majority of the Group’s operations are based in the Russian Federation. All financial information presented in RUB has been rounded to the nearest thousand.

(d) Convenience translation

In addition to presenting the consolidated financial statements in RUB, supplementary information in USD has been prepared for the convenience of users of the consolidated financial statements.

All amounts of the consolidated financial statements are translated from RUB to USD at the closing exchange rate at 31 December 2011 published by the Central Bank of the Russian Federation of RUB 32.1961 to USD 1.

(e) Use of judgments, estimates and assumptions

Management has made a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. These judgements, estimates and assumptions affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is described below (also see Note 36 – “Contingencies”).

Useful lives of property, plant and equipment. Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Fair values of financial assets and liabilities. The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying various valuation methodologies. Management uses its judgment to make assumptions based on market conditions existing at each reporting date. Discounted cash flow analysis is used for various loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market instruments available adjusted for the Group's specific risk premium estimated by management. See Note 4 for further details on fair values of financial assets and liabilities.

Deferred income tax asset recognition. Management assesses deferred income tax assets at each balance sheet date and determines the amount recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimations based on prior years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Impairment of non-financial assets. Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Impairment provision for trade receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates. When there is no expectation of recovering additional cash for an amount receivable, the expected amount receivable is written off against the associated provision. Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Estimation of warranty provision. Estimates of warranty provision are inherently uncertain. The Group estimates its warranty provision based on historic statistics of expenses incurred on repair of products. All estimates regarding provisions are subject to revision, either upward or downward, based on new information from production activities. Due to the inherent uncertainties and the limited nature of data regarding expenses on certain type of vehicles, estimates of provisions are subject to change

over time as additional information becomes available. Warranty provision has a direct impact on amounts reported in the consolidated financial statements and reported profit for the year.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Associates (equity accounted investees)

i) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

ii) Joint ventures

Joint ventures are those entities where the Group shares control (i.e. has joint control) over an economic activity. Joint ventures are accounted for using the equity method.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the entities' own financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid/to be paid for the acquisition is recognised directly in equity.

(v) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

(vi) Disposal of subsidiaries

Disposals of subsidiaries are accounted for by recognizing the difference between the consideration received and the carrying amount of the net assets of the subsidiary, including non-controlling interests and attributable goodwill, in the statement of comprehensive income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the

investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUB at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at average exchange rates determined on a monthly basis.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses. The cost of certain property, plant and equipment at 1 January 2002, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and

capitalised borrowing costs. Purchased software that is an integral part of the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in “other income” or “other expenses” in profit or loss.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group’s statement of financial position.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership at the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings and constructions 23 to 47 years
- Plant and equipment 18 to 37 years
- Tools and other 4 to 17 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(d) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Any negative goodwill is a bargain purchase that is recognised in profit or loss. For measurement of goodwill at initial recognition, see note 3(a)(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(ii) *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) *Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(v) *Amortisation*

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives of intangible assets for the current and comparative periods are:

- Development costs 1 to 5 years
- Other intangible assets 2 to 12 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) **Financial instruments**

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprise the following classes of assets: trade and other receivables, loans issued and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(g)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

Available-for-sale financial assets comprise equity securities and debt securities.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(g) Impairment**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Preference share capital

Preference share capital, which is non-redeemable and non-cumulative, is classified as equity.

(iii) Dividends and distributions to shareholders

Dividends are recognised as a liability in the period in which they are declared. Other distributions to shareholders are recognised in the period in which they are made.

(iv) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(i) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are recognised in profit or loss when they are due.

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for

each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on investment grade bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the period in which they arise and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(k) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will meet all the requirements associated with the grant. Grants that compensate the Group for expenses incurred are recognised as income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the profit or loss on a systematic basis over the useful life of the asset.

(m) Revenues

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, the recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(i) Revenue on commission services

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission received by the Group.

(n) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings and loans, interest income on funds invested, impairment losses and gains and losses on the disposal of available-for-sale investments.

All borrowing costs are recognised in profit or loss using the effective interest method except for the borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Interest income is recognised as it accrues in profit or loss using the effective interest method.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease payments made, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is confirmed.

(p) Social expenditure

In the normal course of business the Group contributes to state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. These contributions are made in compliance with statutory requirements. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred and included into personnel costs.

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary and preference shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary and preference shareholders and the weighted average number of ordinary and preference shares outstanding, adjusted for own shares held for the effects of all dilutive potential ordinary and preference shares.

The Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (see Note 27).

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's President to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(s) Financial guarantee contracts

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date, if payment under a contract becomes probable, and the amount recognised less cumulative amortization.

(t) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). The new Standard will not have any impact on the Group's financial position or performance.
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of

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the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet determined the potential effect of the amended standard.
- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The new Standard will not have any impact on the Group's financial position or performance.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The amendment will not have any impact on the Group's financial position or performance.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The new Standard will not have any impact on the Group's financial position or performance.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not anticipate that this amendment will have a significant effect on the Group's disclosures regarding transfers of trade receivables. However if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified, future benefits arising from the improved access are probable and the costs related to the stripping activity associated with the component of the ore body are reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how

capitalized amounts should be allocated between inventory and the stripping activity asset. The IFRIC will not have any impact on the Group's financial position or performance.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2011.. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Intangible assets

The fair value of licenses and software acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the licenses and software being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Segment reporting

The Group determined six main reportable segments described below which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's President reviews internal management reports on a regular basis. The following summary describes the operations in each of the Group's reportable segments:

Light commercial vehicles and cars. The manufacture and sale of a wide range of light commercial vehicles and passenger cars, as well as auto-components.

Buses. The manufacture and sale of a wide range of buses.

Engines and fuel injection equipment. The manufacture and sale of a wide range of engines and fuel injection equipment.

Trucks. The manufacture and sale of a wide range of supersize trucks, special purpose vehicles.

Road construction vehicles. The manufacture and sale of a wide range of road construction vehicles, special purpose vehicles.

Autocomponents: the manufacture and sale of a wide range of autocomponents.

Other operations include services and trading activities. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2011 or 2010.

Information regarding the results of each reportable segment is included below.

Financial performance is evaluated on the basis of segment profit before impairment losses of fixed assets, financial income and expenses, gain on deconsolidation of subsidiaries and income tax as included in the internal management reports that are reviewed by the Group's President. This segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

The results of certain essential operations and events, such as acquisition and deconsolidation of companies, and a number of adjustments which may be necessary for adjusting internal management reports of the Group to the figures reflected in the IFRS consolidated financial statements, are reviewed by the President as a whole, without distributing them among operating segments. Financial incomes and expenses are not allocated to operating segments either.

Segment assets include fixed assets and intangible assets before accumulated impairment losses, inventory, trade and other receivables and prepayments for goods and services made net of impairment provisions.

Segment liabilities include non-current and current accounts payable and provisions.

Non-allocated assets and liabilities are the Group's assets and liabilities such as investments, income tax receivable and payable, loans and borrowings, deferred tax assets and liabilities.

(i) **Reportable segments**

31 December 2011 '000 RUB	Autocomponents	Light commercial vehicles and cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Reportable segment assets	11,103,804	12,507,838	9,437,294	19,653,224	4,300,063	2,893,394	7,834,411	67,730,028
Reportable segment liabilities	3,082,508	6,072,673	6,296,076	5,878,773	2,425,673	826,192	8,647,022	33,228,917
31 December 2010 '000 RUB	Autocomponents	Light commercial vehicles and cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Reportable segment assets	11,214,106	12,710,439	7,389,749	17,300,026	4,095,676	3,560,678	10,455,076	66,725,750
Reportable segment liabilities	2,644,502	5,473,087	4,253,207	5,689,031	1,914,823	1,835,849	7,408,117	29,218,616

31 December 2011 '000 USD*	Autocomponents	Light commercial vehicles and cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Reportable segments assets	344,880	388,489	293,119	610,423	133,559	89,868	243,334	2,103,672
Reportable segments liabilities	95,742	188,615	195,554	182,593	75,341	25,661	268,573	1,032,079
31 December 2010 '000 USD*	Autocomponents	Light commercial vehicles and cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Reportable segment assets	348,306	394,782	229,523	537,333	127,211	110,593	324,731	2,072,479
Reportable segment liabilities	82,137	169,992	132,103	176,699	59,474	57,021	230,094	907,520

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to Note 2(d).

2011 '000 RUB	Autocomponents	Light commercial vehicles and cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Revenue from external customers	5,175,951	56,052,911	25,104,408	17,791,221	21,189,178	6,396,460	672,279	132,382,408
Inter-segment revenue	16,593,331	1,411,626	146,168	9,466,511	152,131	49,927	54,487,409	82,307,103
Total reportable segment revenue	21,769,282	57,464,537	25,250,576	27,257,732	21,341,309	6,446,387	55,159,688	214,689,511
Reportable segment result	2,505,592	2,749,594	2,324,511	578,187	837,165	126,425	1,333,408	10,454,882
Depreciation / amortisation	322,643	1,028,612	305,613	732,073	228,841	208,853	38,672	2,865,307
Capital expenditure	203,863	1,271,582	230,931	2,860,270	204,832	19,070	71,790	4,862,338

2010 '000 RUB	Autocomponents	Light commercial vehicles and cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Revenue from external customers	4,069,280	41,238,584	15,159,302	13,526,786	16,905,144	5,123,646	736,380	96,759,122
Inter-segment revenue	12,145,182	1,066,140	187,262	7,789,193	188,192	48,268	37,595,491	59,019,728
Total reportable segment revenue	16,214,462	42,304,724	15,346,564	21,315,979	17,093,336	5,171,914	38,331,871	155,778,850
Reportable segment result	1,195,100	978,373	597,155	1,114,146	361,873	376,367	(907,658)	3,715,356
Depreciation / amortisation	338,883	1,042,978	309,510	697,714	196,269	135,351	48,968	2,769,673
Capital expenditure	148,498	197,041	80,591	1,928,922	112,622	43,763	121,397	2,632,834

2011 '000 USD*	Autocomponents	Light commercial vehicles and cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Revenue from external customers	160,763	1,740,984	779,735	552,589	658,129	198,672	20,881	4,111,753
Inter-segment revenue	515,383	43,845	4,540	294,027	4,725	1,551	1,692,360	2,556,431
Total reportable segment revenue	676,146	1,784,829	784,275	846,616	662,854	200,223	1,713,241	6,668,184
Reportable segment result	77,823	85,401	72,199	17,958	26,002	3,927	41,415	324,725
Depreciation / amortisation	10,021	31,948	9,492	22,738	7,108	6,487	1,201	88,995
Capital expenditure	6,332	39,495	7,173	88,839	6,362	592	2,230	151,023

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2010 '000 USD*	Autocomponents	Light commercial vehicles cars	Buses	Engines and fuel injection equipment	Trucks	Road construction vehicles	Other segments	Total
Revenue from external customers	126,390	1,280,857	470,843	420,137	525,068	159,139	22,872	3,005,306
Inter-segment revenue	377,226	33,114	5,816	241,930	5,845	1,499	1,167,703	1,833,133
Total reportable segment revenue	503,616	1,313,971	476,659	662,067	530,913	160,638	1,190,575	4,838,439
Reportable segment result	37,119	30,388	18,547	34,605	11,240	11,690	(28,191)	115,398
Depreciation / amortisation	10,526	32,395	9,613	21,670	6,096	4,204	1,521	86,025
Capital expenditure	4,612	6,120	2,503	59,912	3,498	1,359	3,771	81,775

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(ii) **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Segment revenue	214,689,511	155,778,850	6,668,184	4,838,439
Inter-segment eliminations	(82,307,103)	(59,019,728)	(2,556,431)	(1,833,133)
External sales differences	62,416	(38,325)	1,939	(1,191)
Revenue in the consolidated statement of comprehensive income	<u>132,444,824</u>	<u>96,720,797</u>	<u>4,113,692</u>	<u>3,004,115</u>
Reportable segment result	10,454,882	3,715,356	324,725	115,398
<i>Adjustments:</i>				
Unrealised profit	(403,255)	(493,375)	(12,525)	(15,325)
Elimination of inter-company margin	448,945	82,111	13,945	2,550
Differences in depreciation and amortisation of fixed assets and intangible assets	759,410	200,470	23,586	6,227
(Accrual) / reversal of provisions for impairment of fixed assets and intangible assets	(168,523)	602,495	(5,234)	18,713
Reversal of other provisions and reserves	367,872	2,845,298	11,426	88,374
Other adjustments	234,614	428,557	7,288	13,312
<i>Non-allocated items:</i>				
Financial income	254,449	329,145	7,903	10,223
Financial expenses	(2,345,805)	(5,432,005)	(72,860)	(168,716)
Net gain on foreign exchange differences	(145,232)	322,186	(4,511)	10,007
Profit before tax in the consolidated statement of comprehensive income	<u>9,457,357</u>	<u>2,600,238</u>	<u>293,743</u>	<u>80,763</u>

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	2011 '000 RUB	2010 '000 RUB	2011 '000 USD*	2010 '000 USD*
Reportable segment assets	67,730,028	66,725,750	2,103,672	2,072,479
Inter-segment assets	(11,596,141)	(11,073,317)	(360,172)	(343,933)
Non-allocated assets	12,886,792	6,324,243	400,259	196,429
<i>Adjustments:</i>				
Net difference in the cost of fixed assets and intangible assets	(8,465,019)	(10,998,549)	(262,921)	(341,611)
Accrued bad debt and inventory provisions	(960,196)	(5,094,284)	(29,823)	(158,227)
Other adjustments	(1,794,845)	(724,867)	(55,747)	(22,514)
Total assets in the consolidated statement of financial position	57,800,619	45,158,976	1,795,268	1,402,623
Reportable segment liabilities	33,228,917	29,218,616	1,032,079	907,520
Inter-segment liabilities	(11,370,543)	(11,177,557)	(353,165)	(347,171)
Non-allocated liabilities	43,905,115	43,738,421	1,363,678	1,358,501
<i>Adjustments:</i>				
Accrued provisions	1,527,906	1,485,291	47,456	46,133
Other adjustments	(98,421)	(250,415)	(3,057)	(7,778)
Total liabilities in the consolidated statement of financial position	67,192,974	63,014,356	2,086,991	1,957,205

(iii) **Geographical regions**

Three main geographical regions are domestic sales (within Russia), exports to other CIS countries and sales to other regions.

Information about revenue is presented by geographical regions and is determined based on the location of the Group's customers.

The geographical regions' assets are determined based on the location of the Group's assets. The majority of the Group's assets are located in Russia.

Acquisitions of property, plant and equipment and intangible assets were made mostly in Russia.

'000 RUB	Russia		CIS		Other regions		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue from external customers	113,459,525	83,403,276	15,776,476	11,700,029	3,208,823	1,617,492	132,444,824	96,720,797
'000 USD*								
Revenue from external customers	3,524,015	2,590,478	490,012	363,399	99,665	50,238	4,113,692	3,004,115

(iv) **Major customer**

In 2011 no customer represented more than 10% of the Group's total revenue (2010: none).

6 Acquisitions and disposals

(a) Acquisition of non-controlling interests

In 2011 the Group acquired the shares of OAO “Autodiesel” (YaMZ) from non-controlling owners for RUB 14,912 thousand / USD* 463 thousand settled in cash (2010: RUB 19,817 thousand / USD* 616 thousand). This acquisition resulted in decrease in non-controlling interests of RUB 10,133 thousand / USD* 315 thousand (2010: RUB 13,282 thousand / USD* 412 thousand), and decrease in share premium of RUB 4,779 thousand / USD* 148 thousand (2010: RUB 6,535 thousand / USD* 204 thousand).

7 Revenue

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Light commercial vehicles and minivans	37,288,515	25,032,596	1,158,169	777,504
Middle commercial vehicles and trucks	27,853,355	19,768,881	865,116	614,015
Buses	24,254,273	14,406,824	753,329	447,471
Spare parts	20,195,921	17,113,774	627,279	531,548
Engines and fuel injection equipment	11,303,910	7,965,011	351,096	247,390
Road construction vehicles	4,390,037	3,486,832	136,353	108,300
Special purpose vehicles	2,686,480	2,938,382	83,441	91,265
Passenger cars	23,147	2,011,709	719	62,483
Other revenues	4,449,186	3,996,788	138,190	124,139
	<u>132,444,824</u>	<u>96,720,797</u>	<u>4,113,692</u>	<u>3,004,115</u>

8 Cost of sales

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Materials	(70,945,268)	(50,276,032)	(2,203,536)	(1,561,557)
Wages and salaries	(14,221,457)	(11,797,239)	(441,714)	(366,418)
Electrical and heating energy	(6,624,569)	(5,862,502)	(205,757)	(182,087)
Repairs and maintenance	(4,924,679)	(3,799,887)	(152,959)	(118,023)
Salary-based taxes	(4,695,835)	(3,167,563)	(145,851)	(98,383)
Transportation	(1,933,610)	(1,265,554)	(60,057)	(39,308)
Depreciation and amortisation	(1,925,566)	(2,307,599)	(59,808)	(71,673)
Other	(631,402)	(850,507)	(19,610)	(26,417)
	<u>(105,902,386)</u>	<u>(79,326,883)</u>	<u>(3,289,292)</u>	<u>(2,463,866)</u>

9 Distribution expenses

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Transportation	(2,641,468)	(1,120,481)	(82,043)	(34,802)
Wages and salaries	(1,050,661)	(929,516)	(32,633)	(28,870)
Advertising	(572,222)	(227,852)	(17,773)	(7,077)
Commission fees	(513,954)	(386,289)	(15,963)	(11,998)
Salary-based taxes	(238,839)	(195,315)	(7,418)	(6,066)
Repairs	(171,336)	(113,285)	(5,322)	(3,519)
Materials	(143,545)	(97,360)	(4,459)	(3,024)
Electrical and heating energy	(114,438)	(106,263)	(3,554)	(3,301)
Depreciation and amortisation	(33,973)	(39,268)	(1,055)	(1,220)
Other	(289,829)	(274,803)	(9,003)	(8,535)
	<u>(5,770,265)</u>	<u>(3,490,432)</u>	<u>(179,223)</u>	<u>(108,412)</u>

10 Administrative expenses

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Wages and salaries	(3,587,563)	(3,422,916)	(111,428)	(106,315)
Information and consulting services	(1,109,891)	(587,622)	(34,473)	(18,251)
Salary-based taxes	(836,124)	(675,135)	(25,970)	(20,969)
Taxes other than on profit	(828,935)	(733,257)	(25,746)	(22,775)
Rent	(258,228)	(291,297)	(8,021)	(9,048)
Utility services	(214,311)	(183,631)	(6,656)	(5,704)
Insurance expenses	(187,064)	(100,017)	(5,810)	(3,106)
Bank services	(160,311)	(141,837)	(4,979)	(4,405)
Depreciation and amortisation	(146,358)	(222,336)	(4,546)	(6,905)
Repairs and maintenance	(136,352)	(75,465)	(4,235)	(2,344)
Security services	(116,724)	(80,285)	(3,625)	(2,494)
Other administrative expenses	(696,991)	(597,961)	(21,649)	(18,573)
	<u>(8,278,852)</u>	<u>(7,111,759)</u>	<u>(257,138)</u>	<u>(220,889)</u>

11 Other income and expenses

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Income				
Change in provision for inventory	356,640	1,465,798	11,077	45,527
Change in bad debts provision and write-offs	193,879	-	6,022	-
Gain on disposal of property, plant and equipment and intangible assets	116,309	-	3,613	-
Gain on payables write-off	88,809	277,109	2,758	8,607
Gain on reversal of impairment losses of property, plant and equipment (Note 15(b))	-	602,495	-	18,713
Gain on disposal of inventories	41,782	83,707	1,298	2,600
Other income	70,714	266,685	2,196	8,284
	<u>868,133</u>	<u>2,695,794</u>	<u>26,964</u>	<u>83,731</u>
Expenses				
Social expenses and charity	(1,012,837)	(793,880)	(31,458)	(24,658)
Research and development costs	(192,229)	(452,531)	(5,971)	(14,055)
Fines and penalties	(192,574)	(33,879)	(5,981)	(1,052)
Impairment losses of property, plant and equipment (Note 15(b)) and intangible assets (Note 16)	(168,523)	-	(5,234)	-
Change in bad debts provision and write-offs	-	(437,225)	-	(13,580)
Impairment of goodwill	-	(199,389)	-	(6,193)
Downtime expenses	(36,766)	(84,668)	(1,142)	(2,630)
Loss on disposal of property, plant and equipment and intangible assets	-	(71,023)	-	(2,206)
Other expenses	(64,580)	(34,010)	(2,006)	(1,056)
	<u>(1,667,509)</u>	<u>(2,106,605)</u>	<u>(51,792)</u>	<u>(65,430)</u>

In 2010 other income includes income from settling the liabilities which was accrued in 2009 as a result of deconsolidation of companies in the amount of RUB 224,494 thousand / USD* 6,973 thousand .

12 Total personnel costs

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Wages and salaries	18,879,262	16,022,304	586,383	497,647
Salary-based taxes	5,818,468	4,018,652	180,720	124,818
Expenses related to defined benefits plan (see Note 32)	8,596	8,596	267	267
	<u>24,706,326</u>	<u>20,049,552</u>	<u>767,370</u>	<u>622,732</u>

13 Financial income and expenses

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
<i>Financial income</i>				
Interest income on loans issued	209,647	200,368	6,512	6,223
Interest income on bank deposits	33,603	31,688	1,044	984
Interest income on bank promissory notes	8,278	89,814	257	2,790
Reversal of discount on long- term receivables	2,921	7,275	90	226
	<u>254,449</u>	<u>329,145</u>	<u>7,903</u>	<u>10,223</u>
<i>Financial expenses</i>				
Interest expense on financial liabilities measured at amortised cost	(4,456,607)	(5,289,366)	(138,421)	(164,286)
Loss on impairment of loans issued	(1,245,825)	(113,276)	(38,695)	(3,518)
Loss on disposal of financial assets (Note 37(c)(iv))	(591,043)	-	(18,358)	-
Loss on impairment of other investments	(4,453)	(6,914)	(138)	(215)
Subsidies of the Russian Government	3,991,831	-	123,985	-
Other financial expenses	(39,708)	(22,449)	(1,233)	(697)
	<u>(2,345,805)</u>	<u>(5,432,005)</u>	<u>(72,860)</u>	<u>(168,716)</u>

Financial expenses include subsidies of the Russian Government granted to compensate part of interest expenses on bank loans received by the Group in 2009 – 2010 in the amount of RUB 3,991,831 thousand / USD* 123,985.

Financial income includes interest income on impaired financial assets in the amount of RUB 169,925 thousand / USD* 5,278 thousand (2010: RUB 112,855 thousand / USD* 3,505 thousand).

14 Income tax expense

	2011 <u>'000 RUB</u>	2010 <u>'000 RUB</u>	2011 <u>'000 USD*</u>	2010 <u>'000 USD*</u>
<i>Current tax expense</i>				
Current year	(1,116,070)	(555,511)	(34,665)	(17,255)
Adjustments in respect of current income tax of previous years	(230,314)	22,214	(7,153)	690
	<u>(1,346,384)</u>	<u>(533,297)</u>	<u>(41,818)</u>	<u>(16,565)</u>
<i>Deferred tax income</i>				
Origination and reversal of temporary differences	(1,730,352)	(369,827)	(53,745)	(11,486)
Change in unrecognised deferred tax assets	2,119,878	421,322	65,843	13,086
	<u>389,526</u>	<u>51,495</u>	<u>12,098</u>	<u>1,600</u>
Income tax expense reported in the statement of comprehensive income	<u>(956,858)</u>	<u>(481,802)</u>	<u>(29,720)</u>	<u>(14,965)</u>

The applicable tax rate for the Company and subsidiaries located in Russia is 20% (2010: 20%). The applicable rate for measuring deferred taxes is 20% both in 2011 and 2010.

Reconciliation of effective tax rate:

	2011		2010	
	<u>'000 RUB</u>	<u>%</u>	<u>'000 RUB</u>	<u>%</u>
Profit before tax	9,457,357	100	2,600,238	100
Income tax at applicable tax rate	(1,891,471)	(20)	(520,048)	(20)
Income tax at lower/(higher) rates, net	21,507	0	(4,269)	(0)
Change in unrecognised deferred tax assets	2,119,878	22	421,322	16
Adjustments in respect of current income tax of previous years	(230,314)	(2)	22,214	1
Non-deductible items, net	(976,458)	(10)	(401,021)	(15)
	<u>(956,858)</u>	<u>(10)</u>	<u>(481,802)</u>	<u>(18)</u>

	2011		2010	
	<u>'000 USD*</u>	<u>%</u>	<u>'000 USD*</u>	<u>%</u>
Profit before tax	293,743	100	80,763	100
Income tax at applicable tax rate	(58,749)	(20)	(16,153)	(20)
Income tax at lower/(higher) rates, net	668	0	(133)	(0)
Change in unrecognised deferred tax assets	65,843	22	13,086	16
Adjustments in respect of current income tax of previous years	(7,153)	(2)	690	1
Non-deductible items, net	(30,329)	(10)	(12,455)	(15)
	<u>(29,720)</u>	<u>(10)</u>	<u>(14,965)</u>	<u>(18)</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

15 Property, plant and equipment

'000 RUB	Land and buildings	Plant and equipment	Tools and other	Construction in progress	Total
<i>Cost / Deemed cost</i>					
At 1 January 2010	47,608,404	93,691,400	11,479,684	6,421,322	159,200,810
Acquisition of subsidiaries	181	5,194	4,017	78	9,470
Additions	163,508	-	-	2,342,759	2,506,267
Disposals	(52,729)	(2,007,349)	(839,255)	(122,832)	(3,022,165)
Foreign currency translation	-	-	26	-	26
Transfers	133,774	750,846	72,667	(1,068,441)	(111,154)
At 31 December 2010	47,853,138	92,440,091	10,717,139	7,572,886	158,583,254
Additions	72,432	-	-	4,281,495	4,353,927
Disposals	(107,349)	(1,222,259)	(622,299)	(47,267)	(1,999,174)
Foreign currency translation	-	-	172	-	172
Transfers	217,663	485,670	820,080	(1,634,973)	(111,560)
At 31 December 2011	48,035,884	91,703,502	10,915,092	10,172,141	160,826,619
<i>Depreciation and impairment losses</i>					
At 1 January 2010	(41,722,040)	(85,323,246)	(10,185,738)	(2,095,360)	(139,326,384)
Depreciation charge	(677,016)	(1,377,738)	(371,905)	-	(2,426,659)
Impairment losses	98,455	470,977	(9,397)	42,460	602,495
Disposals	39,907	1,967,633	754,886	22,245	2,784,671
Foreign currency translation	-	-	(5)	-	(5)
Transfers	5,737	(307,326)	49,148	290,018	37,577
At 31 December 2010	(42,254,957)	(84,569,700)	(9,763,011)	(1,740,637)	(138,328,305)
Depreciation charge	(543,664)	(1,031,294)	(409,338)	-	(1,984,296)
Impairment losses	(61,774)	(15,042)	(615)	15,408	(62,023)
Disposals	104,112	1,208,645	617,361	34,135	1,964,253
Foreign currency translation	-	-	(48)	-	(48)
Transfers	44,874	219,168	(198,777)	289,631	354,896
At 31 December 2011	(42,711,409)	(84,188,223)	(9,754,428)	(1,401,463)	(138,055,523)
Net book value					
At 1 January 2010	5,886,364	8,368,154	1,293,946	4,325,962	19,874,426
At 31 December 2010	5,598,181	7,870,391	954,128	5,832,249	20,254,949
At 31 December 2011	5,324,475	7,515,279	1,160,664	8,770,678	22,771,096

'000 USD*	Land and buildings	Plant and equipment	Tools and other	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2010	1,478,701	2,910,023	356,555	199,444	4,944,723
Acquisition of subsidiaries	6	161	125	2	294
Additions	5,079	-	-	72,765	77,844
Disposals	(1,639)	(62,347)	(26,067)	(3,815)	(93,868)
Foreign currency translation	-	-	1	-	1
Transfers	4,155	23,321	2,257	(33,185)	(3,452)
At 31 December 2010	1,486,302	2,871,158	332,871	235,211	4,925,542
Additions	2,250	-	-	132,982	135,232
Disposals	(3,334)	(37,963)	(19,328)	(1,468)	(62,093)
Foreign currency translation	-	-	5	-	5
Transfers	6,761	15,085	25,471	(50,782)	(3,465)
At 31 December 2011	1,491,979	2,848,280	339,019	315,943	4,995,221
Depreciation and impairment losses					
At 1 January 2010	(1,295,872)	(2,650,111)	(316,366)	(65,081)	(4,327,430)
Depreciation charge	(21,028)	(42,792)	(11,551)	-	(75,371)
Impairment losses	3,058	14,628	(292)	1,319	18,713
Disposals	1,239	61,114	23,446	691	86,490
Transfers	178	(9,545)	1,527	9,008	1,168
At 31 December 2010	(1,312,425)	(2,626,706)	(303,236)	(54,063)	(4,296,430)
Depreciation charge	(16,886)	(32,032)	(12,714)	-	(61,632)
Impairment losses	(1,919)	(467)	(19)	479	(1,926)
Disposals	3,234	37,540	19,175	1,060	61,009
Foreign currency translation	-	-	(1)	-	(1)
Transfers	1,394	6,807	(6,174)	8,995	11,022
At 31 December 2011	(1,326,602)	(2,614,858)	(302,969)	(43,529)	(4,287,958)
Net book value					
At 1 January 2010	182,829	259,912	40,189	134,363	617,293
At 31 December 2010	173,877	244,452	29,635	181,148	629,112
At 31 December 2011	165,377	233,422	36,050	272,414	707,263

(a) **Acquisition of property, plant and equipment**

During the year ended 31 December 2011 the Group acquired property, plant and equipment of RUB 4,353,927 thousand / USD* 135,232 thousand (31 December 2010: RUB 2,506,267 thousand / USD* 77,844 thousand) including capital expenditures in equipment for production of engines under the EURO III and EURO IV standards under YaMZ-530 project of RUB 2,575,101 thousand / USD* 79,982 thousand (31 December 2010: RUB 1,762,368 thousand / USD* 54,739 thousand), and the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction of RUB 337,000 thousand / USD* 10,467 thousand (2010: RUB 198,884 thousand / USD* 6,177 thousand). Acquisitions for the year ended 31 December 2011 included capitalized interest cost in the amount of RUB 824,965 thousand / USD* 25,623 thousand (2010: RUB 232,312 thousand / USD* 7,216 thousand).

In 2011 property, plant and equipment transfer to inventory amounted to RUB 47,712 thousand / USD* 1,482 thousand (2010: RUB 73,578 thousand / USD* 2,285 thousand). Tooling in the amount of RUB 298,963 thousand / USD* 9,286 thousand was transferred from inventory to property, plant and equipment (31 December 2010: nil).

During the year ended 31 December 2011 certain items in the amount of RUB 7,915 thousand / USD* 246 thousand were transferred from property, plant and equipment to intangible assets (see Note 16(a)).

(b) Write-off of specific items

Based on an assessment of the recoverable amount of property, plant and equipment, the carrying value of certain items was written down by RUB 62,023 thousand / USD* 1,926 thousand at 31 December 2011 (2010: reversal of impairment for RUB 602,495 thousand / USD* 18,713 thousand). The impairment loss is included in "Other expenses", the reversal of impairment loss is included in "Other income" (refer to Note 11). The impairment loss in 2011 relates to items of property, plant and equipment which the Group does not plan to use in future, the reversal of impairment in 2010 refers to certain items of property, plant and equipment which are now being used by the Group.

(c) Impairment test

As at 31 December 2011 the Group analyzed its assets for impairment. As a result of analysis of internal and external sources of information there was revealed evidence of possible impairment of the Group's assets. The Group estimated the recoverable amount of property, plant and equipment at the level of cash generating units

The recoverable amount of assets was determined on the basis of the value in use, calculated as the present value of future cash flows expected to be derived from these cash generating units. Future cash flows were based on the best estimate of cash flows expected from the use of the assets, including net cash flows to be received for their disposal discounted at the pre-tax rate of 21.87% (2010: 19.14%). The assumptions in the impairment test were based on the Group's past experience. Cash flows were projected over the periods of residual useful life of fixed assets of cash generating units. As a result of the test the Group recognized impairment loss of development costs which refer to "Engines and fuel injection equipment" segment in the amount of RUB 106,500 thousand / USD* 3,308 thousand (see Note 16). The impairment loss is included in "Other expenses", (refer to Note 11). Test results were sensitive to changes in the key financial indicators of the cash generating units.

(d) Pledged assets

Properties with a net book value of RUB 10,648,672 thousand / USD* 330,744 thousand (31 December 2010: RUB 7,972,561 thousand / USD* 247,625 thousand) are pledged to secure bank loans (refer to Note 28).

(e) Depreciation

As at 31 December 2011, the depreciation charge directly attributable to the cost of inventory of RUB 76,276 thousand / USD* 2,369 thousand is included in the cost of work in progress and finished goods (31 December 2010: RUB 118,162 thousand / USD* 3,670 thousand).

During the year ended 31 December 2011 depreciation expense of RUB 1,879,981 thousand / USD* 58,392 thousand has been charged to cost of sales (2010: RUB 2,269,998 thousand / USD* 70,505 thousand), RUB 32,676 thousand / USD* 1,015 thousand to distribution expenses (2010: RUB 38,304 thousand / USD* 1,190 thousand) and RUB 113,525 thousand / USD* 3,526 thousand to administrative expenses (2010: RUB 180,660 thousand / USD* 5,611 thousand).

16 Intangible assets

'000 RUB	Goodwill	Licenses	Software	Development costs	Total
Cost					
At 1 January 2010	-	577,272	455,225	1,328,012	2,360,509
Acquisition of subsidiaries	199,389	-	56	-	199,445
Additions	-	6,531	30,777	89,259	126,567
Disposals	-	(227,508)	(180,343)	(65,484)	(473,335)
Foreign currency translation	-	-	2	-	2
Transfers	-	4,595	11,927	(22,117)	(5,595)
At 31 December 2010	199,389	360,890	317,644	1,329,670	2,207,593
Additions	-	57,332	11,392	439,687	508,411
Disposals	-	(6,749)	(17,976)	-	(24,725)
Foreign currency translation	-	-	17	-	17
Transfers	-	739	(1,308)	(20,651)	(21,220)
At 31 December 2011	199,389	412,212	309,769	1,748,706	2,670,076
Amortisation and impairment losses					
At 1 January 2010	-	(329,894)	(296,052)	(70,864)	(696,810)
Impairment losses	(199,389)	-	-	-	(199,389)
Amortisation charge	-	(30,487)	(44,163)	(5,591)	(80,241)
Disposals	-	227,274	173,589	61,350	462,213
At 31 December 2010	(199,389)	(133,107)	(166,626)	(15,105)	(514,227)
Impairment losses	-	-	-	(106,500)	(106,500)
Amortisation charge	-	(36,780)	(32,111)	(10,824)	(79,715)
Disposals	-	6,744	15,383	-	22,127
Transfers	-	-	(733)	(1,566)	(2,299)
At 31 December 2011	(199,389)	(163,143)	(184,087)	(133,995)	(680,614)
Net book value					
At 1 January 2010	-	247,378	159,173	1,257,148	1,663,699
At 31 December 2010	-	227,783	151,018	1,314,564	1,693,365
At 31 December 2011	-	249,069	125,682	1,614,711	1,989,462

'000 USD*	<u>Goodwill</u>	<u>Licenses</u>	<u>Software</u>	<u>Development costs</u>	<u>Total</u>
Cost					
At 1 January 2010	-	17,930	14,139	41,248	73,317
Acquisition of subsidiaries	6,193	-	2	-	6,195
Additions	-	203	956	2,772	3,931
Disposals	-	(7,067)	(5,601)	(2,034)	(14,702)
Transfers	-	143	370	(687)	(174)
At 31 December 2010	<u>6,193</u>	<u>11,209</u>	<u>9,866</u>	<u>41,299</u>	<u>68,567</u>
Additions	-	1,781	354	13,656	15,791
Disposals	-	(210)	(558)	-	(768)
Foreign currency translation	-	-	1	-	1
Transfers	-	23	(41)	(641)	(659)
At 31 December 2011	<u><u>6,193</u></u>	<u><u>12,803</u></u>	<u><u>9,622</u></u>	<u><u>54,314</u></u>	<u><u>82,932</u></u>
Amortisation and impairment losses					
At 1 January 2010	-	(10,246)	(9,195)	(2,201)	(21,642)
Impairment losses	(6,193)	-	-	-	(6,193)
Amortisation charge	-	(947)	(1,371)	(174)	(2,492)
Disposals	-	7,059	5,390	1,906	14,355
At 31 December 2010	<u>(6,193)</u>	<u>(4,134)</u>	<u>(5,176)</u>	<u>(469)</u>	<u>(15,972)</u>
Impairment losses	-	-	-	(3,308)	(3,308)
Amortisation charge	-	(1,142)	(998)	(336)	(2,476)
Disposals	-	209	478	-	687
Transfers	-	-	(22)	(49)	(71)
At 31 December 2011	<u><u>(6,193)</u></u>	<u><u>(5,067)</u></u>	<u><u>(5,718)</u></u>	<u><u>(4,162)</u></u>	<u><u>(21,140)</u></u>
Net book value					
At 1 January 2010	<u>-</u>	<u>7,684</u>	<u>4,944</u>	<u>39,047</u>	<u>51,675</u>
At 31 December 2010	<u>-</u>	<u>7,075</u>	<u>4,690</u>	<u>40,830</u>	<u>52,595</u>
At 31 December 2011	<u><u>-</u></u>	<u><u>7,736</u></u>	<u><u>3,904</u></u>	<u><u>50,152</u></u>	<u><u>61,792</u></u>

(a) Acquisition of intangible assets

The sum of acquisition of intangible assets includes capitalized costs of development of a new line of engines under EURO III and EURO IV standards under YaMZ-530 project in the amount of RUB 80,787 thousand / USD* 2,509 thousand (2010: RUB 61,864 thousand / USD* 1,921 thousand), costs of development of new trucks for agriculture in the amount of RUB 77,569 thousand / USD* 2,409 thousand (2010: nil), and costs of development of the Gazelle Next wagon in the amount of RUB 113,720 thousand / USD* 3,532 thousand (2010: nil).

All development costs capitalized in 2011 are the Group's internally generated costs.

Development costs relate to the "Engines and fuel injection equipment" and "Light commercial vehicles and cars" segments which are regarded as separate cash generating units. These

development costs were tested for impairment together with the fixed assets which belong to the cash generating units (see Note 15(c)). As a result of the test the Group recognised impairment loss of the development costs which refer to “Engines and fuel injection equipment” segment in the amount of RUB 106,500 thousand / USD* 3,308 thousand. The impairment loss is included in “Other expenses” (refer to Note 11).

During the year ended 31 December 2011 development parts in the amount of RUB 7,915 thousand / USD* 246 thousand were transferred from property, plant and equipment to intangible assets (see Note 15(a)).

(b) Amortisation charge

During the year ended 31 December 2011 amortisation expense of RUB 45,585 thousand / USD* 1,416 thousand has been charged to cost of sales (2010: RUB 37,601 thousand / USD* 1,168 thousand), RUB 1,297 thousand / USD* 40 thousand to distribution expenses (2010: RUB 964 thousand / USD* 30 thousand), RUB 32,833 thousand / USD* 1,020 thousand to administrative expenses (2010: RUB 41,676 thousand / USD* 1,294 thousand).

17 Other investments

Other investments include current and non-current financial assets as follows.

As at 31 December 2011, other current investments mainly include available-for-sale investments in the amount of RUB 45 thousand / USD* 1 thousand (2010: RUB 45 thousand / USD* 1 thousand).

Non-current investments in the amount of RUB 481,409 thousand / USD* 14,952 thousand (2010: RUB 42,782 thousand / USD* 1,329 thousand) include available-for-sale investments for RUB 46,409 thousand / USD* 1,441 thousand (2010: RUB 42,182 thousand / USD* 1,310 thousand), prepayment for assets and payment connected with increase of the equity of the equity accounted investee in the amount of RUB 435,000 thousand / USD* 13,511 thousand (2010: nil).

18 Equity accounted investees

The Group has the following investments in a joint venture:

	Country	Ownership/Voting
OOO Bozal-GAZ	Russia	49.9%

The following is summarised financial information, in aggregate, in respect of equity accounted investees

	2011 '000 RUB	2010 '000 RUB
Total assets	82,367	-
Total liabilities	75,742	-
Revenue	-	-
Loss for the year	(3,376)	-

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

	2011	2010
	'000 USD*	'000 USD*
Total assets	2,558	-
Total liabilities	2,353	-
Revenue	-	-
Loss for the year	(105)	-

Due to the decision to increase the equity of the joint venture in December 2011 the Group made a payment in the amount of RUB 75,000 thousand / USD* 2,329 thousand, which is included into other investments until the date of registration of the change in the Charter documents (see Note 17).

19 Other long-term financial assets

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Employees' accounts receivable for apartments	96,638	45,601	3,002	1,416
Other	1,781	21,274	55	661
	<u>98,419</u>	<u>66,875</u>	<u>3,057</u>	<u>2,077</u>

Other long-term assets have been discounted at a market rate as at the date of initial recognition. The discount rate effective as at 31 December 2011 was 8% (31 December 2010: 7.75%).

20 Loans issued

All loans issued bear fixed interest.

The following table shows the period in which interest-bearing financial assets mature:

2011	Contractual	Less than	1 – 2	Total
'000 RUB	interest rate	1 year	years	
<i>Loans to companies</i>				
RUB	8-13%	383,055	623,564	1,006,619
USD	6.5%	174,321	-	174,321
		<u>557,376</u>	<u>623,564</u>	<u>1,180,940</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

2010 '000 RUB	Contractual interest rate	Less than 1 year	1 – 2 years	Total
<i>Loans to companies</i>				
RUB	8-13%	104,983	64,551	169,534
RUB	15-21%	251,614	239,335	490,949
		<u>356,597</u>	<u>303,886</u>	<u>660,483</u>

2011 '000 USD*	Contractual interest rate	Less than 1 year	1 – 2 years	Total
<i>Loans to companies</i>				
RUB	8-13%	11,898	19,368	31,266
USD	6.5%	5,414	-	5,414
		<u>17,312</u>	<u>19,368</u>	<u>36,680</u>

2010 '000 USD*	Contractual interest rate	Less than 1 year	1 – 2 years	Total
<i>Loans to companies</i>				
RUB	8-13%	3,261	2,005	5,266
RUB	15-21%	7,815	7,434	15,249
		<u>11,076</u>	<u>9,439</u>	<u>20,515</u>

Management reviewed the carrying amount of loans receivable on individual basis to determine whether there are indications that loans receivable are impaired. This analysis included review of repayments after the balance sheet date and review of the borrower's financial information in order to determine its financial position and ability to repay its obligations. As a result, impairment loss of RUB 1,245,825 thousand / USD* 38,695 thousand (2010: RUB 113,276 thousand / USD* 3,518 thousand) of which RUB 1,174,757 thousand / USD* 36,488 thousand (2010: RUB 107,801 thousand / USD* 3,348 thousand) refers to loans issued to related parties (see Note 37(c)(iv)) was recognised in these consolidated financial statements. Impairment loss is presented in the consolidated statement of comprehensive income in the line item "Financial expenses" (see Note 13).

21 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

'000 RUB	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	967,246	1,236,118	(538,450)	(453,259)	428,796	782,859
Impairment of investments, (valuation of investments)	748,230	351,258	(7,524)	(1,847)	740,706	349,411
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	358,144	594,539	(5,604)	(11,861)	352,540	582,678
Bad debt reserve accrual, (valuation of receivables)	1,844,234	1,788,401	(340,310)	(151,857)	1,503,924	1,636,544
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	907,350	838,697	(31,578)	(3,440)	875,772	835,257
Tax loss carry-forwards	2,756,440	4,201,781	-	-	2,756,440	4,201,781
Tax assets/ (liabilities)	7,581,644	9,010,794	(923,466)	(622,264)	6,658,178	8,388,530
Offset of taxes	(642,587)	(391,278)	642,587	391,278	-	-
Unrecognised deferred tax assets	(5,792,643)	(7,912,521)	-	-	(5,792,643)	(7,912,521)
Net tax assets/ (liabilities)	1,146,414	706,995	(280,879)	(230,986)	865,535	476,009

'000 USD*	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	30,042	38,393	(16,724)	(14,078)	13,318	24,315
Impairment of investments, (valuation of investments)	23,240	10,910	(234)	(57)	23,006	10,853
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	11,124	18,466	(174)	(368)	10,950	18,098
Bad debt reserve accrual, (valuation of receivables)	57,282	55,547	(10,570)	(4,717)	46,712	50,830
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	28,182	26,050	(981)	(107)	27,201	25,943
Tax loss carry-forwards	85,614	130,506	-	-	85,614	130,506
Tax assets/ (liabilities)	235,484	279,872	(28,683)	(19,327)	206,801	260,545
Offset of taxes	(19,959)	(12,153)	19,959	12,153	-	-
Unrecognised deferred tax assets	(179,918)	(245,760)	-	-	(179,918)	(245,760)
Net tax assets/ (liabilities)	35,607	21,959	(8,724)	(7,174)	26,883	14,785

(b) Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Deductible temporary differences	3,491,850	3,710,740	108,456	115,254
Tax loss carry-forwards	2,300,793	4,201,781	71,462	130,506
	5,792,643	7,912,521	179,918	245,760

Unrecognised deferred tax assets in respect of deductible temporary differences are mainly related to accrual of impairment losses of property, plant and equipment, accounts receivable and other assets.

The tax losses expire in 2012-2019. The deductible temporary differences do not expire under current tax legislation. Although there are indicators that the Group is recovering after the crisis, deferred tax assets have not been recognised in respect of these items because it is still significant uncertainty as to whether sufficient future taxable profits will be available against which the Group can utilise the benefits therefrom.

A deductible temporary difference in the amount of RUB 10,633,778 thousand / USD* 330,282 thousand (2010: RUB 10,072,508 thousand / USD* 312,849 thousand) and a taxable temporary difference in the amount of RUB 12,482,919 thousand / USD* 387,715 thousand (2010: RUB 9,649,366 thousand / USD* 299,706 thousand) relating to investments in subsidiaries have not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

(c) **Movement in temporary differences during the year**

'000 RUB	1 January 2010	Recognised in profit or loss	31 December 2010
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	868,184	(85,325)	782,859
Impairment of investments, (valuation of investments)	313,614	35,797	349,411
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	818,378	(235,700)	582,678
Bad debt reserve accrual, (valuation of receivables)	1,632,581	3,963	1,636,544
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	694,464	140,793	835,257
Tax loss carry-forwards	4,431,136	(229,355)	4,201,781
Unrecognised deferred tax assets	(8,333,843)	421,322	(7,912,521)
	<u>424,514</u>	<u>51,495</u>	<u>476,009</u>

'000 RUB	1 January 2011	Recognised in profit or loss	31 December 2011
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	782,859	(354,063)	428,796
Impairment of investments, (valuation of investments)	349,411	391,295	740,706
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	582,678	(230,138)	352,540
Bad debt reserve accrual, (valuation of receivables)	1,636,544	(132,620)	1,503,924
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	835,257	40,515	875,772
Tax loss carry-forwards	4,201,781	(1,445,340)	2,756,440
Unrecognised deferred tax assets	(7,912,521)	2,119,878	(5,792,643)
	<u>476,009</u>	<u>389,526</u>	<u>865,535</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

'000 USD*	1 January 2010	Recognised in profit or loss	31 December 2010
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	26,965	(2,650)	24,315
Impairment of investments, (valuation of investments)	9,741	1,112	10,853
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	25,419	(7,321)	18,098
Bad debt reserve accrual, (valuation of receivables)	50,707	123	50,830
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	21,570	4,373	25,943
Tax loss carry-forwards	137,630	(7,124)	130,506
Unrecognised deferred tax assets	(258,847)	13,087	(245,760)
	<u>13,185</u>	<u>1,600</u>	<u>14,785</u>

'000 USD*	1 January 2011	Recognised in profit or loss	31 December 2011
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	24,315	(10,997)	13,318
Impairment of investments, (valuation of investments)	10,853	12,153	23,006
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	18,098	(7,148)	10,950
Bad debt reserve accrual, (valuation of receivables)	50,830	(4,118)	46,712
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	25,943	1,258	27,201
Tax loss carry-forwards	130,506	(44,892)	85,614
Unrecognised deferred tax assets	(245,760)	65,842	(179,918)
	<u>14,785</u>	<u>12,098</u>	<u>26,883</u>

22 Inventories

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Raw materials and consumables	6,958,995	7,314,335	216,144	227,181
Work in progress	2,418,261	1,441,991	75,110	44,788
Finished goods and goods for resale	2,762,351	2,374,707	85,798	73,758
	<u>12,139,607</u>	<u>11,131,033</u>	<u>377,052</u>	<u>345,727</u>
Provision for impairment of inventory	(1,207,313)	(2,444,830)	(37,499)	(75,936)
	<u>10,932,294</u>	<u>8,686,203</u>	<u>339,553</u>	<u>269,791</u>
Write-down of inventories in the current year	(285,639)	(396,497)	(8,872)	(12,315)
Reversal of previous write-down of inventories in the current year	642,279	1,862,295	19,949	57,842

Inventories with a carrying value of RUB 1,603,062 thousand / USD* 49,791 thousand have been pledged as security for bank loans received (2010: RUB 1,475,427 thousand / USD* 45,826 thousand), refer to Note 28.

23 Accounts receivable

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Accounts receivable – trade	6,681,437	5,572,560	207,523	173,081
Other receivables	8,220,754	8,556,514	255,334	265,763
	<u>14,902,191</u>	<u>14,129,074</u>	<u>462,857</u>	<u>438,844</u>
Allowances for impairment	(8,935,619)	(9,347,984)	(277,537)	(290,345)
	<u>5,966,572</u>	<u>4,781,090</u>	<u>185,320</u>	<u>148,499</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 33.

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

24 Other short-term assets

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
VAT receivable	2,089,041	2,355,429	64,885	73,159
Other taxes receivable	28,037	92,821	871	2,883
	<u>2,117,078</u>	<u>2,448,250</u>	<u>65,756</u>	<u>76,042</u>
VAT allowances for impairment	(77,828)	(77,807)	(2,417)	(2,417)
	<u>2,039,250</u>	<u>2,370,443</u>	<u>63,339</u>	<u>73,625</u>

25 Cash and cash equivalents

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Cash on hand	3,185	3,457	99	107
Cash at banks	757,819	1,068,847	23,538	33,198
Deposits	8,218,422	2,857,490	255,261	88,753
Cash equivalents	864,702	850,265	26,857	26,409
Cash and cash equivalents	<u>9,844,128</u>	<u>4,780,059</u>	<u>305,755</u>	<u>148,467</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 33.

26 Equity

(a) Share capital

Number of shares unless otherwise stated

	Ordinary shares		Preference shares	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Authorized shares	20,004,511,693	20,004,511,693	1,453,500	1,453,500
Par value	1 RUB	1 RUB	1 RUB	1 RUB
On issue at the beginning of the year (net of treasury shares)	15,439,168	15,439,168	1,308,750	1,308,750
Shares issued	-	-	-	-
On issue at the end of the year, fully paid (net of treasury shares)	<u>15,439,168</u>	<u>15,439,168</u>	<u>1,308,750</u>	<u>1,308,750</u>

Share capital was adjusted for the effect of hyperinflation as described in Note 2(b).

Preference shares have no right of conversion or compulsory redemption, except for cases as stipulated by the Russian law. Holders of preference shares are entitled to an annual dividend per share equal to 10% of net profit for the year according to the Russian financial statements divided by the number of shares, but not less than the dividend per share attributable to ordinary shareholders.

If the dividend is not declared, holders of preference shares acquire the right to participate in general shareholders' meeting with the right to vote on all matters of its competence, beginning from the meeting following the meeting when it was decided not to pay dividends and ending on the date of first repayment of these dividends in full. The dividend is not cumulative. In other cases, preference shares also carry the right to vote at shareholders' meetings in respect of issues that restrict the interests of preference shareholders, including reorganisation and liquidation of the Company.

Accordingly, the Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 27).

In the event of liquidation of the Company preference shareholders first receive any declared unpaid dividends. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets of the Company.

(b) Share premium

Share premium is a difference between the nominal and purchase cost of shares issued, contributions of shareholders other than contributions in the share capital, and any difference between consideration paid to acquire (received in disposal of) non-controlling interests and the carrying amount of those non-controlling interests.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the amount of net profit as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2011, the Company had profit for the current period of RUB 2,162,656 thousand / USD* 67,171 thousand (2010: loss in the amount of RUB 12,487,905 thousand / USD* 387,870 thousand).

These consolidated financial statements include a liability for payment of dividends to shareholders for 2007.

On 28 June 2011 the annual shareholders' meeting decided not to pay dividends for the year ended 31 December 2010.

(d) Treasury shares

On 26 July 2006, the Company repurchased 1,311,953 ordinary shares and 144,750 preference shares of the Company, representing 10% of share capital at the date of purchase and 7.48% of share capital as at 31 December 2006. In July 2007 these treasury shares were contributed into the share capital of a new subsidiary ZAO GAZ-reserve.

During the second half of 2006, one of the Company's subsidiaries, OAO Avtomobilny zavod Ural, acquired from the Parent company and certain related parties 1,769,139 ordinary shares of the Company.

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27 Earnings per share

Earnings per share are calculated by dividing the profit attributable to ordinary and preference shareholders of RUB 8,208,557 thousand / USD* 254,955 thousand (31 December 2010: RUB 1,786,656 thousand / USD* 55,493 thousand) by the weighted average number of ordinary and preference shares outstanding during the year of 16,747,918 shares. (2010: 16,747,918 shares).

The Company has no potential dilutive ordinary shares.

28 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see Note 33.

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Non-current				
Secured bank loans	4,839,813	37,058,247	150,323	1,151,017
Secured borrowings	29,000,000	-	900,730	-
	<u>33,839,813</u>	<u>37,058,247</u>	<u>1,051,053</u>	<u>1,151,017</u>
	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Current				
Current portion of secured bank loans	2,741,782	4,267,888	85,159	132,559
Secured borrowings	6,099,347	-	189,444	-
Unsecured borrowings	207,929	179,761	6,458	5,583
Unsecured bonds issued	-	1,808,788	-	56,181
Finance lease liability	-	2,611	-	81
	<u>9,049,058</u>	<u>6,259,048</u>	<u>281,061</u>	<u>194,404</u>

During 2011, the Group capitalised RUB 824,965 thousand / USD* 25,623 thousand of bank interest expenses within the cost of property, plant and equipment (2010: RUB 232,312 thousand / USD* 7,216 thousand) (see Note 15(a)). The effective rate of capitalisation in 2011 was 11.88 (2010: 11.24%).

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUB	Nominal interest rate 2011	Dates of repayment 2011	Carrying amount 2011	Nominal interest rate 2010	Dates of repayment 2010	Carrying amount 2010
Bank loans:						
RUB	CBRF refinancing rate +4%	01.03.2010 - 27.09.2013	2,559,812	CBRF refinancing rate +4%	01.03.2010 - 30.07.2014	38,998,693
RUB	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 - 31.12.2018	4,842,076	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 - 31.12.2018	2,038,151
EUR	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	179,707	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	289,291
Borrowings:						
RUB	MosPrime 3M+4.2% + Min.interest income 0.125%.	23.12.2011 - 11.12.2018	12,778,998	-	-	-
RUB	MosPrime 3M+4.2% + Min.interest income 0.25%	23.12.2011 - 11.12.2018	16,304,415	-	-	-
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	23.12.2011 - 11.12.2012	6,015,934	-	-	-
RUB	1% - 8%	25.10.2007 - 31.12.2012	73,500	1% - 12%	25.10.2007 - 31.12.2011	51,104
USD	8.28%	20.07.2007 - 28.08.2008	134,429	8.28%	20.07.2007 - 28.08.2008	128,657
Bonds:						
RUB	-	-	-	18%	14.02.2006 - 15.02.2011	1,808,788
Finance lease liabilities:						
RUB	-	-	-	4%-5%	18.01.2007 - 20.09.2011	2,611
			<u>42,888,871</u>			<u>43,317,295</u>

'000 USD*	Nominal interest rate	Dates of repayment	Carrying amount	Nominal interest rate	Dates of repayment	Carrying amount
	2011	2011	2011	2010	2010	2010
Bank loans:						
RUB	CBRF refinancing rate +4%	01.03.2010 - 27.09.2013	79,507	CBRF refinancing rate +4%	01.03.2010 - 30.07.2014	1,211,287
RUB	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 - 31.12.2018	150,393	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 - 31.12.2018	63,304
EUR	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	5,582	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	8,985
Borrowings:						
RUB	MosPrime 3M+4.2% + Min.interest income 0.125%	23.12.2011 - 11.12.2018	396,911	-	-	-
RUB	MosPrime 3M+4.2% + Min.interest income 0.25%	23.12.2011 - 11.12.2018	506,410	-	-	-
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	23.12.2011 - 11.12.2012	186,853	-	-	-
RUB	1% - 8%	25.10.2007 - 31.12.2012	2,283	1% - 12%	25.10.2007 - 31.12.2011	1,587
USD	8.28%	20.07.2007 - 28.08.2008	4,175	8.28%	20.07.2007 - 28.08.2008	3,996
Bonds:						
RUB	-	-	-	18%	14.02.2006 - 15.02.2011	56,181
Finance lease liabilities:						
RUB	-	-	-	4%-5%	18.01.2007 - 20.09.2011	81
			1,332,114			1,345,421

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

The bank loans include loans from state corporation “The Bank for Development and Foreign Economic Affairs” (“Vnesheconombank”) at a variable interest rate of EURIBOR+3.2%, which amounted to RUB 179,707 thousand / USD* 5,582 thousand as at 31 December 2011 (31 December 2010: RUB 289,291 thousand / USD* 8,985 thousand). As at 31 December 2011 the Group did not meet certain covenants under these loans agreements. In accordance with the agreements the bank has the right to demand early redemption of the remaining part of the debt. Due to this the non-current portion of the debt under these agreements in the amount of RUB 59,160 thousand / USD* 1,837 thousand) was classified as a short-term liability (31 December 2010: RUB 171,780 thousand / USD* 5,335 thousand).

In December 2011 the Group redeemed bank loans in the amount of RUB 35,000,000 thousand / USD* 1,087,088 thousand by drawing loans from the company Scutellaria Trading Limited in the amount of RUB 35,000,000 thousand / USD* 1,087,088 thousand. The new loans are received at variable interest rates of Mosprime 3M increased by a margin and minimal interest income with repayment till December 2018. The borrowing facility was ultimately arranged by VTB Capital plc. In accordance with the loan agreement Scutellaria Trading Limited shall use amounts received from the Group for the purpose of repayment of loan to VTB Capital plc.

As part of the loan agreement the Group issued guarantees to VTB Capital plc for Scutellaria Trading Limited in the amount of RUB 35,097,582 thousand / USD* 1,090,119 thousand and pledged shares of the Company’s subsidiaries OAO “Pavlovsky avtobus” in the amount of 1,519,003 pcs., OAO “YAZDA” in the amount of 11,057,337 pcs, OAO “YAZTA” in the amount of 196,675 pcs and OAO Avtomobilny zavod Ural in the amount of 250,000 pcs, and interest in its subsidiaries OOO “Avtozavod GAZ”, OOO “LiAZ”, OOO “Likinsky avtobus”, OOO “PAZ”.

The guarantee provides for a number of certain covenants to be complied by the Group, in particular, restrictions on debt-to-EBITDA ratio, amounts of claims raised by tax authorities and payments to the state budget, restrictions the Group’s reorganization. Loan agreements also contain restrictions on the Group’s rights to declare dividends, issue shares, issue loans and guarantees and pledge assets to third parties, and certain other covenants. As at 31 December 2011 the Group complies with the covenants stipulated by the loan agreements.

During the year ended 31 December 2011 the Group received RUB 2,424,445 thousand / USD* 75,302 thousand under the loan agreement with the state corporation “The Bank for Development and Foreign Economic Affairs” (“Vnesheconombank”) signed by the Group’s subsidiary OAO “Autodiesel” (YaMZ) in October 2009 (2010: RUB 1,967,677 thousand / USD* 61,115 thousand). The loan agreement also contains restrictions on the Borrower’s rights to declare dividends, issue loans and guarantees and pledge assets to third parties, and certain other covenants. Also the Borrower is obliged to pledge to the Bank all equipment acquired under the loan agreement. As at 31 December 2011 the entity complies with the covenants stipulated by the loan agreement.

Finance lease liabilities are payable as follows:

'000 RUB	2011			2010		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	-	-	-	2,828	217	2,611
	-	-	-	2,828	217	2,611

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

'000 USD*	2011			2010		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	-	-	-	88	7	81
	-	-	-	88	7	81

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUB 10,648,672 thousand / USD* 330,744 thousand (2010: RUB 7,972,561 thousand / USD* 247,625 thousand) – refer to Note 15(d).
- Inventory with a carrying amount of RUB 1,603,062 thousand / USD* 49,791 thousand (2010: RUB 1,475,427 thousand / USD* 45,826 thousand) – refer to Note 22.
- Treasury shares of the Company in the amount of 3,225,842 and shares of the Company's subsidiary OAO "Autodiesel" (YaMZ) in the amount of 1,922,496 (2010: treasury shares of the Company in the amount of 3,225,842 and shares of the Company's subsidiary OAO "Autodiesel" (YaMZ) in the amount of 1,922,496).

29 Other long-term liabilities and deferred income

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Government grants	47,216	55,806	1,467	1,733
Other	616	376,515	19	11,695
	47,832	432,321	1,486	13,428

30 Accounts payable

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Accounts payable – trade	11,763,573	7,622,285	365,373	236,746
Payables to employees	3,330,790	2,712,830	103,453	84,260
Accounts payable for property, plant and equipment	289,002	357,924	8,976	11,117
Other payables and accrued expenses	724,100	862,247	22,490	26,780
	16,107,465	11,555,286	500,292	358,903

At 31 December 2011 the Group has overdue accounts payable in the amount of RUB 2,960,118 thousand / USD* 91,940 thousand (31 December 2010: RUB 2,672,254 thousand / USD* 82,999 thousand), including overdue payables for property, plant and equipment in the amount of RUB 92,411 thousand / USD* 2,870 thousand (2010: RUB 249,703 thousand / USD* 7,756 thousand).

thousand). As at 31 December 2011 the total amount of penalties for overdue payables on the balance sheet amounts to RUB 287,530 thousand / USD* 8,931 thousand (2010: RUB 233,526 thousand / USD* 7,253 thousand) and is included in other payables and accrued expenses, and also in accounts payable - trade.

Other payables and accrued expenses include penalties accrued for overdue payables in the amount of RUB 225,234 thousand / USD* 6,996 thousand (2010: RUB 188,162 thousand / USD* 5,844 thousand), dividends payable and other accrued expenses.

The Group's exposure to currency and liquidity risk related to accounts payable is disclosed in Note 33.

31 Other short-term liabilities

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Other taxes payable	2,860,985	2,809,422	88,862	87,260
Warranty provision	614,249	525,574	19,078	16,324
	<u>3,475,234</u>	<u>3,334,996</u>	<u>107,940</u>	<u>103,584</u>

Other taxes payable include social taxes, property tax, payroll tax and other taxes.

Management's assumptions regarding estimation of warranty provision are disclosed in Note 2(e).

32 Employee benefits

In 2008 the Company reconsidered its pension obligations and effectively introduced a defined benefit plan that provides pension for employees upon retirement. The plan entitles a retired employee to receive a monthly payment equal to 4% of monthly salary for the first year of service and 0.2%-0.7% of monthly salary for each subsequent year of service that the employee provided. The plan is wholly unfunded. Previously, the Company paid fixed contributions to the plan and did not assume any further obligations.

(a) Movements in the present value of the defined benefit obligations

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Defined benefit obligations at 1 January	(681,636)	(658,803)	(21,171)	(20,462)
Contributions	47,724	45,065	1,482	1,400
Current service costs and interest	(8,596)	(8,596)	(267)	(267)
Interest cost	(34,971)	(34,082)	(1,086)	(1,059)
Actuarial losses recognised in other comprehensive income	(21,950)	(25,220)	(682)	(783)
Defined benefit obligations at 31 December	<u>(699,429)</u>	<u>(681,636)</u>	<u>(21,724)</u>	<u>(21,171)</u>

(b) Expense recognised in profit or loss

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Current service costs	(8,596)	(8,596)	(267)	(267)
Interest on obligation	(34,971)	(34,082)	(1,086)	(1,059)
	<u>(43,567)</u>	<u>(42,678)</u>	<u>(1,353)</u>	<u>(1,326)</u>

The expense is recognised in the cost of sales except for the interest on obligation which is recognised in financial expenses.

(c) Actuarial losses recognised in other comprehensive income

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Cumulative amount at 1 January	(46,734)	(21,514)	(1,451)	(668)
Recognised during the year	(21,950)	(25,220)	(682)	(783)
Cumulative amount at 31 December	<u>(68,684)</u>	<u>(46,734)</u>	<u>(2,133)</u>	<u>(1,451)</u>

(d) Actuarial assumptions

Assumptions regarding future mortality are based on the USSR mortality tables of 1985-1986. The retirement age in Russia is currently 60 years for men and 55 years for women. The discount rate is 5%.

33 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit and Finance Committee of the Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit and Finance Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Finance Committee.

There were no changes in the composition of risks and in objectives, policies and processes for managing the risks as well as methods used to measure the risks from the previous period.

Exposure to credit, interest rate, liquidity and currency risk arises in the normal course of the Group's business.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, bank deposits and investment securities.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating customer credit risk management. The Group performs credit evaluations of all customers, except for related parties, who purchase goods with delay in payment. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end customer, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's retail customers (dealers).

Credit risk from balances with banks and financial institutions is managed by the Group Treasury in accordance with the Group's policy. Investments of funds are made only with approved counterparties and the Group's management analyzes risk of default of these counterparties on a regular basis.

The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The Group issues loans to related parties on terms which include timely repayment of loans and accrual of interest income. If the analyses of the financial position of the borrowers, which the Group performs at the reporting date, reveals evidence of significant financial problems or existence of negative events which will prevent the borrowers from meeting their obligations to repay the debt on time stated by loan agreements, the Group recognizes loss of impairment of loans issued in the consolidated financial statements. If significant uncertainty in the repayment of loans exists at the date of the issue of the loans, the Group recognizes them as distributions to shareholders.

The Group's entities do not invest in publicly traded securities and do not accept securities in connection with transactions with customers.

The Group's policy is to provide financial guarantees mostly to the parent company and the Group's subsidiaries.

The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including bank deposits, promissory notes and loans issued.

The maximum exposure to credit risk at 31 December 2011 and 2010 is the carrying amounts of financial assets as presented below:

	Category of financial asset	2011	2010	2011	2010
		'000 RUB	'000 RUB	'000 USD*	'000 USD*
Other non-current investments (Note 17)	Available-for-sale	46,409	42,782	1,441	1,329
Other current investments (Note 17)	Loans and receivables	45	45	1	1
Other long-term financial assets (Note 19)	Loans and receivables	98,419	66,875	3,057	2,077
Long-term loans issued (Note 20)	Loans and receivables	623,564	303,886	19,368	9,439
Short-term loans issued (Note 20)	Loans and receivables	557,376	356,597	17,312	11,076
Accounts receivable - trade (Note 23)	Loans and receivables	5,314,472	3,914,450	165,066	121,581
Other receivables (Note 23)	Loans and receivables	652,100	866,640	20,254	26,918
Cash and cash equivalents (Note 25)	Loans and receivables	9,844,128	4,780,059	305,755	148,467
		<u>17,136,513</u>	<u>10,331,334</u>	<u>532,254</u>	<u>320,888</u>

The Group does not hold any collaterals securing its financial assets.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Russia	4,228,716	3,558,590	131,343	110,529
CIS	611,920	335,695	19,006	10,427
Other regions	473,836	20,165	14,717	625
	<u>5,314,472</u>	<u>3,914,450</u>	<u>165,066</u>	<u>121,581</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

The maximum exposure to credit risk for other receivables at the reporting date by geographic region was:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Russia	643,474	755,631	19,986	23,470
CIS	284	22,832	9	709
Other regions	8,342	88,177	259	2,739
	<u>652,100</u>	<u>866,640</u>	<u>20,254</u>	<u>26,918</u>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Retail dealers	1,190,848	1,711,606	36,987	53,162
End customers	4,123,624	2,202,844	128,079	68,419
	<u>5,314,472</u>	<u>3,914,450</u>	<u>165,066</u>	<u>121,581</u>

Impairment losses

The ageing of trade receivables at the reporting date was:

'000 RUB

	2011	2010
Neither past due nor impaired	3,987,387	2,928,887
Past due 0-90 days but not impaired	1,235,436	704,490
Past due 90-180 days but not impaired	54,859	189,356
Past due 180-360 days but not impaired	22,619	47,159
More than one year but not impaired	14,171	44,558
	<u>5,314,472</u>	<u>3,914,450</u>

'000 USD*

	2011	2010
Neither past due nor impaired	123,847	90,970
Past due 0-90 days but not impaired	38,372	21,881
Past due 90-180 days but not impaired	1,704	5,881
Past due 180-360 days but not impaired	703	1,465
More than one year but not impaired	440	1,384
	<u>165,066</u>	<u>121,581</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Balance at 1 January	(1,658,110)	(1,821,619)	(51,500)	(56,579)
Impairment allowance recognised	(136,102)	(486,681)	(4,227)	(15,116)
Acquisition of subsidiaries	-	249,191	-	7,740
Impairment allowance reversed	427,247	400,999	13,270	12,455
Balance at 31 December	<u>(1,366,965)</u>	<u>(1,658,110)</u>	<u>(42,457)</u>	<u>(51,500)</u>

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Individually impaired	(218,684)	(199,088)	(6,792)	(6,184)
Collectively impaired	<u>(1,148,281)</u>	<u>(1,459,022)</u>	<u>(35,665)</u>	<u>(45,316)</u>
	<u>(1,366,965)</u>	<u>(1,658,110)</u>	<u>(42,457)</u>	<u>(51,500)</u>

The ageing of other receivables at the reporting date was:

'000 RUB	2011	2010
Neither past due nor impaired	529,514	802,390
Past due 0-90 days but not impaired	80,893	32,491
Past due 90-180 days but not impaired	18,864	5,242
Past due 180-360 days but not impaired	9,152	11,716
More than one year but not impaired	<u>13,677</u>	<u>14,801</u>
	<u>652,100</u>	<u>866,640</u>

'000 USD*	2011	2010
Neither past due nor impaired	16,447	24,922
Past due 0-90 days but not impaired	2,513	1,009
Past due 90-180 days but not impaired	586	163
Past due 180-360 days but not impaired	284	364
More than one year but not impaired	<u>424</u>	<u>460</u>
	<u>20,254</u>	<u>26,918</u>

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Balance at 1 January	(7,689,874)	(7,516,116)	(238,845)	(233,448)
Impairment allowance recognised	(44,162)	(286,906)	(1,372)	(8,911)
Reclassification	(65,090)	-	(2,021)	-
Impairment allowance reversed	230,472	113,148	7,158	3,514
Balance at 31 December	<u>(7,568,654)</u>	<u>(7,689,874)</u>	<u>(235,080)</u>	<u>(238,845)</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Individually impaired	(132,575)	(167,106)	(4,118)	(5,190)
Collectively impaired	(7,436,079)	(7,522,768)	(230,962)	(233,655)
	<u>(7,568,654)</u>	<u>(7,689,874)</u>	<u>(235,080)</u>	<u>(238,845)</u>

The ageing of loans issued at the reporting date was:

'000 RUB	2011	2010
Neither past due nor impaired	830,166	660,447
Past due 0-90 days but not impaired	342,136	-
Past due 180-360 days but not impaired	-	36
More than one year but not impaired	8,638	-
	<u>1,180,940</u>	<u>660,483</u>

'000 USD*	2011	2010
Neither past due nor impaired	25,785	20,514
Past due 0-90 days but not impaired	10,627	-
Past due 180-360 days but not impaired	-	1
More than one year but not impaired	268	-
	<u>36,680</u>	<u>20,515</u>

The movement in the allowance for impairment in respect of loans issued during the year was as follows (see Note 20):

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Balance at 1 January	(2,635,284)	(2,646,539)	(81,851)	(82,201)
Reclassification	65,153	-	2,024	-
Acquisition of subsidiaries	-	78,284	-	2,431
Impairment allowance recognised	(1,245,825)	(113,276)	(38,695)	(3,518)
Translation difference	(26,741)	46,247	(831)	1,437
Balance at 31 December	<u>(3,842,697)</u>	<u>(2,635,284)</u>	<u>(119,353)</u>	<u>(81,851)</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

The movement in the allowance for impairment in respect of other investments during the year was as follows (see Note 17):

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Balance at 1 January	(5,065,771)	(5,053,018)	(157,341)	(156,945)
Reclassification	-	(5,839)	-	(181)
Impairment allowance recognised	(4,453)	(6,914)	(138)	(215)
Balance at 31 December	<u>(5,070,224)</u>	<u>(5,065,771)</u>	<u>(157,479)</u>	<u>(157,341)</u>

Based on the history of collections, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

The allowance accounts in respect of trade receivables are used to record impairment losses until the Group is sure that no recovery of the debt is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset as they fall due.

To manage this risk the Group combines the cash flows of the Group's entities through a joint settlements centre allowing cash shortages to be predicted and prevented by temporarily using the liquidity of other Group entities.

The summary of the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments is disclosed below.

The following are the contractual maturities of financial liabilities, including estimated interest payments and transaction costs, and excluding the impact of netting agreements:

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).*

2011 '000 RUB	Effective interest rate	Less than 1 year	1 - 2 years	2 – 3 years	3 – 4 years	4 –5 years	more than 5 years	Total
Bank loans								
RUB	CBRF refinancing rate + 4%	2,718,616	-	-	-	-	-	2,718,616
RUB	CBRF refinancing rate + 3.25% but not less than 11%	287,752	572,376	1,546,416	1,431,941	1,317,585	2,291,506	7,447,576
EUR	EURIBOR + 3.2%	185,177	-	-	-	-	-	185,177
Borrowings:								
RUB	MosPrime 3M+4.2% + Min.interest income 0.125%.	1,577,645	1,477,501	3,903,766	3,608,063	3,314,587	5,739,841	19,621,403
RUB	MosPrime 3M+4.2% + Min.interest income 0.25%	2,033,640	1,905,371	4,999,208	4,617,873	4,239,409	7,331,940	25,127,441
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	6,626,725	-	-	-	-	-	6,626,725
RUB	1% - 8%	76,820	-	-	-	-	-	76,820
USD	8.28%	143,227	-	-	-	-	-	143,227
Trade and other payables:								
		16,107,465	-	-	-	-	-	16,107,465
		29,757,067	3,955,248	10,449,390	9,657,877	8,871,581	15,363,287	78,054,450

2010 '000 RUB	Effective interest rate	Less than 1 year	1 - 2 years	2 – 3 years	3 – 4 years	4 –5 years	more than 5 years	Total
Bank loans								
RUB	CBRF refinancing rate + 4%	8,641,424	6,773,895	7,937,419	31,534,426	-	-	54,887,164
RUB	CBRF refinancing rate + 3.25% but not less than 11%	-	131,007	259,877	712,624	660,648	1,670,519	3,434,675
EUR	EURIBOR + 3.2%	298,868	4,725	537	-	-	-	304,130
Borrowings:								
RUB	1% - 12%	53,771	-	-	-	-	-	53,771
USD	8.28%	136,984	-	-	-	-	-	136,984
Bonds								
RUB	18%	1,840,436	-	-	-	-	-	1,840,436
Finance lease liabilities:								
RUB	4% - 5%	2,828	-	-	-	-	-	2,828
Trade and other payables:								
		11,555,286	-	-	-	-	-	11,555,286
		22,529,597	6,909,627	8,197,833	32,247,050	660,648	1,670,519	72,215,274

2011 '000 USD*	Effective interest rate	Less than 1 year	1 - 2 years	2 – 3 years	3 – 4 years	4 –5 years	more than 5 years	Total
Bank loans								
RUB	CBRF refinancing rate + 4%	84,439	-	-	-	-	-	84,439
RUB	CBRF refinancing rate + 3.25% but not less than 11%	8,937	17,778	48,031	44,476	40,924	71,173	231,319
EUR	EURIBOR + 3.2%	5,752	-	-	-	-	-	5,752
Borrowings:								
RUB	MosPrime 3M+4.2% + Min.interest income 0.125%.	49,001	45,891	121,250	112,065	102,950	178,278	609,435
RUB	MosPrime 3M+4.2% + Min.interest income 0.25%	63,164	59,180	155,274	143,429	131,674	227,728	780,449
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	205,824	-	-	-	-	-	205,824
RUB	1% - 8%	2,386	-	-	-	-	-	2,386
USD	8.28%	4,449	-	-	-	-	-	4,449
Trade and other payables:								
		500,292	-	-	-	-	-	500,292
		924,244	122,849	324,555	299,970	275,548	477,179	2,424,345

2010 '000 USD*	Effective interest rate	Less than 1 year	1 - 2 years	2 – 3 years	3 – 4 years	4 –5 years	more than 5 years	Total
Bank loans								
RUB	CBRF refinancing rate + 4%	268,400	210,395	246,533	979,448	-	-	1,704,776
RUB	CBRF refinancing rate + 3.25% but not less than 11%		4,069	8,072	22,134	20,519	51,886	106,680
EUR	EURIBOR + 3.2%	9,283	147	17				9,447
Borrowings:								
RUB	1% - 12%	1,670	-	-	-	-	-	1,670
USD	8.28%	4,255	-	-	-	-	-	4,255
Bonds								
RUB	18%	57,163	-	-	-	-	-	57,163
Finance lease liabilities:								
RUB	4% - 5%	88	-	-	-	-	-	88
Trade and other payables:								
		358,903	-	-	-	-	-	358,903
		699,762	214,611	254,622	1,001,582	20,519	51,886	2,242,982

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. Financial instruments affected by market risk mainly include loans, floating rate borrowings, bank deposits, promissory notes and foreign currency denominated accounts receivables and accounts payable. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return for the Group.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily Russian Rouble (RUB). The currencies in which these transactions primarily are denominated are Euro and USD.

The Group does not enter into hedging arrangements to mitigate currency risks of the Group's operations.

The Group has the following net monetary positions in currencies foreign to functional currencies of the Group's subsidiaries:

'000 RUB	USD- denominated 2011	EUR- denominated 2011	USD- denominated 2010	EUR- denominated 2010
Current assets				
Loans issued	174,321	-	-	-
Trade receivables	282,154	187,356	91,530	4,543
Other receivables	9,201	11,881	22,153	348
Current liabilities				
Trade payables	(1,394,011)	(1,220,891)	(758,274)	(328,678)
Other payables	(377,090)	(124,669)	(62,521)	(219,235)
Loans and borrowings	(134,429)	(179,707)	(128,657)	(289,291)
	<u>(1,439,854)</u>	<u>(1,326,030)</u>	<u>(835,769)</u>	<u>(832,313)</u>

'000 USD*	USD- denominated 2011	EUR- denominated 2011	USD- denominated 2010	EUR- denominated 2010
Current assets				
Loans issued	5,414	-	-	-
Trade receivables	8,764	5,819	2,843	141
Other receivables	285	369	688	11
Current liabilities				
Trade payables	(43,298)	(37,920)	(23,552)	(10,209)
Other payables	(11,712)	(3,872)	(1,942)	(6,809)
Loans and borrowings	(4,175)	(5,582)	(3,996)	(8,985)
	<u>(44,722)</u>	<u>(41,186)</u>	<u>(25,959)</u>	<u>(25,851)</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

The following exchange rates applied at 31 December:

	2011	2010
	RUB	RUB
1 US Dollar	32.1961	30.4769
1 EURO	41.6714	40.3331

Sensitivity analysis

A 10% strengthening of the RUB against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	USD	EUR
RUB rate with 10% strengthening	28.9765	37.5043

	Equity	Profit or loss
	'000 RUB	'000 RUB
2011		
USD	143,986	143,986
EUR	132,603	132,603
2010		
USD	83,577	83,577
EUR	83,231	83,231

A 10% weakening of the RUB against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term obligations with floating interest rates. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

At the reporting date the structure of the Group's interest-bearing financial instruments was:

'000 RUB	2011	2010
Fixed rate instruments		
Financial assets	1,180,940	660,483
Financial liabilities	(170,669)	(1,834,853)
	<u>1,010,271</u>	<u>(1,174,370)</u>
Variable rate instruments		
Financial liabilities	(42,109,766)	(40,194,142)
	<u>(42,109,766)</u>	<u>(40,194,142)</u>
'000 USD*		
Fixed rate instruments		
Financial assets	36,680	20,515
Financial liabilities	(5,301)	(56,990)
	<u>31,379</u>	<u>(36,475)</u>
Variable rate instruments		
Financial liabilities	(1,307,915)	(1,248,416)
	<u>(1,307,915)</u>	<u>(1,248,416)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair value sensitivity analysis for variable rate instruments

As described in Note 28, the Group received borrowings in the amount of RUB 35,000,000 thousand / USD* 1,087,088 bearing interest rate MosPrime 3M increased by a margin and minimal interest income.

The Group's loans include the remaining part of syndicated bank loans at the refinancing rate set by CB RF increased by a margin of 4%.

Besides, the Group received RUB 4,392,122 thousand / USD* 136,418 thousand under the loan agreement with the state corporation "The Bank for Development and Foreign Economic Affairs" ("Vnesheconombank") at the refinancing rate set by CB RF increased by a margin of 3.25% but not less than 11%.

A change in interest rates by 100 basis points would increase or decrease equity and profit and loss for the period by RUB 406,774 thousand / USD* 12,634 thousand (2010: RUB 397,972 thousand / USD* 12,361 thousand).

(e) Other market price risk

The Group does not enter into any derivative contracts.

(f) Fair values

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts

Cash and short-term deposits, other current investments, trade and other receivables, short-term loans issued, trade and other payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

(g) Capital management

The Board's policy is to keep a stable capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders. In accordance with acting laws and the Company's Charter the Board of Directors works out the project of decision about dividends to be paid to holders of ordinary shares, which is to be approved by the annual shareholders' meeting.

To maintain or adjust the capital structure the Company may purchase its own shares. Purchase decisions are made on a specific transaction basis by the Board of Directors.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for certain financial covenants relating to the Group's loans (see Note 28).

There were no changes in the Group's approach to capital management during the year.

34 Operating leases

Non-cancellable operating leases relate to the rent of land plots from local authorities. The expected schedule of future payments for the lease of land plots is as follows:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Less than one year	163,514	260,339	5,079	8,086
Between one and five years	486,278	752,706	15,104	23,379
More than five years	3,261,055	4,885,565	101,287	151,744
	<u>3,910,847</u>	<u>5,898,610</u>	<u>121,470</u>	<u>183,209</u>

The calculation of payments was made based on lease terms in effect at the reporting date. Lease payments increase annually in accordance with a formula based on a correction coefficient established by local authorities. Future increases in lease payments have not been reflected in the amounts above. The leases are typically for a term of 45 years, with an option to renew at the end of the lease term.

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

In addition, the Group has termless agreements for the use of land for which it pays land tax. The substance of the land tax payment is a lease payment. These land tax payments are expected to be payable as follows (based on the tax rates active during the current year):

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Less than one year	202,626	54,591	6,293	1,696
Between one and five years	810,503	218,364	25,174	6,782
More than five years	8,105,031	2,183,644	251,740	67,823
	9,118,160	2,456,599	283,207	76,301

The decrease in future payments for the lease of land plots and increase in expected land tax payments in future is caused by the Group's purchase of land plots with high cadastral cost which previously were leased by the Group.

During the current year RUB 354,724 thousand / USD* 11,018 thousand was recognised as an expense in the statement of comprehensive income in respect of operating leases (2010: RUB 373,960 thousand / USD* 11,615 thousand).

35 Commitments

(a) Capital commitments

As at 31 December 2011 the Group entered into a contract to purchase equipment for the production EURO III and EURO IV engines with Grob-Werke GmbH&Co.KG, Germany, RIKO d.o.o. Ljubljana, Slovenia, ThyssenKrupp Krause GmbH, Germany, and other companies for RUB 4,493,620 thousand / USD* 139,570 thousand (2010: RUB 5,489,081 thousand / USD* 170,489 thousand), contracts for the development and production of EURO III and EURO IV engines with AVL List GmbH, Austria for RUB 96,869 thousand / USD* 3,009 thousand (2010: RUB 140,592 thousand / USD* 4,367 thousand). The Group has capital commitments under agreements for contract manufacturing of VW / Skoda cars in the amount of RUB 1,175,517 thousand / USD* 36,511 thousand (2010: nil) and for arrangement of production of Gazelle Next wagons in the amount of RUB 673,864 thousand / USD* 20,930 thousand (2010: nil). As at 31 December 2011 the Group had contractual commitments under the above mentioned contracts in the amount of RUB 2,392,728 thousand / USD* 74,317 thousand (2010: RUB 2,202,623 thousand / USD* 68,413 thousand).

At 31 December 2011 the Group had other capital commitments for RUB 60,754 thousand / USD* 1,887 thousand (2010: RUB 64,671 thousand / USD* 2,009 thousand).

36 Contingencies

(a) Litigation

Certain legal proceedings initiated by subsidiaries of the Group relating to tax authorities' assessments and matters arising in the ordinary course of business are pending at the balance sheet date. Management is of the opinion that no losses that are material in relation to the Group's financial position, other than those recognised in these consolidated financial statements, are likely to arise in respect of these matters.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As at 31 December 2011 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

37 Related party transactions

(a) Control relationships

The immediate parent company of OAO GAZ is OAO Russkie Mashiny, which is controlled by Basic Element Limited - a member of the Basic Element Group. The activities of the Group are closely linked with the activities of the Basic Element Group. As a result, the Group's transactions with the Basic Element Group, or entities related to the Basic Element Group, are significant. Determination of the pricing of the Group's transactions with the Basic Element Group is undertaken in conjunction with other Basic Element Group companies.

The party with ultimate control over OAO GAZ is Mr. O.V. Deripaska.

Related parties comprise the Basic Element Group and all other companies in which the Basic Element Group and the ultimate controlling party have a controlling interest or which the Basic Element Group and the ultimate controlling party control by other means. In addition, the Group has a controlling relationship with all its subsidiaries (refer to Note 38 for a list of significant subsidiaries).

No publicly available financial statements are produced by the Company's ultimate parent company or any other intermediate parent company.

(b) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see Note 12):

	2011 <u>'000 RUB</u>	2010 <u>'000 RUB</u>	2011 <u>'000 USD*</u>	2010 <u>'000 USD*</u>
Salaries and bonuses	279,754	203,673	8,689	6,326
Contributions to Social funds	3,579	3,152	111	98

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

283,333	206,825	8,800	6,424
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(c) Transactions with other related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2011, the Group has recorded impairment of receivables relating to amounts owed by related parties in the amount of RUB 88,873 thousand / USD* 2,760 thousand (2010: RUB 438,794 thousand / USD* 13,629 thousand of impairment of receivables from equity accounted investees. Impairment assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(i) Revenue

Sales to related parties were as follows:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD*	2010 '000 USD*
Sale of goods				
Fellow subsidiaries	1,661,073	1,489,468	51,592	46,262
Equity accounted investees	10	-	-	-
Services provided				
Fellow subsidiaries	285,180	337,684	8,858	10,488
Equity accounted investees	573	2,105	18	65
	1,946,836	1,829,257	60,468	56,815

(ii) Purchases

Purchases of raw materials, services and fixed assets from related parties were as follows:

	2011 '000 RUB	2010 '000 RUB	2011 '000 USD*	2010 '000 USD*
Purchase of raw materials				
Fellow subsidiaries	4,100,038	3,323,412	127,346	103,224
Equity accounted investees	-	460	-	14
Purchase of services				
<i>Electrical energy:</i>				
Fellow subsidiaries	4,618,203	4,040,858	143,440	125,507
<i>Consulting and other services:</i>				
Fellow subsidiaries	2,470,547	1,428,051	76,734	44,355
Equity accounted investees	-	7,197	-	224
	11,188,788	8,799,978	347,520	273,324

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

(iii) **Trade and other receivables**

Trade and other receivables owed by related parties were as follows:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Receivables				
Fellow subsidiaries	888,967	455,113	27,611	14,136
Equity accounted investees	43	-	1	-
Advances issued				
Fellow subsidiaries	354,185	129,704	11,001	4,029
Parent company	-	177,000	-	5,497
Other receivables				
Fellow subsidiaries	72,646	358,934	2,257	11,148
	<u>1,315,841</u>	<u>1,120,751</u>	<u>40,870</u>	<u>34,810</u>

The Group signed a factoring agreement without rights of regress with a related company AKB "Soyuz". The turnover under this agreement during the year ended 31 December 2011 amounted to RUB 762,042 thousand / USD* 23,669 thousand (2010: nil).

(iv) **Loans issued and other current investments**

Loans issued to related parties were as follows:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Non-current				
Parent company				
In RUB at a fixed interest rate of 12-18%	-	164,000	-	5,094
Companies controlled by ultimate controlling party				
In RUB at a interest rate of 12.5-18.8%	600,000	68,568	18,636	2,130
	<u>600,000</u>	<u>232,568</u>	<u>18,636</u>	<u>7,224</u>
Current				
Companies controlled by ultimate controlling party				
In RUB at a fixed interest rate of 6.5%-8.25%	164,310	-	5,103	-
In RUB at a fixed interest rate of 9-12.5%	200,000	89,419	6,212	2,777
In USD at a fixed interest rate of 6.5%	172,156	-	5,347	-
In RUB at a fixed interest rate of 18.8%	-	216,903	-	6,737
	<u>536,466</u>	<u>306,322</u>	<u>16,662</u>	<u>9,514</u>

All loans provided by the Group to related parties are unsecured.

During the year ended 31 December 2011 the Group issued RUB 817,368 thousand / USD* 25,387 of short-term loans at a fixed interest rate of 8%-13% to the companies controlled by the Parent company, loans in the amount of RUB 529,000 thousand / USD* 16,431 thousand were fully repaid during the year (2010: nil).

During the year ended 31 December 2011 the Group issued RUB 601,910 thousand / USD* 18,695 thousand of a short-term loan at fixed interest rates of 6.25%-8.25%, RUB 1,297,000 thousand / USD* 40,284 thousand of short-term loans at fixed interest rates of 11%-12,5% in RUB, RUB 600,000 thousand / USD* 18,636 thousand of a long-term loan at a fixed rate of 12.5% in RUB and RUB 309,041 thousand / USD* 9,599 thousand of a short-term loan in USD at a fixed interest rate of 6.5% to the companies controlled by the Basic Element Group (2010: RUB 10,420 thousand / USD* 324 thousand at a fixed interest rate of 8% and RUB 89,419 thousand / USD* 2,777 thousand and a fixed interest rate of 12%).

During the year ended 31 December 2011 the Group received RUB 183,295 thousand / USD* 5,693 thousand (2010: RUB 170,935 thousand / USD* 5,309 thousand) of interest income on loans issued to related parties.

During the year ended 31 December 2011 the Group issued loans to related and third parties for RUB 641,600 thousand / USD* 19,928 thousand at fixed interest rates of 2%-12%. Upon receiving information that these borrowers have financial problems which could prevent them from repaying their obligations under loan agreements, the Group ceded the right to demand these loans to another related party. The result from this operation in the amount of RUB 591,043 thousand / USD* 18,358 thousand is included in "Financial expenses" (2010: nil) (see Note 13).

For the year ended 31 December 2011, the Group has recorded impairment of loans issued to related parties in the amount of RUB 1,174,757 thousand / USD* 36,488 thousand (2010: RUB 107,801 thousand / USD* 3,348 thousand (see Note 20).

(v) **Trade and other payables**

Trade and other payables owing to related parties were as follows:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Trade payables				
Fellow subsidiaries	427,522	466,782	13,279	14,498
Prepayments received				
Fellow subsidiaries	42,466	5,350	1,318	166
Other payables				
Fellow subsidiaries	98,796	57,059	3,069	1,772
	<u>568,784</u>	<u>529,191</u>	<u>17,666</u>	<u>16,436</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer to Note 2(d).

(vi) **Loans received**

Loans and borrowings owing to related parties were as follows:

	2011	2010	2011	2010
	'000 RUB	'000 RUB	'000 USD*	'000 USD*
Current				
Companies controlled by the Basic Element Group				
In RUB at a fixed interest rate of 1% - 7.75%	30,330	24,064	942	747
In RUB at a fixed interest rate of 9.5%	-	10,786	-	335
	30,330	34,850	942	1,082

All loans received from related parties are unsecured.

During the year ended 31 December 2011 the Group received a short-term loan from a company controlled by the Basic Element Group in the amount of RUB 510,927 thousand / USD* 15,869 thousand at a fixed interest rate of 7.75%, of which RUB 507,186 thousand / USD* 15,753 thousand was redeemed during the year (2010: RUB 187,498 thousand / USD* 5,824 thousand at a fixed interest rate of 7.75% and RUB 363,405 thousand / USD* 11,287 thousand at a fixed interest rate of 9.5%).

During the year ended 31 December 2011 the Group received short-term loans from AKB "Soyuz" controlled by the ultimate beneficiary at fixed interest rates of 7.75%-9.75% in the amount of RUB 2,820,000 thousand / USD* 87,588 thousand, which were fully redeemed during the year (2010: nil).

During the year ended 31 December 2011 the Group accrued RUB 13,927 thousand / USD* 433 thousand (2010: RUB 2,282 thousand / USD* 71 thousand) of interest expense on loans received from related parties.

(d) **Transactions with a post-employment benefit plan**

The Group makes contributions to a defined benefit plan (see Note 32), which is an entity under common control. During the year ended 31 December 2011 the Group paid RUB 47,723 thousand / USD* 1,482 thousand (2010: RUB 45,065 thousand / USD* 1,400 thousand).

38 Significant subsidiaries

	Country of incorporation	Voting ownership	Effective ownership	Voting ownership	Effective ownership
		2011	2011	2010	2010
OOO "GAZ Group"	Russia	100%	100%	100%	100%
OAO "KAAZ"	Russia	93%	93%	93%	93%
OOO "KAVZ"	Russia	100%	100%	100%	100%
OOO "PAZ"	Russia	100%	97%	100%	97%
OOO "Likinsky avtobus"	Russia	100%	100%	100%	100%
OAO "GOLAZ"	Russia	100%	100%	100%	100%
OOO "Russkie avtobusy - GAZ Group"	Russia	100%	100%	100%	100%
OOO "LiAZ"	Russia	100%	100%	100%	100%
OAO "Pavlovsky avtobus"	Russia	97%	97%	97%	97%
OAO "Avtomobilny zavod URAL"	Russia	100%	100%	100%	100%
OOO "Gruzovye Avtomobily - GAZ Group"	Russia	100%	100%	100%	100%
OOO "TZK GAZ"	Russia	100%	100%	100%	100%
OOO "ZShP"	Russia	100%	100%	100%	100%
OAO "SAZ"	Russia	62%	62%	62%	62%
OOO "Avtozavod GAZ"	Russia	100%	100%	100%	100%
OOO "Commercial Vehicles- GAZ Group"	Russia	100%	100%	100%	100%
OOO "Nizhegorodskie motory"	Russia	100%	100%	100%	100%
OOO "GAZ-finance"	Russia	100%	100%	100%	100%
ZAO "GAZ-reserve"	Russia	100%	100%	100%	100%
ZAO "ChSDM"	Russia	100%	100%	100%	100%
OAO "TVEKS"	Russia	93%	93%	93%	93%
OAO "Bryansky arsenal"	Russia	78%	78%	78%	78%
OOO "EZ "Kovrovets"	Russia	100%	93%	100%	93%
OAO "YAZDA"	Russia	90%	90%	90%	90%
OAO "YAZTA"	Russia	90%	90%	90%	90%
OAO "Autodiesel" (YaMZ)	Russia	62%	62%	62%	62%
OOO "Spetstehnika -GAZ Group"	Russia	100%	100%	100%	100%
OOO "Silovye Agregaty – GAZ Group"	Russia	100%	100%	100%	100%
OAO "ZZGT"	Russia	81%	81%	81%	81%
OAO "UMZ"	Russia	100%	100%	100%	100%

In addition to the above mentioned, there are approximately 40 insignificant subsidiaries incorporated in Russia.

39 Events subsequent to the reporting date

In February 2012 the Group signed an agreement with OJSC Sberbank of Russia about non-renewable credit line with a limit of indebtedness of RUB 3,655,000 thousand / USD* 113,523 thousand to finance investment expenses under contract manufacturing agreements.

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