OAO GAZ

Consolidated Financial Statements

for the year ended 31 December 2012

Contents

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Auditors' Report

To the Shareholders

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 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, 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 the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Audited entity: OAO GAZ

Registered by decree of Nizhny Novgorod Administration Head on 21 December 1992, Registration No. 2614-p.

Entered in the Unified State Register of Legal Entities on 03 October 2002 by the Nizhny Novgorod Autozavodsky district Tax Inspectorate of the Ministry for Taxes and Duties of the Russia, Registration No. 1025202265571, Certificate series 52 No. 000994031.

88 Lenina Prospect, Nizhny Novgorod, 603004

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 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.

Klimanova L.V.,

General director

ZAO KPMG

24 April 2013

Moscow, Russian Federation

	Note	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Revenue	7	126,951,631	132,444,824	4,179,794	4,360,654
Cost of sales	8	(101,237,863)	(105,902,386)	(3,333,186)	(3,486,762)
Gross profit		25,713,768	26,542,438	846,608	873,892
Distribution expenses	9	(5,244,121)	(5,770,265)	(172,659)	(189,982)
Administrative expenses	10	(8,867,277)	(8,278,852)	(291,949)	(272,575)
Other income	11	2,546,419	868,133	83,839	28,583
Other expenses	11	(1,091,418)	(1,667,509)	(35,934)	(54,902)
Finance income	13	793,834	254,449	26,137	8,377
Finance costs	13	(3,706,777)	(2,345,805)	(122,043)	(77,234)
Net loss on foreign exchange differences		(63,590)	(145,232)	(2,094)	(4,782)
Profit before income tax		10,080,838	9,457,357	331,905	311,377
Income tax expense	14	(1,330,020)	(956,858)	(43,790)	(31,504)
Profit for the year		8,750,818	8,500,499	288,115	279,873
Other comprehensive income					
Foreign currency translation differences		(2,776)	(612)	(91)	(20)
Defined benefit plan actuarial losses	32	(40,476)	(21,950)	(1,333)	(723)
Other comprehensive income for the year		(43,252)	(22,562)	(1,424)	(743)
Total comprehensive income for the year		8,707,566	8,477,937	286,691	279,130
Profit attributable to:					
Owners of the Company		8,378,341	8,208,557	275,851	270,261
Non-controlling interests		372,477	291,942	12,264	9,612
Profit for the year		8,750,818	8,500,499	288,115	279,873
Total comprehensive income attributable to:					
Owners of the Company		8,335,089	8,185,995	274,427	269,518
Non-controlling interests		372,477	291,942	12,264	9,612
Total comprehensive income for the year		8,707,566	8,477,937	286,691	279,130

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 91.

* *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).*

		2012 RUB	2011 RUB	2012 USD*	2011 USD*
Earnings per share					
Basic and diluted earnings per share	27	481.32	490.12	15.85	16.14

These consolidated financial statements were approved by management on 24 April 2013 and were signed on its behalf by:

Bo Andersson
President
of LLC GAZ GROUP

Belinin V.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 91.

* *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 2012 '000 RUB	31 December 2011 '000 RUB	31 December 2012 '000 USD*	31 December 2011 '000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	15	32,938,456	22,771,096	1,084,476	749,722
Intangible assets	16	2,386,446	1,989,462	78,572	65,502
Investment property		1,025,196	-	33,754	-
Other investments	17	886,119	481,409	29,175	15,850
Investment in equity accounted investees	18	79,840	4,990	2,629	164
Deferred tax assets	21	1,705,825	1,146,414	56,163	37,745
Other long-term financial assets	19	267,694	98,419	8,814	3,240
Loans issued	20	2,348,380	623,564	77,318	20,531
Total non-current assets		41,637,956	27,115,354	1,370,901	892,754
Current assets					
Inventories	22	10,676,771	10,932,294	351,525	359,938
Other investments	17	20	45	1	2
Loans issued	20	2,215,395	557,376	72,940	18,351
Accounts receivable	23	8,769,916	5,966,572	288,743	196,445
Prepayments for inventories and services		1,324,823	1,215,153	43,619	40,008
Other short-term assets	24	2,750,051	2,039,250	90,543	67,141
Income tax receivable		235,849	130,447	7,765	4,295
Cash and cash equivalents	25	4,861,197	9,844,128	160,052	324,111
Total current assets		30,834,022	30,685,265	1,015,188	1,010,291
Total assets		72,471,978	57,800,619	2,386,089	1,903,045

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 92.

∗ *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 2012 ’000 RUB	31 December 2011 ’000 RUB	31 December 2012 ’000 USD*	31 December 2011 ’000 USD*
EQUITY AND LIABILITIES					
Equity					
Share capital	26	2,311,772	2,311,772	76,114	76,114
Share premium		2,290,540	9,765,532	75,414	321,523
Treasury shares	26	-	(7,304,782)	-	(240,505)
Foreign currency translation reserve		-	2,776	-	91
Retained earnings		(9,119,303)	(16,106,458)	(300,247)	(530,294)
Total equity attributable to shareholders of the Company		(4,516,991)	(11,331,160)	(148,719)	(373,071)
Non-controlling interests		2,730,466	1,938,805	89,899	63,834
Total equity		(1,786,525)	(9,392,355)	(58,820)	(309,237)
Non-current liabilities					
Loans and borrowings	28	45,720,401	33,839,813	1,505,312	1,114,152
Employee benefits	32	729,145	699,429	24,007	23,028
Deferred tax liabilities	21	461,889	280,879	15,207	9,248
Other long-term liabilities and deferred income	29	880,215	47,832	28,980	1,575
Total non-current liabilities		47,791,650	34,867,953	1,573,506	1,148,003
Current liabilities					
Loans and borrowings	28	3,285,610	9,049,058	108,176	297,934
Accounts payable	30	16,100, 403	16,107,465	530,095	530,327
Other short-term liabilities	31	3,182,098	3,475,234	104,768	114,420
Advances received		3,141,099	2,957,899	103,419	97,387
Income tax payable		757,643	735,365	24,945	24,211
Total current liabilities		26,466,853	32,325,021	871,403	1,064,279
Total liabilities		74,258,503	67,192,974	2,444,909	2,212,282
Total equity and liabilities		72,471,978	57,800,619	2,386,089	1,903,045

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 92.

∗ *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	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
OPERATING ACTIVITIES					
Profit for the year		8,750,818	8,500,499	288,115	279,873
Adjustments for:					
Depreciation	15(e)	2,082, 118	2,026,182	68,552	66,711
Amortisation	16(b)	171,693	79,715	5,653	2,625
Recognition of negative goodwill		(15,604)	-	(514)	-
(Reversal of) / impairment losses of property, plant, equipment and intangible assets	11	(1,054,630)	168,523	(34,723)	5,548
Gain on disposal of property, plant and equipment and intangible assets	11	(403,433)	(116,309)	(13,283)	(3,829)
Accrual of fines and penalties	11	46,002	192,574	1,515	6,340
Gain on payables write -off	11	(361,771)	(88,809)	(11,911)	(2,924)
Accrual of warranty provision		229,889	88,675	7,569	2,919
Loss on impairment of loans issued and other investments	13	84,168	1,250,278	2,771	41,165
Reversal of accrual of bad debt reserve, provision for inventory and VAT	11	(559,137)	(550,498)	(18,409)	(18,125)
(Gain) / loss on disposal of financial assets	13	(144,776)	591,043	(4,767)	19,460
Change in defined benefit plan	32	(4,941)	(825)	(163)	(28)
Interest expense	13	4,713,636	4,456,607	155,193	146,731
Interest income and unwinding of discount on long-term receivables	13	(646,250)	(254,449)	(21,277)	(8,377)
Income tax expense	14	1,330,020	956,858	43,790	31,504
Cash from operating activities before changes in working capital		14,217,802	17,300,064	468,111	569,593
Change in inventories		1,202,574	(2,151,157)	39,594	(70,826)
Change in receivables and other assets		(2,746,585)	(728,504)	(90,430)	(23,985)
Change in prepayments for goods and services		(102,752)	(165,929)	(3,383)	(5,463)
Change in payables and other liabilities		(573,692)	4,199,472	(18,889)	138,265
Change in advances received		147,606	(313,798)	4,860	(10,332)
Cash flows from operations before income taxes and interest paid		12,144,953	18,140,148	399,863	597,252
Income taxes paid		(1,453,869)	(865,143)	(47,867)	(28,484)
Interest paid		(4,957,188)	(5,961,434)	(163,212)	(196,276)
Cash flows from operating activities		5,733,896	11,313,571	188,784	372,492

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 92.

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	Note	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
INVESTING ACTIVITIES					
Proceeds from disposal of property, plant, equipment and intangible assets		198,871	43,043	6,548	1,417
Cash inflow from acquired subsidiaries	6(a)(i)	3,127	-	103	-
Proceeds from repayment of loans issued		185,266	1,838,803	6,100	60,541
Loans issued		(5,208,497)	(3,867,894)	(171,486)	(127,348)
Interest received		282,508	65,447	9,302	2,155
Acquisition of property, plant and equipment		(10,603,984)	(3,597,884)	(349,129)	(118,458)
Acquisition of intangible assets		(609,652)	(508,411)	(20,073)	(16,739)
Acquisition of investment property		(758,516)	(360,000)	(24,974)	(11,852)
Acquisition of interest in subsidiaries and equity accounted investees		(836,000)	(79,990)	(27,525)	(2,634)
Proceeds from sale of promissory notes		10,800	-	356	-
Cash flows used in investing activities		(17,336,077)	(6,466,886)	(570,778)	(212,918)
FINANCING ACTIVITIES					
Proceeds from borrowings		14,319,198	45,378,343	471,450	1,494,050
Repayment of borrowings		(8,252,983)	(45,136,054)	(271,724)	(1,486,073)
Proceeds from operations with non-controlling interests	6(a)(i)	598,605	(14,912)	19,709	(491)
Dividends paid	26(c)	(45,570)	(9,993)	(1,500)	(329)
Cash flows from financing activities		6, 619,250	217,384	217,935	7,157
Net (decrease) / increase in cash and cash equivalents		(4,982, 931)	5,064,069	(164,059)	166,731
Cash and cash equivalents at the beginning of the year	25	9,844,128	4,780,059	324,111	157,380
Cash and cash equivalents at the end of the year	25	4,861,197	9,844,128	160,052	324,111

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 92.

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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 2011	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)
Profit for the year	-	-	-	-	8,378,341	8,378,341	372,477	8,750,818
Other comprehensive income								
Foreign currency translation differences	-	-	-	(2,776)	-	(2,776)	-	(2,776)
Defined benefit plan actuarial losses (Note 32)	-	-	-	-	(40,476)	(40,476)	-	(40,476)
Total other comprehensive income for the year	-	-	-	(2,776)	(40,476)	(43,252)	-	(43,252)
Total comprehensive income for the year	-	-	-	(2,776)	8,337,865	8,335,089	372,477	8,707,566
Own shares sold (see Note 26(d))	-	(7,304,782)	7,304,782	-	-	-	-	-
Discounting of loans issued (see Note 20)	-	-	-	-	(1,688,386)	(1,688,386)	-	(1,688,386)
Income tax on discounting of loans issued (see Note 26(d))	-	-	-	-	337,676	337,676	-	337,676
Transactions with non-controlling interests (Note 6(a))	-	295,876	-	-	-	295,876	419,184	715,060
Option for purchase of non-controlling interest	-	(466,086)	-	-	-	(466,086)	-	(466,086)
Balance at 31 December 2012	2,311,772	2,290,540	-	-	(9,119,303)	(4,516,991)	2,730,466	(1,786,525)

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 92.

∗ *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*	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 2011	76,114	321,680	(240,505)	111	(799,832)	(642,432)	54,556	(587,876)
Profit for the year	-	-	-	-	270,261	270,261	9,612	279,873
Other comprehensive income								
Foreign currency translation differences	-	-	-	(20)	-	(20)	-	(20)
Defined benefit plan actuarial losses (Note 32)	-	-	-	-	(723)	(723)	-	(723)
Total other comprehensive income for the year	-	-	-	(20)	(723)	(743)	-	(743)
Total comprehensive income for the year	-	-	-	(20)	269,538	269,518	9,612	279,130
Transactions with non-controlling interests (Note 6(a))	-	(157)	-	-	-	(157)	(334)	(491)
Balance at 31 December 2011	76,114	321,523	(240,505)	91	(530,294)	(373,071)	63,834	(309,237)
Profit for the year	-	-	-	-	275,851	275,851	12,264	288,115
Other comprehensive income								
Foreign currency translation differences	-	-	-	(91)	-	(91)	-	(91)
Defined benefit plan actuarial losses (Note 32)	-	-	-	-	(1,333)	(1,333)	-	(1,333)
Total other comprehensive income for the year	-	-	-	(91)	(1,333)	(1,424)	-	(1,424)
Total comprehensive income for the year	-	-	-	(91)	274,518	274,427	12,264	286,691
Own shares sold (see Note 26(d))	-	(240,505)	240,505	-	-	-	-	-
Discounting of loans issued (see Note 20)	-	-	-	-	(55,589)	(55,589)	-	(55,589)
Income tax on discounting of loans issued (see Note 26(d))	-	-	-	-	11,118	11,118	-	11,118
Transactions with non-controlling interests (Note 6(a))	-	9,742	-	-	-	9,742	13,801	23,543
Option for purchase of non-controlling interest	-	(15,346)	-	-	-	(15,346)	-	(15,346)
Balance at 31 December 2012	76,114	75,414	-	-	(300,247)	(148,719)	89,899	(58,820)

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 92.

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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.

OOO Russkie Mashiny (the “Parent company”), a member of the Basic Element Limited Group (the “Basic Element Group”), owned 61.05% of Company’s shares as at 31 December 2012.

(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.

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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 2012 published by the Central Bank of the Russian Federation of RUB 30.3727 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”).

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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

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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 acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, negative goodwill 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. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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(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 has joint control established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. 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 arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Put options written to holders of non-controlling interest in the Group's subsidiaries are measured at present value of the redemption amount. The Group applies the method of "economic involvement". As a result, on initial recognition the put liability is recognized with a corresponding reduction in equity attributable to the shareholders of the Company. Subsequently, change in the liability is recognized in profit or loss for the period.

(vi) Disposal of subsidiaries (Loss of control)

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that

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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.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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.

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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

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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) Investment property

Investment property is property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

After initial recognition, investment property is accounted for at cost less accumulated depreciation and impairment losses.

(e) 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.

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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.

(f) 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.

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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(h)(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.

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(g) 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.

(h) 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, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or 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

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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.

(i) 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.

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(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.

(j) 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.

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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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) Finance income and costs

Finance income and costs 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.

(p) 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

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payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is confirmed.

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(q) 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.

(r) 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).

(s) 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.

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(t) 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.

(u) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, 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 January 2013. 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). 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. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively. The new Standard is not expected to have a significant effect on the disclosures 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 the standard are expected to be issued during 2013. 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.

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The Standard has not yet been endorsed in the Russian Federation. 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. The Group has not yet determined the potential effect of the amended standard.

- *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The amendments will not have any impact on the Group’s financial position or performance.

- 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. 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. 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. Comparative disclosure information is not required for periods before the date of initial application**.** The new Standard is not expected to 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. The amendment will not have any impact on the Group's financial position or performance.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The new Standard is not expected to have a significant effect on the disclosures of the Group.

- 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 2013. 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.

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5. Segment reporting

The Group determined five 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.

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 2012 or 2011.

During the year ended 31 December 2012 the number of reportable segments changes. In accordance with requirements of IFRS 8 "Operational segments" the presentation of comparative information for the year ended 31 December 2011 was also changed.

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

Financial performance is evaluated on the basis of segment profit before 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.

∗ *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).*

(i) Reportable segments

31 December 2012 ’000 RUB	**Autocomponents**	**Light commercial vehicles and cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Reportable segment assets	9,204,497	19,785,513	10,023,683	17,074,420	5,426,588	2,210,370	63,725,071
Reportable segment liabilities	6,076,653	11,581,397	3,133,403	3,036,442	2,071,204	2,438,242	28,337,341

31 December 2011 ’000 RUB	**Autocomponents**	**Light commercial vehicles and cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Reportable segment assets	11,103,804	12,507,838	9,437,294	19,653,224	4,300,063	7,834,411	64,836,634
Reportable segment liabilities	3,082,508	6,072,673	6,296,076	5,878,773	2,425,673	8,647,022	32,402,725

∗ *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).*

31 December 2012 '000 USD*	**Autocomponents**	**Light commercial vehicles and cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Reportable segments assets	303,052	651,424	330,023	562,163	178,667	72,775	2,098,104
Reportable segments liabilities	200,070	381,309	103,165	99,973	68,193	80,277	932,987

31 December 2011 '000 USD*	**Autocomponents**	**Light commercial vehicles and cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Reportable segment assets	365,585	411,812	310,716	647,069	141,577	257,942	2,134,701
Reportable segment liabilities	101,489	199,939	207,294	193,555	79,864	284,696	1,066,837

∗ *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).*

2012 ’000 RUB	**Autocomponents**	**Light commercial vehicles and cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Revenue from external customers	6,585,983	59,338,519	24,574,460	17,985,101	13,496,938	787,067	122,768,068
Inter-segment revenue	23,537,911	6,121,813	272,933	2,190,655	186,005	14,963,833	47,273,150
Total reportable segment revenue	**30,123,894**	**65,460,332**	**24,847,393**	**20,175,756**	**13,682,943**	**15,750,900**	**170,041,218**
Reportable segment result	1,787,881	5,987,843	3,156,397	2,123,858	460,946	(580,896)	12,936,029
Depreciation / amortisation	412,985	617,981	230,284	441,011	247,381	81,691	2,031,333
Capital expenditure	755,787	8,951,652	393,864	1,228,098	230,103	265,976	11,825,480

2011 ’000 RUB	**Autocomponents**	**Light commercial vehicles and cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Revenue from external customers	5,175,951	56,052,911	25,104,408	17,791,221	21,189,178	672,279	125,985,948
Inter-segment revenue	16,593,331	1,411,626	146,168	9,466,511	152,131	54,487,409	82,257,176
Total reportable segment revenue	21,769,282	57,464,537	25,250,576	27,257,732	21,341,309	55,159,688	208,243,124
Reportable segment result	2,505,592	2,749,594	2,324,511	578,187	837,165	1,333,408	10,328,457
Depreciation / amortisation	322,643	1,028,612	305,613	732,073	228,841	38,672	2,656,454
Capital expenditure	203,863	1,271,582	230,931	2,860,270	204,832	71,790	4,843,268

∗ *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).*

2012 ’000 USD*	**Autocomponents**	**Light commercial vehicles and cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Revenue from external customers	216,839	1,953,679	809,097	592,147	444,377	25,914	4,042,053
Inter-segment revenue	774,969	201,557	8,986	72,126	6,124	492,674	1,556,436
Total reportable segment revenue	991,808	2,155,236	818,083	664,273	450,501	518,588	5,598,489
Reportable segment result	58,865	197,146	103,922	69,927	15,176	(19,126)	425,910
Depreciation / amortisation	13,597	20,346	7,582	14,520	8,145	2,690	66,880
Capital expenditure	24,884	294,727	12,968	40,434	7,576	8,757	389,346

2011 ’000 USD*	**Autocomponents**	**Light commercial vehicles cars**	**Buses**	**Engines and fuel injection equipment**	**Trucks**	**Other segments**	**Total**
Revenue from external customers	170,415	1,845,503	826,545	585,764	697,639	22,134	4,148,000
Inter-segment revenue	546,324	46,477	4,812	311,678	5,009	1,793,960	2,708,260
Total reportable segment revenue	716,739	1,891,980	831,357	897,442	702,648	1,816,094	6,856,260
Reportable segment result	82,495	90,529	76,533	19,036	27,563	43,901	340,057
Depreciation / amortisation	10,623	33,866	10,062	24,103	7,534	1,273	87,461
Capital expenditure	6,712	41,866	7,603	94,172	6,744	2,364	159,461

∗ *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).*

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

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Segment revenue	170,041,218	208,243,124	5,598,489	6,856,260
Inter-segment eliminations	(47,273,150)	(82,257,176)	(1,556,436)	(2,708,260)
External sales differences	4,183,563	6,458,876	137,741	212,654
Revenue in the consolidated statement of comprehensive income	126,951,631	132,444,824	4,179,794	4,360,654
Reportable segment result	**12,936,029**	**10,328,457**	**425,910**	**340,057**
Adjustments:				
Change in unrealised profit	68,951	45,690	2,270	1, 504
Differences in depreciation and amortisation of fixed assets and intangible assets	(222,478)	550,557	(7,325)	18,127
Accrual of provisions for impairment of fixed assets and intangible assets	10,789	(168,523)	355	(5,548)
Reversal of other provisions and reserves	-	367,872	-	12,112
Other adjustments	264,080	569,892	8,695	18,764
Non-allocated items:				
Finance income	793,834	254,449	26,137	8,377
Finance costs	(3,706,777)	(2,345,805)	(122,043)	(77,234)
Net loss on foreign exchange differences	(63,590)	(145,232)	(2,094)	(4,782)
Profit before tax in the consolidated statement of comprehensive income	**10,080,838**	**9,457,357**	**331,905**	**311,377**

∗ *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).*

	2012 ’000 RUB	**2011 ’000 RUB**	**2012 ’000 USD***	**2011 ’000 USD***
Reportable segment assets	**63,725,071**	**64,836,634**	**2,098,104**	**2,134,701**
Inter-segment assets	(4,621,225)	(11,596,141)	(152,151)	(381,795)
Non-allocated assets	9,102,482	12,886,792	299,692	424,289
Adjustments:				
Net difference in the cost of fixed assets and intangible assets	1,020,674	(8,465,019)	33,605	(278,705)
Accrued bad debt and inventory provisions	(128,591)	(960,196)	(4,233)	(31,614)
Other adjustments	3,373,567	1,098,549	111,072	36,169
Total assets in the consolidated statement of financial position	72,471,978	57,800,619	2,386,089	1,903,045
Reportable segment liabilities	**28,337,341**	**32,402,725**	**932,987**	**1,066,837**
Inter-segment liabilities	(5,709,265)	(11,370,543)	(187,974)	(374,367)
Non-allocated liabilities	50,225,543	43,905,115	1,653,641	1,445,546
Adjustments:				
Accrued provisions	62,272	1,527,906	2,050	50,305
Other adjustments	1,342,612	727,771	44,205	23,961
Total liabilities in the consolidated statement of financial position	74,258,503	67,192,974	2,444,909	2,212,282

(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**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue from external customers	106,682,453	113,459,525	17,512,501	15,776,476	2,756,677	3,208,823	126,951,631	132,444,824
’000 USD*								
Revenue from external customers	3,512,445	3,735,576	576,587	519,430	90,762	105,648	4,179,794	4,360,654

(iv) Major customer

In 2012 no customer represented more than 10% of the Group’s total revenue (2011: none).

* *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).*

6. Acquisitions and disposals

(a) Transactions with non-controlling interests

(i) During the year ended 31 December 2012 the Group established a new subsidiary Construction Equipment Corporation B.V. The Group transferred to this company 100% ownership in ZAO “ChSDM”, ZAO “TVEKS”, ZAO “Bryansky arsenal”, ZAO “ZZGT” and OOO “RM-Terex”**.** On 30 April 2012 the Group, Terex GmbH and Terex Corporation entered into agreement which resulted in acquisition of 15% ownership in Construction Equipment Corporation B.V. by Terex Group companies – Terex Corporation and Terex Global GmbH. Contribution received from the non-controlling interests’ holders to the equity of this company amounted to RUB 715,060 thousand / USD* 23,543 thousand settled in cash in the amount of RUB 598,605 thousand / USD* 19,709 thousand and by contribution of 100% share in OOO “Terex Rus”. This resulted in increase in share premium in the amount of RUB 295,876 thousand / USD* 9,742 thousand and in non-controlling interest in the amount of RUB 419,184 thousand / USD* 13,801 thousand and obtained control over OOO “Terex Rus”.

The identifiable assets acquired and the liabilities assumed were as follows:

	Fair value at date of acquisition	
	’000 RUB	**’000 USD***
Non-current assets		
Property, plant and equipment	6,397	211
Current assets		
Inventories	334,046	10,998
Income tax receivable	132,265	4,355
Trade and other receivables	6,919	228
Cash and cash equivalents	3,127	103
Current liabilities		
Loans and borrowings	(119,165)	(3,924)
Trade and other payables	(191,553)	(6,307)
Advances received	(35,594)	(1,172)
Other payables	(2,456)	(81)
Net identifiable assets and liabilities	133,986	4,411
The cost of investment	113,914	3,751
The Group’s effective ownership in the acquired subsidiary	77.74%	77.74%
Negative goodwill recognised in the consolidated statement of comprehensive income	15,604	514

From the date of acquisition to 31 December 2012 Terex Rus LLC company contributed revenue of RUB 60,265 thousand / USD* 1,984 thousand and loss of RUB 19,615 thousand / USD* 646 thousand to the consolidated financial statements of the Group.

∗ *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).*

Under the agreement Terex Group has a call option to acquire 34% ownership in Construction Equipment Corporation B.V. exercisable in three steps in 2014, 2016 and 2018. Management assessed fair value of this call option and considered it as not material for these consolidated financial statements.
Under the agreement Terex Group has a put option exercisable in the period from 1 April till 30 June 2015 to require the Group to purchase all shares of Construction Equipment Corporation B.V. held by Terex Group at that moment for USD 20,000 thousand. The Group recognised the put option for purchase of non-controlling interest through equity using the method of "economic involvement" as part of share premium in the amount of RUB 466,086 thousand / USD* 15,346 thousand at present value using discount rate of 8.25%. Corresponding liability was recognised as part of "Other long-term liabilities and deferred income". As at 31 December 2012 the liability under the option for NCI purchase amounted to RUB 508,357 thousand / USD* 16,737 thousand (see Note 29). Changes in fair value of the liability related to unwinding of discounting were recognised through profit or loss for the period as "Financial expense" (see Note 13).

(ii) In 2011 the Group acquired the shares of OAO "Autodiesel" (YaMZ) from non-controlling owners for RUB 14,912 thousand / USD* 491 thousand settled in cash. This acquisition resulted in decrease in non-controlling interests of RUB 10,133 thousand / USD* 334 thousand and decrease in share premium of RUB 4,779 thousand / USD* 157 thousand.

7. Revenue

	2012	2011	2012	2011
	'000 RUB	**'000 RUB**	**'000 USD***	**'000 USD***
Light commercial vehicles and minivans	40,091,115	37,288,515	1,319,972	1,227,699
Buses	23,673,050	24,254,273	779,419	798,555
Middle commercial vehicles and trucks	20,742,918	27,853,355	682,946	917,052
Spare parts	20,599,337	20,195,921	678,219	664,937
Engines and fuel injection equipment	11,544,687	11,303,910	380,101	372,173
Road construction vehicles	3,082,263	4,390,037	101,481	144,539
Special purpose vehicles	2,276,111	2,686,480	74,939	88,451
Other revenues	4,942,150	4,472,333	162, 717	147,248
	126,951,631	132,444,824	4,179,794	4,360,654

8. Cost of sales

	2012	2011	2012	2011
	'000 RUB	**'000 RUB**	**'000 USD***	**'000 USD***
Materials	(67,379,238)	(70,945,268)	(2,218,414)	(2,335,823)
Wages and salaries	(14,321,328)	(14,221,457)	(471,520)	(468,232)
Electrical and heating energy	(6,308,585)	(6,624,569)	(207,706)	(218,109)
Repairs and maintenance	(4,660,648)	(4,924,679)	(153,448)	(162,142)
Salary-based taxes	(4,322,181)	(4,695,835)	(142,305)	(154,607)
Depreciation and amortisation	(2,074,460)	(1,925,566)	(68,300)	(63,398)

∗ *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).*

Transportation	(1,535,700)	(1,933,610)	(50,562)	(63,663)
Other	(635,723)	(631,402)	(20,931)	(20,788)
	(101,237,863)	(105,902,386)	(3,333,186)	(3,486,762)

9. Distribution expenses

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Transportation	(2,293,169)	(2,641,468)	(75,501)	(86,968)
Wages and salaries	(1,007,125)	(1,050,661)	(33,159)	(34,592)
Advertising	(717,116)	(572,222)	(23,610)	(18,840)
Commission fees	(344,924)	(513,954)	(11,356)	(16,922)
Salary-based taxes	(251,429)	(238,839)	(8,278)	(7,864)
Electrical and heating energy	(115,750)	(114,438)	(3,811)	(3,768)
Repairs	(105,410)	(171,336)	(3,471)	(5,641)
Materials	(84,546)	(143,545)	(2,784)	(4,726)
Depreciation and amortisation	(31,167)	(33,973)	(1,026)	(1,119)
Other	(293,485)	(289,829)	(9,663)	(9,542)
	(5,244,121)	(5,770,265)	(172,659)	(189,982)

10. Administrative expenses

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Wages and salaries	(3,582,932)	(3,587,563)	(117,966)	(118,118)
Information and consulting services	(1,614,457)	(1,109,891)	(53,155)	(36,542)
Taxes other than on profit	(816,694)	(828,935)	(26,889)	(27,292)
Salary-based taxes	(811,345)	(836,124)	(26,713)	(27,529)
Security services	(285,853)	(116,724)	(9,411)	(3,843)
Insurance expenses	(210,345)	(187,064)	(6,925)	(6,159)
Rent	(204,198)	(258,228)	(6,723)	(8,502)
Utility services	(187,546)	(214,311)	(6,175)	(7,056)
Bank services	(183,884)	(160,311)	(6,054)	(5,278)
Depreciation and amortisation	(148,184)	(146,358)	(4,879)	(4,819)
Repairs and maintenance	(106,993)	(136,352)	(3,523)	(4,489)
Other administrative expenses	(714,846)	(696,991)	(23,536)	(22,948)
	(8,867,277)	(8,278,852)	(291,949)	(272,575)

* *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).*

11. Other income and expenses

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Income				
Change in provision for inventory	511,401	356,640	16,837	11,743
Change in bad debts provision and write-offs	-	193,879	-	6,383
Gain on disposal of property, plant and equipment and intangible assets	403,433	116,309	13,283	3,829
Gain on payables write-off	361,771	88,809	11,911	2,924
Gain on reversal of impairment losses of property, plant and equipment (Note 15(b))	1,054,630	-	34,723	-
Gain on disposal of inventories	1,143	41,782	38	1,376
Other income	214,041	70,714	7,047	2,328
	2,546,419	868,133	83,839	28,583
Expenses				
Social expenses and charity	(833,313)	(1,012,837)	(27,436)	(33,347)
Research and development costs	(113,092)	(192,229)	(3,723)	(6,329)
Fines and penalties	(46,002)	(192,574)	(1,515)	(6,340)
Impairment losses of property, plant and equipment (Note 15(b)) and intangible assets (Note 16)	-	(168,523)	-	(5,548)
Change in bad debts provision and write-offs	(26,101)	-	(859)	-
Other expenses	(72,910)	(101,346)	(2,401)	(3,338)
	(1,091,418)	(1,667,509)	(35,934)	(54,902)

12. Total personnel costs

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Wages and salaries	19,172,609	18,879,262	631,245	621,587
Salary-based taxes	5,453,151	5,818,468	179,541	191,569
Expenses related to defined benefits plan (see Note 32)	8,596	8,596	283	283
	24,634,356	24,706,326	811,069	813,439

* *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).*

13. Finance income and costs

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Finance income				
Interest income on loans issued	373,228	209,647	12,288	6,902
Interest income on bank deposits	261,835	33,603	8,621	1,106
Interest income on bank promissory notes	-	8,278	-	273
Unwinding of discount on long- term receivables	11,187	2,921	368	96
Gain on disposal of financial assets	13,833	-	455	-
Change of impairment of other investments	2,794	-	92	-
Other financial income	130,957	-	4,313	-
	793,834	254,449	26,137	8,377
Finance costs				
Interest expense on financial liabilities measured at amortised cost	(4,713,636)	(4,456,607)	(155,193)	(146,731)
Loss on impairment of loans issued	(86,962)	(1,245,825)	(2,863)	(41,018)
Loss on disposal of financial assets (Note 37(c)(iv)	-	(591,043)	-	(19,460)
Loss on impairment of other investments	-	(4,453)	-	(147)
Subsidies of the Russian Government	1,193,022	3,991,831	39,279	131,428
Other finance costs	(99,201)	(39,708)	(3,266)	(1,306)
	(3,706,777)	(2,345,805)	(122,043)	(77,234)

Finance costs include subsidies of the Russian Government granted to compensate part of interest expenses on bank loans received by the Group in 2009 – 2012 in the amount of RUB 1,193,022 thousand / USD* 39,279 thousand (2011: RUB 3,991,831 thousand / USD* 131,428 thousand).

Finance income includes interest income on impaired financial assets in the amount of RUB 218,065 thousand / USD* 7,180 thousand (2011: RUB 169,925 thousand / USD* 5,595 thousand).

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14. Income tax expense

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Current tax expense				
Current year	(1,343,717)	(1,116,070)	(44,241)	(36,746)
Adjustments in respect of current income tax of previous years	(27,028)	(230,314)	(890)	(7,583)
	(1,370,745)	(1,346,384)	(45, 131)	(44,329)
Deferred tax income				
Origination and reversal of temporary differences	(4,229,681)	(1,730,352)	(139,259)	(56,970)
Change in unrecognised deferred tax assets	4,270,406	2,119,878	140,600	69,795
	40,725	389,526	1,341	12,825
Income tax expense reported in the statement of comprehensive income	(1,330,020)	(956,858)	(43,790)	(31,504)

The applicable tax rate for the Company and subsidiaries located in Russia is 20% (2011: 20%). The applicable rate for measuring deferred taxes is 20% both in 2012 and 2011.

Reconciliation of effective tax rate:

	2012 '000 RUB	%	2011 '000 RUB	%
Profit before tax	10,080,838	100	9,457,357	100
Income tax at applicable tax rate	(2,016,168)	(20)	(1,891,471)	(20)
Income tax at lower/(higher) rates, net	(2,134)	(0)	21,507	0
Change in unrecognised deferred tax assets	4,270,406	42	2,119,878	22
Adjustments in respect of current income tax of previous years	(27,028)	(0)	(230,314)	(2)
Non-deductible items, net	(3,555,096)	(35)	(976,458)	(10)
	(1,330,020)	(13)	(956,858)	(10)

	2012 '000 USD*	%	2011 '000 USD*	%
Profit before tax	331,905	100	311,377	100
Income tax at applicable tax rate	(66,381)	(20)	(62,275)	(20)
Income tax at lower/(higher) rates, net	(70)	(0)	708	(0)
Change in unrecognised deferred tax assets	140,600	42	69,795	22
Adjustments in respect of current income tax of previous years	(890)	(0)	(7,583)	(2)
Non-deductible items, net	(117,049)	(35)	(32,149)	(10)
	(43,790)	(13)	(31,504)	(10)

∗ *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
Cost / Deemed cost					
At 1 January 2011	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
Acquisitions through business combinations	-	8,492	35	-	8,527
Additions	273,057	-	-	11,079,100	11,352,157
Disposals	(72,738)	(2,265,077)	(426,931)	(102,216)	(2,866,962)
Foreign currency translation	-	-	(192)	-	(192)
Transfers	3,947,769	4,489,237	808,606	(10,123,631)	(878,019)
At 31 December 2012	52,183,972	93,936,154	11,296,610	11,025,394	168,442,130
Depreciation and impairment losses					
At 1 January 2011	(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)
Increase through business combinations	-	(2,130)	-	-	(2,130)
Depreciation charge	(537,027)	(1,222,578)	(354,906)	-	(2,114,511)
Impairment losses	725,857	334,076	645	(5,948)	1,054,630
Disposals	68,254	2,184,334	418,480	97,435	2,768,503
Foreign currency translation	-	-	54	-	54
Transfers	175,092	626,382	28,093	15,736	845,303
At 31 December 2012	(42,279,233)	(82,268,139)	(9,662,062)	(1,294,240)	(135,503,674)
Net book value					
At 1 January 2011	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
At 31 December 2012	9,904,739	11,668,015	1,634,548	9,731,154	32,938,456

∗ *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*	Land and buildings	Plant and equipment	Tools and other	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2011	1,575,531	3,043,526	352,854	249,332	5,221,243
Additions	2,385	-	-	140,965	143,350
Disposals	(3,535)	(40,242)	(20,489)	(1,556)	(65,822)
Foreign currency translation	-	-	6	-	6
Transfers	7,166	15,990	27,001	(53,830)	(3,673)
At 31 December 2011	1,581,547	3,019,274	359,372	334,911	5,295,104
Acquisitions through business combinations	-	280	1	-	281
Additions	8,990	-	-	364,772	373,762
Disposals	(2,395)	(74,576)	(14,056)	(3,366)	(94,393)
Foreign currency translation	-	-	(7)	-	(7)
Transfers	129,979	147,805	26,623	(333,314)	(28,907)
At 31 December 2012	1,718,121	3,092,783	371,933	363,003	5,545,840
Depreciation and impairment losses					
At 1 January 2011	(1,391,215)	(2,784,398)	(321,440)	(57,309)	(4,554,362)
Depreciation charge	(17,900)	(33,955)	(13,477)	-	(65,332)
Impairment losses	(2,034)	(495)	(20)	507	(2,042)
Disposals	3,428	39,794	20,326	1,124	64,672
Foreign currency translation	-	-	(2)	-	(2)
Transfers	1,477	7,216	(6,545)	9,536	11,684
At 31 December 2011	(1,406,244)	(2,771,838)	(321,158)	(46,142)	(4,545,382)
Increase through business combinations	-	(70)	-	-	(70)
Depreciation charge	(17,681)	(40,253)	(11,685)	-	(69,619)
Impairment losses	23,899	10,999	21	(196)	34,723
Disposals	2,247	71,918	13,778	3,208	91,151
Foreign currency translation	-	-	2	-	2
Transfers	5,765	20,623	925	518	27,831
At 31 December 2012	(1,392,014)	(2,708,621)	(318,117)	(42,612)	(4,461,364)
Net book value					
At 1 January 2011	184,316	259,128	31,414	192,023	666,881
At 31 December 2011	175,303	247,436	38,214	288,769	749,722
At 31 December 2012	326,107	384,162	53,816	320,391	1,084,476

* *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).*

(a) Acquisition of property, plant and equipment

During the year ended 31 December 2012 the Group acquired property, plant and equipment of RUB 11,352,157 thousand / USD* 373,762 thousand (31 December 2011: RUB 4,353,927 thousand / USD* 143,350 thousand) including equipment for the contract of manufacturing of VW / Skoda in the amount of RUB 2,145,950 thousand / USD* 70,654 thousand (2011: nil), equipment for the contract of manufacturing of Mercedes-Benz Sprinter and OM646 engine in the amount of RUB 3,284,334 thousand / USD* 108,134 thousand (2011: nil), equipment for the production of Gazelle Next wagons in the amount of RUB 1,281,104 thousand / USD* 42,179 thousand (2011: nil), capital expenditures in equipment for the production of engines under the EURO III and EURO IV standards under YaMZ-530 project in the amount of RUB 762,384 thousand / USD* 25,101 thousand (31 December 2011: RUB 2,575,101 thousand / USD* 84,783 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 957,257 thousand / USD* 31,517 thousand (2011: RUB 337,000 thousand / USD* 11,095 thousand). Acquisitions for the year ended 31 December 2012 included capitalized interest cost in the amount of RUB 524,506 thousand / USD* 17,269 thousand (2011: RUB 824,965 thousand / USD* 27,161 thousand).

In 2012 property, plant and equipment transfer to inventory amounted to RUB 47,809 thousand / USD* 1,574 thousand (2011: RUB 47,712 thousand / USD* 1,571 thousand).

During the year ended 31 December 2012 production prototypes in the amount of RUB 15,093 thousand / USD* 497 thousand were transferred from intangible assets to property, plant and equipment (2011: nil) (see Note16(a)).

During the year ended 31 December 2011 tooling in the amount RUB 298,963 thousand / USD* 9,843 thousand was transferred from inventory to property, plant and equipment (2012: nil).

During the year ended 31 December 2011 certain items in the amount of RUB 7,915 thousand / USD* 261 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 off for RUB 16,506 thousand / USD* 543 thousand as at 31 December 2012 (2011: RUB 62,023 thousand / USD* 2,042 thousand). The impairment is included in “Other income” (2011: in “Other expenses”) (refer to Note 11). The impairment loss relates to items of property, plant and equipment which the Group does not plan to use in future.

(c) Impairment test

As at 31 December 2012 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.

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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% (2011: 21.87%). 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 reversed the impairment loss which refers to property plant and equipment used in contract manufacturing projects of the "Light commercial vehicles and cars" segment in the amount of RUB 1,071,136 thousand / USD* 35,266 thousand (2011: recognised impairment loss of development costs which refer to "Engines and fuel injection equipment" segment in the amount of RUB 106,500 thousand / USD* 3,506 thousand) (see Note 16). The reversal of impairment is included in "Other income". 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 12,150,193 thousand / USD* 400,037 thousand (31 December 2011: RUB 10,648,672 thousand / USD* 350,600 thousand) are pledged to secure bank loans (refer to Note 28).

(e) Depreciation

As at 31 December 2012, the depreciation charge directly attributable to the cost of inventory of RUB 108,669 thousand / USD* 3,578 thousand is included in the cost of work in progress and finished goods (31 December 2011: RUB 76,276 thousand / USD* 2,511 thousand).

During the year ended 31 December 2012 depreciation expense of RUB 1,934,333 thousand / USD* 63,686 thousand has been charged to cost of sales (2011: RUB 1,879,981 thousand / USD* 61,897 thousand), RUB 30,278 thousand / USD* 997 thousand to distribution expenses (2011: RUB 32,676 thousand / USD* 1,076 thousand) and RUB 117,507 thousand / USD* 3,869 thousand to administrative expenses (2011: RUB 113,525 thousand / USD* 3,738 thousand).

(f) Investment property

During the year ended 31 December 2012 the Group acquired investment property. As at 31 December 2012 fair value of the investment property amounted to RUB 1,025,196 thousand / USD* 33,754 thousand.

∗ *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).*

16. Intangible assets

’000 RUB	Goodwill	Licenses	Software	Development costs	Total
Cost					
At 1 January 2011	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
Additions	-	14,045	115,327	480,280	609,652
Disposals	-	(24,260)	(35,447)	(3,136)	(62,843)
Foreign currency translation	-	-	(18)	-	(18)
Transfers	-	5,978	(18,565)	(20,945)	(33,532)
At 31 December 2012	199,389	407,975	371,066	2,204,905	3,183,335
Amortisation and impairment losses					
At 1 January 2011	(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)
Amortisation charge	-	(43,106)	(29,314)	(99,273)	(171,693)
Disposals	-	23,957	34,425	-	58,382
Transfers	-	-	(2,964)	-	(2,964)
At 31 December 2012	(199,389)	(182,292)	(181,940)	(233,268)	(796,889)
Net book value					
At 1 January 2011	-	227,783	151,018	1,314,565	1,693,366
At 31 December 2011	-	249,069	125,682	1,614,711	1,989,462
At 31 December 2012	-	225,683	189,126	1,971,637	2,386,446

∗ *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*	**Goodwill**	**Licenses**	**Software**	**Development costs**	**Total**
Cost					
At 1 January 2011	6,565	11,882	10,458	43,778	72,683
Additions	-	1,888	375	14,476	16,739
Disposals	-	(222)	(592)	-	(814)
Foreign currency translation	-	-	1	-	1
Transfers	-	24	(43)	(680)	(699)
At 31 December 2011	6,565	13,572	10,199	57,574	87,910
Additions	-	462	3,797	15,814	20,073
Disposals	-	(799)	(1,167)	(103)	(2,069)
Foreign currency translation	-	-	(1)	-	(1)
Transfers	-	197	(611)	(690)	(1,104)
At 31 December 2012	6,565	13,432	12,217	72,595	104,809
Amortisation and impairment losses					
At 1 January 2011	(6,565)	(4,382)	(5,486)	(497)	(16,930)
Impairment losses	-	-	-	(3,506)	(3,506)
Amortisation charge	-	(1,211)	(1,057)	(357)	(2,625)
Disposals	-	222	506	-	728
Transfers	-	-	(24)	(51)	(75)
At 31 December 2011	(6,565)	(5,371)	(6,061)	(4,411)	(22,408)
Amortisation charge	-	(1,419)	(965)	(3,269)	(5,653)
Disposals	-	788	1,134	-	1,922
Transfers	-	-	(98)	-	(98)
At 31 December 2012	(6,565)	(6,002)	(5,990)	(7,680)	(26,237)
Net book value					
At 1 January 2011	-	7,500	4,972	43,281	55,753
At 31 December 2011	-	8,201	4,138	53,163	65,502
At 31 December 2012	-	7,430	6,227	64,915	78,572

(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 and a license under YaMZ-530 project in the amount of RUB 93,807 thousand / USD*3,089 thousand (2011: RUB 80,787 thousand / USD* 2,660 thousand), costs of development of the Gazelle Next wagon in the amount of RUB 165,158 thousand / USD* 5,438 thousand (2011: RUB 113,720 thousand / USD* 3,744 thousand), acquisition of a programme under contract manufacturing project with Daimler AG in the amount of RUB 68,763 thousand / USD* 2,264 thousand (2011: nil). The sum of acquisition of intangible assets during the year ended 31 December 2011 included costs of development of new trucks for agriculture in the amount of RUB 77,569 thousand / USD* 2,554 thousand.

∗ *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).*

All development costs capitalized in 2012 and 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 no impairment loss of the development costs was recognised (2011: impairment loss of development costs which refer to "Engines and fuel injection equipment" segment in the amount of RUB 106,500 thousand / USD* 3,506 thousand. The impairment loss for the year ended 31 December 2011 is included in "Other expenses" (refer to Note 11).

During the year ended 31 December 2012 production prototypes in the amount of RUB 15,093 thousand / USD* 497 thousand were transferred to property, plant and equipment (2011: nil) (see Note 15(a)).

During the year ended 31 December 2011 development parts in the amount of RUB 7,915 thousand / USD* 261 thousand were transferred from property, plant and equipment to intangible assets (see Note 15(a)).

(b) Amortisation charge

During the year ended 31 December 2012 amortisation expense of RUB 140,127 thousand / USD* 4,614 thousand has been charged to cost of sales (2011: RUB 45,585 thousand / USD* 1,501 thousand), RUB 889 thousand / USD* 29 thousand to distribution expenses (2011: RUB 1,297 thousand / USD* 43 thousand), RUB 30,677 thousand / USD* 1,010 thousand to administrative expenses (2011: RUB 32,833 thousand / USD* 1,081 thousand).

17. Other investments

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

As at 31 December 2012, other current investments mainly include available-for-sale investments in the amount of RUB 20 thousand / USD* 1 thousand (2011: RUB 45 thousand / USD* 2 thousand).

Non-current investments in the amount of RUB 886,119 thousand / USD* 29,175 thousand (2011: RUB 481,409 thousand / USD* 15,850 thousand) include available-for-sale investments for RUB 50,119 thousand / USD* 1,650 thousand (2011: RUB 46,409 thousand / USD* 1,528 thousand), prepayment for investments in the amount of RUB 836,000 thousand / USD* 27,525 thousand (2011: RUB 435,000 thousand / USD* 14,322 thousand).

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:

* *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).*

	2012 ’000 RUB	2011 ’000 RUB
Total assets	290,578	82,367
Total liabilities	82,692	75,742
Revenue	-	-
Profit / (loss) for the year	51,261	(3,376)

	2012 ’000 USD*	2011 ’000 USD*
Total assets	9,567	2,712
Total liabilities	2,723	2,494
Revenue	-	-
Profit / (loss) for the year	1,688	(111)

19. Other long-term financial assets

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Employees’ accounts receivable for apartments	246,593	96,638	8,119	3,182
Other	21,101	1,781	695	58
	267,694	98,419	8,814	3,240

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 2012 was 8.25% (31 December 2011: 8%).

20. Loans issued

All loans issued bear fixed interest.

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

2012 ’000 RUB	Contractual interest rate	Less than 1 year	2 – 5 years	Total
Loans to companies				
RUB	1%-7.5%	95,464	5,306	100,770
RUB	8%-13%	1,953,858	2,343,074	4,296,932
USD	1%	166,073	-	166,073
		2,215,395	2,348,380	4,563,775

∗ _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**	**Contractual interest rate**	**Less than 1 year**	**1 – 2 years**	**Total**
Loans to companies				
RUB	8%-13%	383,055	623,564	1,006,619
USD	6.5%	174,321	-	174,321
		557,376	623,564	1,180,940

2012 **’000 USD***	**Contractual interest rate**	**Less than 1 year**	**2 – 5 years**	**Total**
Loans to companies				
RUB	1%-7.5%	3,143	174	3,317
RUB	8%-13%	64,329	77,144	141,473
USD	1%	5,468	-	5,468
		72,940	77,318	150,258

2011 **’000 USD***	**Contractual interest rate**	**Less than 1 year**	**1 – 2 years**	**Total**
Loans to companies				
RUB	8%-13%	12,612	20,531	33,143
USD	6.5%	5,739	-	5,739
		18,351	20,531	38,882

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 in regard of interest accrued on loans which were impaired in previous periods in the amount of RUB 86,962 thousand / USD* 2,863 thousand (2011: RUB 1,245,825 thousand / USD* 41,018 thousand) was recognised in these consolidated financial statements. Impairment loss is presented in the consolidated statement of comprehensive income in the line item “Finance costs” (see Note 13).

During the year ended 31 December 2012 the Group purchased promissory notes at a fixed interest rate of 1% issued by related parties in the amount of RUB 4,000,000 thousand / USD* 131,697 thousand with maturity date in August 2017. The promissory notes are presented as loans issued in the consolidated financial statements. They were discounted at the interest rate of 12%. The discount in the amount of RUB 1,688,386 thousand / USD* 55,589 thousand is recognized through the Group’s equity as part of retained earnings (2011: nil). Deferred tax accrued for the discount of these loans in the amount of RUB 337,676 thousand / USD* 11,118 thousand was also recognized through equity as part of retained earnings (2011: nil).

* *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).*

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**	
	2012	**2011**	**2012**	**2011**	**2012**	**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)	228,106	967,246	(815,546)	(538,450)	(587,440)	428,796
Impairment of investments, (valuation of investments)	376,209	748,230	(1,294)	(7,524)	374,915	740,706
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	217,247	358,144	(50,980)	(5,604)	166,267	352,540
Bad debt reserve accrual, (valuation of receivables)	529,696	1,844,234	(51,905)	(340,310)	477,791	1,503,924
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	992,969	907,350	(12,433)	(31,578)	980,536	875,772
Tax loss carry-forwards	1,354,104	2,756,440	-	-	1,354,104	2,756,440
Tax assets/ (liabilities)	3,698,331	7,581,644	(932,158)	(923,466)	2,766,173	6,658,178
Offset of taxes	(470,269)	(642,587)	470,269	642,587	-	-
Unrecognised deferred tax assets	(1,522,237)	(5,792,643)	-	-	(1,522,237)	(5,792,643)
Net tax assets/ (liabilities)	1,705,825	1,146,414	(461,889)	(280,879)	1,243,936	865,535

∗ *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 RUB	**Assets**		**Liabilities**		**Net**	
	2012	**2011**	**2012**	**2011**	**2012**	**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)	7,510	31,846	(26,851)	(17,728)	(19,341)	14,118
Impairment of investments, (valuation of investments)	12,386	24,635	(43)	(248)	12,343	24,387
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	7,153	11,792	(1,678)	(185)	5,475	11,607
Bad debt reserve accrual, (valuation of receivables)	17,440	60,720	(1,709)	(11,204)	15,731	49,516
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	32,693	29,874	(409)	(1,040)	32,284	28,834
Tax loss carry-forwards	44,583	90,754	-	-	44,583	90,754
Tax assets/ (liabilities)	121,765	249,621	(30,690)	(30,405)	91,075	219,216
Offset of taxes	(15,483)	(21,157)	15,483	21,157	-	-
Unrecognised deferred tax assets	(50,119)	(190,719)	-	-	(50,119)	(190,719)
Net tax assets/ (liabilities)	56,163	37,745	(15,207)	(9,248)	40,956	28,497

(b) Unrecognised deferred tax assets and liabilities

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

	2012	**2011**	**2012**	**2011**
	’000 RUB	**’000 RUB**	**’000 USD***	**’000 USD***
Deductible temporary differences	277,716	3,491,850	9,144	114,967
Tax loss carry-forwards	1,244,521	2,300,793	40,975	75,752
	1,522,237	5,792,643	50,119	190,719

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 2013-2020. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

A deductible temporary difference in the amount of RUB 15,506,609 thousand / USD* 510,544 thousand (2011: RUB 10,633,778 thousand / USD* 350,110 thousand) and a taxable temporary difference in the amount of RUB 18,652,936 thousand / USD* 614,135 thousand (2011: RUB 12,482,919 thousand / USD* 410,991 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.

* *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).*

(c) Movement in temporary differences during the year

’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)
	476,009	389,526	865,535

’000 RUB	1 January 2012	Recognised in profit or loss	Deferred tax recognised in equity	31 December 2012
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	428,796	(1,016,236)	-	(587,440)
Impairment of investments, (valuation of investments)	740,706	(703,467)	337,676	374,915
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	352,540	(186,273)	-	166,267
Bad debt reserve accrual, (valuation of receivables)	1,503,924	(1,026,133)	-	477,791
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	875,772	104,764	-	980,536
Tax loss carry-forwards	2,756,440	(1,402,336)	-	1,354,104
Unrecognised deferred tax assets	(5,792,643)	4,270,406		(1,522,237)
	865,535	40,725	337,676	1,243,936

As a result of analyses of utilisation of deferred tax assets during the year ended 31 December 2012 the Group transferred part of deferred tax assets to permanent differences in the amount of RUB 3,132,936 thousand / USD* 103,150 thousand which resulted in the decrease of unrecognized deferred tax assets in the same amount.

∗ *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 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)	25,775	(11,657)	14,118
Impairment of investments, (valuation of investments)	11,504	12,883	24,387
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	19,184	(7,577)	11,607
Bad debt reserve accrual, (valuation of receivables)	53,882	(4,366)	49,516
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	27,500	1,334	28,834
Tax loss carry-forwards	138,341	(47,587)	90,754
Unrecognised deferred tax assets	(260,514)	69,795	(190,719)
	15,672	12,825	28,497

'000 USD*	1 January 2012	Recognised in profit or loss	Deferred tax recognised in equity	31 December 2012
Accelerated depreciation for tax purposes, impairment, write offs of development costs, (revaluation and depreciation of property, plant and equipment), (recognition of finance lease assets)	14,118	(33,459)	-	(19,341)
Impairment of investments, (valuation of investments)	24,387	(23,162)	11,118	12,343
Revaluation of inventory to NRV, (revaluation of WIP to actual cost)	11,607	(6,132)	-	5,475
Bad debt reserve accrual, (valuation of receivables)	49,516	(33,785)	-	15,731
Accrual of warranty provisions, fines and penalties, (lease payables write-off)	28,834	3,450	-	32,284
Tax loss carry-forwards	90,754	(46,171)	-	44,583
Unrecognised deferred tax assets	(190,719)	140,600	-	(50,119)
	28,497	1,341	11,118	40,956

∗ *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).*

22. Inventories

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Raw materials and consumables	5,442,320	6,958,995	179,184	229,120
Work in progress	1,790,102	2,418,261	58,938	79,620
Finished goods and goods for resale	4,140,261	2,762,351	136,315	90,948
	11,372,683	12,139,607	374,437	399,688
Provision for impairment of inventory	(695,912)	(1,207,313)	(22,912)	(39,750)
	10,676,771	10,932,294	351,525	359,938
Write-down of inventories in the current year	(64,228)	(285,639)	(2,115)	(9,404)
Reversal of previous write-down of inventories in the current year	575,629	642,279	18,952	21,147

23. Accounts receivable

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Accounts receivable – trade	8,592,173	6,681,437	282,891	219,981
Other receivables	7,160,172	8,220,754	235,744	270,663
	15,752,345	14,902,191	518,635	490,644
Allowances for impairment	(6,982,429)	(8,935,619)	(229,892)	(294,199)
	8,769,916	5,966,572	288,743	196,445

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
VAT receivable	2,717,409	2,089,041	89,469	68,780
Other taxes receivable	36,632	28,037	1,205	923
	2,754,041	2,117,078	90,674	69,703
VAT allowances for impairment	(3,990)	(77,828)	(131)	(2,562)
	2,750,051	2,039,250	90,543	67,141

25. Cash and cash equivalents

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Cash on hand	2,824	3,185	93	105
Cash at banks	827,253	757,819	27,237	24,950
Deposits	4,013,932	8,218,422	132,156	270,586
Cash equivalents	17,188	864,702	566	28,470
Cash and cash equivalents	4,861,197	9,844,128	160,052	324,111

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 2012	31 December 2011	31 December 2012	31 December 2011
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
Treasury shares sold	3,081,092	-	144,750	-
On issue at the end of the year, fully paid (net of treasury shares)	18,520,260	15,439,168	1,453,500	1,308,750

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

∗ _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)._

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 2012, the Company had profit for the current period of RUB 684,708 thousand / USD* 22,544 thousand (2011: RUB 2,162,656 thousand / USD* 71,204 thousand).

On 28 June 2012 the annual shareholders' meeting decided not to pay dividends for the year ended 31 December 2011.

These consolidated financial statements include a liability for payment of dividends to shareholders for 2007 which the Group gradually redeems.

(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.

During the year ended 31 December 2012 the Group sold its treasury shares to a related party for RUB 1,859,300 thousand / USD*61,216 thousand. According to the terms of the agreement, the acquirer should pay the amount by October 2014. The Group has not recognized the receivable arising from the transaction, by analogy to the derecognition provisions in IAS 39 (see Note 37(c)).

* *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).*

27. Earnings per share

Earnings per share are calculated by dividing the profit attributable to ordinary and preference shareholders of RUB 8,378,341 thousand / USD* 275,851 thousand (31 December 2011: RUB 8,208,557 thousand / USD* 270,261 thousand) by the weighted average number of ordinary and preference shares outstanding during the year of 17,406,950 shares. (2011: 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.

	2012	**2011**	**2012**	**2011**
	'000 RUB	**'000 RUB**	**'000 USD***	**'000 USD***
Non-current				
Secured bank loans	9,870,950	4,839,813	324,994	159,347
Secured borrowings	35,000,000	29,000,000	1,152,351	954,805
Unsecured bank loans	849,451	-	27,967	-
	45,720,401	33,839,813	1,505,312	1,114,152

	2012	**2011**	**2012**	**2011**
	'000 RUB	**'000 RUB**	**'000 USD***	**'000 USD***
Current				
Current portion of secured bank loans	119,244	2,741,782	3,926	90,271
Secured borrowings	3,096,982	6,099,347	101,966	200,817
Unsecured bank loans	12,654	-	416	-
Unsecured borrowings	56,730	207,929	1,868	6,846
	3,285,610	9,049,058	108,176	297,934

During the year ended 31 December 2012, the Group capitalised RUB 524,506 thousand / USD* 17,269 thousand of bank interest expenses within the cost of property, plant and equipment (2011: RUB 824,965 thousand / USD* 27,161 thousand) (see Note 15(a)). The effective rates of capitalisation in 2012 were 11.24% (2011: 11.88%).

Terms and debt repayment schedule

Terms and conditions of outstanding loans were 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).

’000 RUB	Nominal interest rate 2012	Dates of repayment 2012	Carrying amount 2012	Nominal interest rate 2011	Dates of repayment 2011	Carrying amount 2011
Bank loans:						
RUB	CBRF refinancing rate +4%	01.03.2010 - 27.09.2013	-	CBRF refinancing rate +4%	01.03.2010 - 27.09.2013	2,559,812
RUB	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 -31.12.2018	5,381,923	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 -31.12.2018	4,842,076
RUB	MosPrime 3M+3.75%	06.07.2012 - 06.07.2017	862,105			-
RUB	Interest rate range 7.2%-9.79%	28.03.2012 - 15.12.2018	4,242,870			-
RUB	7.6% - 8.7%	22.10.2012 - 15.10.2018	286,468			-
EUR	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	78,231	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	179,707
EUR	Interest rate range 1.61%-1.95%	28.02.2012 - 15.05.2017	702			
Borrowings:						
RUB	MosPrime 3M+Min.interest income 0.125%	23.12.2011 - 11.12.2018	12,762,178	MosPrime 3M+Min.interest income 0.125%	23.12.2011 - 11.12.2018	12,778,998
RUB	MosPrime 3M+ Min.interest income 0.25%	23.12.2011 - 11.12.2018	22,292,069	MosPrime 3M + Min.interest income 0.25%	23.12.2011 - 11.12.2018	16,304,415
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	13.11.2012 - 15.11.2013	3,042,735	MosPrime 3M+3.25% + Min.interest income 0.25%	23.12.2011 - 11.12.2012	6,015,934
RUB	1% - 8%	25.10.2007 - 31.12.2013	56,730	1% - 8%	25.10.2007 - 31.12.2012	73,500
USD	8.28%	20.07.2007 - 28.08.2008	-	8.28%	20.07.2007 - 28.08.2008	134,429
			49,006,011			**42,888,871**

∗ *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*	Nominal interest rate 2012	Dates of repayment 2012	Carrying amount 2012	Nominal interest rate 2011	Dates of repayment 2011	Carrying amount 2011
Bank loans:						
RUB	CBRF refinancing rate +4%	01.03.2010 - 27.09.2013	-	CBRF refinancing rate +4%	01.03.2010 - 27.09.2013	84,280
RUB	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 -31.12.2018	177,196	CBRF refinancing rate + 3.25%, but not less than 11%	24.05.2010 -31.12.2018	159,422
RUB	MosPrime 3M+3.75%	06.07.2012 - 06.07.2017	28,383			-
RUB	Interest rate range 7.2%-9.79%	28.03.2012 - 15.12.2018	139,693			-
RUB	7.6% - 8.7%	22.10.2012 - 15.10.2018	9,432			-
EUR	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	2,576	EURIBOR + 3.2%	11.05.2007 - 30.06.2013	5,917
EUR	Interest rate range 1.61%-1.95%	28.02.2012 - 15.05.2017	23			-
Borrowings:						
RUB	MosPrime 3M+Min.interest income 0.125%	23.12.2011 - 11.12.2018	420,186	MosPrime 3M+Min.interest income 0.125%	23.12.2011 - 11.12.2018	420,740
RUB	MosPrime 3M+Min.interest income 0.25%	23.12.2011 - 11.12.2018	733,951	MosPrime 3M+Min.interest income 0.25%	23.12.2011 - 11.12.2018	536,811
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	13.11.2012 - 15.11.2013	100,180	MosPrime 3M+3.25% + Min.interest income 0.25%	23.12.2011 - 11.12.2012	198,070
RUB	1% - 8%	25.10.2007 - 31.12.2013	1,868	1% - 8%	25.10.2007 - 31.12.2012	2,420
USD	8.28%	20.07.2007 - 28.08.2008	-	8.28%	20.07.2007 - 28.08.2008	4,426
			1,613,488			**1,412,086**

* *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 December 2011 the Group redeemed bank loans in the amount of RUB 35,000,000 thousand / USD* 1,152,351 thousand by drawing loans from the company Scutellaria Trading Limited in the amount of RUB 35,000,000 thousand / USD* 1,152,351 thousand. The new loans were 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 38,096,982 thousand / USD* 1,254,317 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 2012 the Group complies with the covenants stipulated by the guarantee agreement.

During the year ended 31 December 2012 the Group received RUB 287,878 thousand / USD* 9,478 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 (2011: RUB 2,424,445 thousand / USD* 79,823 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 2012 the entity complies with the covenants stipulated by the loan agreement.

In July 2012 the Group redeemed the remaining part of the syndicated bank loans in the amount of RUB 540,164 thousand / USD*17,785 thousand.

During the year ended 31 December 2012 the Group signed several loan agreements to finance investment expenses. The loan agreements also contain restrictions on the Borrower's rights to issue loans and guarantees and pledge assets to third parties, and certain other covenants. As at 31 December 2012 the entity complies with the covenants stipulated by the loan agreements.

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUB 12,150,193 thousand / USD* 400,037 thousand (2011: RUB 10,648,672 thousand / USD* 350,600 thousand) – refer to Note 15(d).
- Shares of the Company's subsidiary OAO "Autodiesel" (YaMZ) in the amount of 1,922,496 (2011: 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).

∗ *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).*

29. Other long-term liabilities and deferred income

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Liability under option for NCI purchase (see Note 6(a)(i))	508,357	-	16,737	-
Government grants	42,890	47,216	1,412	1,555
Other	328,968	616	10,831	20
	880,215	47,832	28,980	1,575

Other long-term liabilities include deferred income received to finance capital expenditure under contract manufacturing projects in the amount of RUB 326,242 thousand / USD* 10,741 thousand (2011: nil).

30. Accounts payable

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Accounts payable – trade	11,761,662	11,763,573	387,245	387,307
Payables to employees	3,352,127	3,330,790	110,366	109,664
Accounts payable for property, plant and equipment	512,669	289,002	16,879	9,515
Other payables and accrued expenses	473,945	724,100	15,605	23,841
	16,100,403	16,107,465	530,095	530,327

At 31 December 2012 the Group has overdue accounts payable in the amount of RUB 2,072,242 thousand / USD* 68,227 thousand (31 December 2011: RUB 2,960,118 thousand / USD* 97,460 thousand), including overdue payables for property, plant and equipment in the amount of RUB 174,637 thousand / USD* 5,750 thousand (2011: RUB 92,411 thousand / USD* 3,043 thousand). As at 31 December 2012 the total amount of penalties for overdue payables on the balance sheet amounted to RUB 182,189 thousand / USD* 5,998 thousand (2011: RUB 287,530 thousand / USD* 9,467 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 46,280 thousand / USD* 1,524 thousand (2011: RUB 225,234 thousand / USD* 7,416 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.

* _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)._

31. Other short-term liabilities

	2012	2011	2012	2011
	’000 RUB	**’000 RUB**	**’000 USD***	**’000 USD***
Other taxes payable	2,337,960	2,860,985	76,976	94,196
Warranty provision	844,138	614,249	27,792	20,224
	3,182,098	3,475,234	104,768	114,420

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

The provision for warranties relates mainly to light commercial vehicles, buses and diesel engines and fuel injections equipment sold during the previous two years. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to incur most of the liability over the next year.

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

	2012	2011	2012	2011
	’000 RUB	**’000 RUB**	**’000 USD***	**’000 USD***
Defined benefit obligations at 1 January	(699,429)	(681,636)	(23,028)	(22,442)
Contributions	55,814	47,724	1,838	1,571
Current service costs and interest	(8,596)	(8,596)	(283)	(283)
Interest cost	(36,458)	(34,971)	(1,201)	(1,151)
Actuarial losses recognised in other comprehensive income	(40,476)	(21,950)	(1,333)	(723)
Defined benefit obligations at 31 December	(729,145)	(699,429)	(24,007)	(23,028)

∗ *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).*

(b) Expense recognised in profit or loss

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Current service costs	(8,596)	(8,596)	(283)	(283)
Interest on obligation	(36,458)	(34,971)	(1,201)	(1,151)
	(45,054)	(43,567)	(1,484)	(1,434)

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

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Cumulative amount at 1 January	(68,684)	(46,734)	(2,262)	(1,539)
Recognised during the year	(40,476)	(21,950)	(1,333)	(723)
Cumulative amount at 31 December	(109,160)	(68,684)	(3,595)	(2,262)

(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 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 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 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 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 2012 and 2011 is the carrying amounts of financial assets as presented below:

	Category of financial asset	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Other non-current investments (Note 17)	Available-for-sale	50,119	46,409	1,650	1,528
Other current investments (Note 17)	Loans and receivables	20	45	1	2
Other long-term financial assets (Note 19)	Loans and receivables	267,694	98,419	8,814	3,240
Long-term loans issued (Note 20)	Loans and receivables	2,348,380	623,564	77,318	20,531
Short-term loans issued (Note 20)	Loans and receivables	2,215,395	557,376	72,940	18,351
Accounts receivable - trade (Note 23)	Loans and receivables	7,423,626	5,314,472	244,417	174,975
Other receivables (Note 23)	Loans and receivables	1,346,290	652,100	44,326	21,470
Cash and cash equivalents (Note 25)	Loans and receivables	4,861,197	9,844,128	160,052	324,111
		18,512,721	17,136,513	609,518	564,208

The Group does not hold any collaterals securing its financial assets except for a loan issued with a nominal amount of RUB 2,400,000 thousand / USD* 79,018 thousand which is secured by a guarantee from a related party (see Note 39).

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Russia	5,844,613	4,228,716	192,430	139,227
CIS	907,143	611,920	29,867	20,147
Other regions	671,870	473,836	22,120	15,601
	7,423,626	5,314,472	244,417	174,975

∗ *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:

	2012	**2011**	**2012**	**2011**
	'000 RUB	**'000 RUB**	**'000 USD***	**'000 USD***
Russia	1,331,214	643,474	43,829	21,186
CIS	8,452	284	278	9
Other regions	6,624	8,342	219	275
	1,346,290	652,100	44,326	21,470

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

	2012	**2011**	**2012**	**2011**
	'000 RUB	**'000 RUB**	**'000 USD***	**'000 USD***
Retail dealers	1,763,810	1,190,848	58,072	39,208
End customers	5,659,816	4,123,624	186,345	135,767
	7,423,626	5,314,472	244,417	174,975

Impairment losses

The ageing of trade receivables at the reporting date was:

'000 RUB

	2012	**2011**
Neither past due nor impaired	6,238,033	3,987,387
Past due 0-90 days but not impaired	1,000,485	1,235,436
Past due 90-180 days but not impaired	105,877	54,859
Past due 180-360 days but not impaired	27,727	22,619
More than one year but not impaired	51,504	14,171
	7,423,626	5,314,472

'000 USD*

	2012	**2011**
Neither past due nor impaired	205,383	131,282
Past due 0-90 days but not impaired	32,940	40,676
Past due 90-180 days but not impaired	3,486	1,806
Past due 180-360 days but not impaired	913	745
More than one year but not impaired	1,695	466
	244,417	174,975

* *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 trade receivables during the year was as follows:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Balance at 1 January	(1,366,965)	(1,658,110)	(45,006)	(54,592)
Impairment allowance recognised	(131,675)	(136,102)	(4,335)	(4,481)
Acquisition of subsidiaries	(1,619)	-	(53)	-
Impairment allowance reversed	331,712	427,247	10,920	14,067
Balance at 31 December	(1,168,547)	(1,366,965)	(38,474)	(45,006)

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Individually impaired	(169,059)	(218,684)	(5,566)	(7,200)
Collectively impaired	(999,488)	(1,148,281)	(32,908)	(37,806)
	(1,168,547)	(1,366,965)	(38,474)	(45,006)

The ageing of other receivables at the reporting date was:

'000 RUB	2012	2011
Neither past due nor impaired	1,206,659	529,514
Past due 0-90 days but not impaired	119,941	80,893
Past due 90-180 days but not impaired	9,471	18,864
Past due 180-360 days but not impaired	6,359	9,152
More than one year but not impaired	3,860	13,677
	1,346,290	652,100

'000 USD*	2012	2011
Neither past due nor impaired	39,728	17,434
Past due 0-90 days but not impaired	3,949	2,663
Past due 90-180 days but not impaired	312	621
Past due 180-360 days but not impaired	209	301
More than one year but not impaired	128	451
	44,326	21,470

* *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 receivables during the year was as follows:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Balance at 1 January	(7,568,654)	(7,689,874)	(249,193)	(253,184)
Impairment allowance recognised	(105,804)	(44,162)	(3,484)	(1,454)
Write-off of impairment	1,800,008	-	59,264	-
Reclassification	246	(65,090)	8	(2,143)
Impairment allowance reversed	60,322	230,472	1,987	7,588
Balance at 31 December	(5,813,882)	(7,568,654)	(191,418)	(249,193)

	2012 ’000 RUB	2011 ’000 RUB	2012 ’000 USD*	2011 ’000 USD*
Individually impaired	(1,271,412)	(132,575)	(41,860)	(4,365)
Collectively impaired	(4,542,470)	(7,436,079)	(149,558)	(244,828)
	(5,813,882)	(7,568,654)	(191,418)	(249,193)

The ageing of loans issued at the reporting date was:

’000 RUB	**2012**	**2011**
Neither past due nor impaired	4,093,135	830,166
Past due 0-90 days but not impaired	460,738	342,136
Past due 90-180 days but not impaired	591	-
More than one year but not impaired	9,311	8,638
	4,563,775	1,180,940

’000 USD*	**2012**	**2011**
Neither past due nor impaired	134,764	27,333
Past due 0-90 days but not impaired	15,169	11,265
Past due 90-180 days but not impaired	19	-
More than one year but not impaired	307	284
	150,259	38,882

∗ *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 loans issued during the year was as follows (see Note 20):

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Balance at 1 January	(3,842,697)	(2,635,284)	(126,518)	(86,765)
Reclassification	-	65,153	-	2,145
Impairment allowance recognised	(86,962)	(1,245,825)	(2,863)	(41,018)
Translation difference	7,540	(26,741)	248	(880)
Balance at 31 December	(3,922,119)	(3,842,697)	(129,133)	(126,518)

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Balance at 1 January	(5,070,224)	(5,065,771)	(166,934)	(166,787)
Impairment allowance recognised	2,794	(4,453)	92	(147)
Balance at 31 December	(5,067,430)	(5,070,224)	(166,842)	(166,934)

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 2012 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).*

2012 '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%	-	-	-	-	-	-	-
RUB	CBRF refinancing rate + 3.25% but not less than 11%	618,921	1,648,251	1,524,467	1,401,021	1,276,813	1,152,944	7,622,417
RUB	MosPrime 3M+3.75%	107,113	164,060	353,520	322,206	220,213	-	1,167,112
RUB	Interest rate range 7.2%-9.79%	402,178	1,164,968	1,092,278	1,019,756	946,896	876,068	5,502,144
RUB	7.6% - 8.7%	25,188	85,492	80,221	74,964	62,456	36,897	365,218
EUR	EURIBOR + 3.2%	78,714	-	-	-	-	-	78,714
EUR	Interest rate range 1.61%-1.95%	702	-	-	-	-	-	702
Borrowings:								
RUB	MosPrime 3M+Min.interest income 0.125%	1,451,239	3,861,688	3,575,167	3,290,802	3,004,085	2,715,798	17,898,779
RUB	MosPrime 3M+Min.interest income 0.25%	2,563,081	6,770,728	6,264,693	5,762,468	5,256,086	4,746,934	31,363,990
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	3,326,057	-	-	-	-	-	3,326,057
RUB	1% - 8%	58,046	-	-	-	-	-	58,046
Trade and other payables:								
		16,100,403	-	508,357	-	-	-	16,608,760
		24,731,642	**13,695,187**	**13,398,703**	**11,871,217**	**10,766,549**	**9,528,641**	**83,991,939**

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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+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+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**

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2012 '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%	-	-	-	-	-	-	-
RUB	CBRF refinancing rate + 3.25%, but not less than 11%	20,378	54,268	50,192	46,128	42,038	37,960	250,964
RUB	MosPrime 3M+3.75%	3,527	5,402	11,639	10,609	7,250	-	38,427
RUB	Interest rate range 7.2%-9.79%	13,241	38,355	35,963	33,575	31,176	28,844	181,154
RUB	7.6% - 8.7%	829	2,815	2,641	2,468	2,056	1,215	12,024
EUR	EURIBOR + 3.2%	2,592	-	-	-	-	-	2,592
EUR	Interest rate range 1.61%-1.95%	23	-	-	-	-	-	23
Borrowings:								
RUB	MosPrime 3M+Min.interest income 0.125%	47,781	127,143	117,710	108,347	98,908	89,416	589,305
RUB	MosPrime 3M+Min.interest income 0.25%	84,388	222,921	206,261	189,725	173,053	156,289	1,032,637
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	109,507	-	-	-	-	-	109,507
RUB	1% - 8%	1,911	-	-	-	-	-	1,911
Trade and other payables:								
		530,095	-	16,737	-	-	-	546,832
		814,272	**450,904**	**441,143**	**390,852**	**354,481**	**313,724**	**2,765,376**

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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%	89,509	-	-	-	-	-	89,509
RUB	CBRF refinancing rate + 3.25%, but not less than 11%	9,474	18,845	50,915	47,146	43,380	75,446	245,206
EUR	EURIBOR + 3.2%	6,097	-	-	-	-	-	6,097
Borrowings:								
RUB	MosPrime 3M+Min.interest income 0.125%.	51,943	48,646	128,529	118,793	109,130	188,980	646,021
RUB	MosPrime 3M+Min.interest income 0.25%	66,956	62,733	164,595	152,040	139,580	241,399	827,303
RUB	MosPrime 3M+3.25% + Min.interest income 0.25%	218,180	-	-	-	-	-	218,180
RUB	1% - 8%	2,529	-	-	-	-	-	2,529
USD	8.28%	4,716	-	-	-	-	-	4,716
Trade and other payables:								
		530,327	-	-	-	-	-	530,327
		979,731	**130,224**	**344,039**	**317,979**	**292,090**	**505,825**	**2,569,888**

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(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 2012**	**EUR-denominated 2012**	**USD-denominated 2011**	**EUR-denominated 2011**
Current assets				
Loans issued	166,073	-	174,321	-
Trade receivables	448,455	373,306	282,154	187,356
Other receivables	2,600	5,638	9,201	11,881
Current liabilities				
Trade payables	(1,369,621)	(903,807)	(1,394,011)	(1,220,891)
Other payables	(40,567)	(151,226)	(377,090)	(124,669)
Loans and borrowings	-	(78,933)	(134,429)	(179,707)
Non-current liabilities	**-**	**-**	**-**	**-**
Other payables	(508,357)	-	-	-
	(1,301,417)	(755,022)	(1,439,854)	(1,326,030)

∗ *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*	USD-denominated 2012	EUR-denominated 2012	USD-denominated 2011	EUR-denominated 2011
Current assets				
Loans issued	5,468	-	5,739	-
Trade receivables	14,765	12,291	9,290	6,169
Other receivables	86	186	303	391
Current liabilities				
Trade payables	(45,094)	(29,757)	(45,897)	(40,197)
Other payables	(1,336)	(4,979)	(12,415)	(4,105)
Loans and borrowings	-	(2,599)	(4,426)	(5,917)
Non-current liabilities				
Other payables	(16,737)	-	-	-
	(42,848)	(24,858)	(47,406)	(43,659)

The following exchange rates applied at 31 December:

	2012 RUB	2011 RUB
1 US Dollar	30.3727	32.1961
1 EURO	40.2286	41.6714

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 2011.

	USD	EUR
RUB rate with 10% strengthening	27,3354	36,2057

	Equity ’000 RUB	Profit or loss ’000 RUB
2012		
USD	130,142	130,142
EUR	75,502	75,502
2011		
USD	143,986	143,986
EUR	132,603	132,603

* *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).*

	Equity ’000 USD*	Profit or loss ’000 USD*
2012		
USD	4,285	4,285
EUR	2,486	2,486
2011		
USD	4,741	4,741
EUR	4,366	4,366

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	**2012**	**2011**
Fixed rate instruments		
Financial assets	4,563,775	1,180,940
Financial liabilities	(333,683)	(170,669)
	4,230,092	1,010,271
Variable rate instruments		
Financial liabilities	(48,513,045)	(42,109,766)

’000 USD*	**2012**	**2011**
Fixed rate instruments		
Financial assets	150,258	38,882
Financial liabilities	(10,985)	(5,619)
	139,273	33,263
Variable rate instruments		
Financial liabilities	(1,597,258)	(1,386,435)

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Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Fair value sensitivity analysis for variable rate instruments

As described in Note 28, the Group received borrowings in the amount of RUR 38,096,982 thousand / USD* 1,254,317 thousand bearing interest rate MosPrime 3M increased by a margin and minimal interest income.

Besides, the Group received a loan RUB 5,381,923 thousand / USD* 177,196 thousand at the refinancing rate set by CB RF increased by a margin of 3.25% but not less than 11%.

The Group has other bank loans in the amount of RUB 4,204,146 thousand / USD* 138,419 thousand at the variable weighted average rate and RUB 849,451 thousand /USD* 27,968 thousand bearing interest rate MosPrime 3M+3.75%.

A change in interest rates by 100 basis points would increase or decrease equity and profit and loss for the period by RUB 480,533 thousand / USD* 15,821 thousand (2011: RUB 406,774 thousand / USD* 13,393 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.

The fair value of long-term financial assets and liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date and approximates their carrying value as the long-term financial assets and liabilities in the Group's financial statements have been discounted at a market rate.

(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.

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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:

	2012	**2011**	**2012**	**2011**
	’000 RUB	**’000 RUB**	**’000 USD***	**’000 USD***
Less than one year	69,021	163,514	2,272	5,384
Between one and five years	223,147	486,278	7,347	16,010
More than five years	1,744,603	3,261,055	57,440	107,368
	2,036,771	3,910,847	67,059	128,762

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.

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):

	2012	**2011**	**2012**	**2011**
	’000 RUB	**’000 RUB**	**’000 USD***	**’000 USD***
Less than one year	307,799	202,626	10,134	6,671
Between one and five years	1,231,197	810,503	40,536	26,685
More than five years	12,311,971	8,105,031	405,363	266,853
	13,850,967	9,118,160	456,033	300,209

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 265,691 thousand / USD* 8,748 thousand was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011: RUB 354,724 thousand / USD* 11,679 thousand).

35. Commitments

(a) Capital commitments

As at 31 December 2012 the total sum of contractual commitments under contracts to purchase equipment amounted to RUB 2,536,450 thousand / USD* 83,511 thousand (2011: RUB 2,453,482 thousand / USD* 80,779 thousand). Capital commitments arose within the scope of the following investment projects: arrangement of production of Gazelle Next wagons in the amount of RUB 679,789 thousand / USD* 22,382 thousand (2011: RUB 541,740 thousand / USD* 17,836 thousand), contract manufacturing of VW / Skoda cars in the amount of RUB 639,739 thousand / USD* 21,063 thousand (2011: RUB 522,170 thousand / USD* 17,192 thousand), production of EURO III and EURO IV engines for RUB 194,306 thousand / USD* 6,397 thousand (2011: RUB 1,328,818 thousand / USD* 43,751 thousand), contract manufacturing of Daimler vehicles in the amount of

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RUB 281,045 thousand / USD* 9,253 thousand (2011: nil), organization of production of OM646 engines in the amount of RUB 204,422 thousand / USD* 6,731 thousand (2011: nil) and other projects in the amount of RUB 537,149 thousand / USD* 17,685 thousand (2011: RUB 60,754 thousand / USD* 2,000 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 continues to evolve 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.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

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

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effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(c) Utilisation charge

In the second half of the year ended 31 December 2012 a number of legislative acts were adopted which introduce a utilization charge for transport vehicles on the territory of the Russian Federation.
Within the current legal boundaries the Group’s entities undertake commitments to utilize vehicles produced after 1 September 2012.
At present the Government of the Russian Federation is working at amendments on legislative level which will significantly change normative legal acts regulating the procedure of collection of the utilization charge.
Therefore it is not possible at the present stage to evaluate the amount of expenses for utilization of transport vehicles produced by the Group’s companies.
Taking into account the existing uncertainty in the legislative base of the Russian Federation a provision for utilization expenses of vehicles was not accrued in the Group’s consolidated financial statements for the year ended 31 December 2012.

37. Related party transactions

(a) Control relationships

The immediate parent company of OAO GAZ is OOO 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):

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Salaries and bonuses	269,230	279,754	8,864	9,211
Contributions to Social funds	20,134	3,579	663	118
	289,364	283,333	9,527	9,329

(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 2012, the Group reversed impairment of receivables relating to amounts owed by related parties in the amount of RUB 62,545 thousand / USD* 2,059 thousand (2011: RUB 88,873 thousand / USD* 2,926 thousand recorded impairment of receivables). 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.

During the year ended 31 December 2012 the Group sold its treasury shares to a related party for RUB 1,859,300 thousand / USD*61,216 thousand. According to the terms of the agreement, the acquirer should pay the amount by October 2014. The Group has not recognized the receivable arising from the transaction, by analogy to the derecognition provisions in IAS 39 (see Note 26(d)).

(i) Revenue

Sales to related parties were as follows:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Sale of goods				
Fellow subsidiaries	1,257,601	1,661,073	41,406	54,690
Equity accounted investees	36,909	10	1,215	-
Services provided				
Fellow subsidiaries	319,547	285,180	10,521	9,389
Equity accounted investees	13,854	573	456	19
	1,627,911	1,946,836	53,598	64,098

(ii) Purchases

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Purchase of raw materials				
Fellow subsidiaries	3,244,373	4,100,038	106,819	134,991
Equity accounted investees	331,201	-	10,904	-
Purchase of services				

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Electrical energy:				
Fellow subsidiaries	3,402,504	4,618,203	112,025	152,051
Consulting and other services:				
Fellow subsidiaries	2,350,843	2,470,547	77,400	81,341
	9,328,921	11,188,788	307,148	368,383

(iii) Trade and other receivables

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Receivables				
Fellow subsidiaries	523,150	888,967	17,225	29,269
Equity accounted investees	11,331	43	373	1
Advances issued				
Fellow subsidiaries	325,870	354,185	10,729	11,661
Other receivables				
Fellow subsidiaries	293,317	72,646	9,657	2,392
Equity accounted investees	37	-	1	-
	1,153,705	1,315,841	37,985	43,323

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 2012 amounted to RUB 9,699,975 thousand / USD* 319,365 thousand (2011: RUB 762,042 thousand / USD* 25,090 thousand).

(iv) Loans issued and other current investments

Loans issued to related parties were as follows:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Non-current				
Companies controlled by ultimate controlling party				
In RUB at a interest rate of 13%	2,311,614	-	76,108	-
In RUB at a interest rate of 12.5%	-	600,000	-	19,755
	2,311,614	600,000	76,108	19,755
Current				
Companies controlled by ultimate controlling party				
In RUB at a fixed interest rate of 1%-8.25%	333,232	164,310	10,971	5,410

* *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).*

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
In RUB at a fixed interest rate of 9%-12.5%	1,564,000	200,000	51,494	6,585
In USD at a fixed interest rate of 1%-6.5%	162,406	172,156	5,347	5,668
	2,059,638	536,466	67,812	17,663

During the year ended 31 December 2012 the Group purchased promissory notes at a fixed interest rate of 1% issued by related parties in the amount of RUB 4,000,000 thousand / USD* 131,697 thousand with maturity date in August 2017. The promissory notes are presented as loans issued in the consolidated financial statements. They were discounted at the interest rate of 12%. (see Note 20).

The loan with a nominal amount of RUB 2,400,000 thousand / USD* 79,018 thousand, discounted as at 31 December 2012, is secured by a guarantee from a related party (see Note 39).

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

During the year ended 31 December 2012 the Group issued RUB 432,922 thousand / USD* 14,254 thousand of short-term loans at fixed interest rates of 7%-12.5% to the companies controlled by the Parent company of which RUB 35,000 thousand / USD* 1,152 thousand was redeemed during the year (2011: RUB 817,368 thousand / USD* 26,911 thousand).

During the year ended 31 December 2012 the Group issued RUB 16,000 thousand / USD* 527 thousand of a short-term loan at a fixed interest rate of 5%, RUB 539,000 thousand / USD* 17,746 thousand of short-term loans at a fixed interest rate of 11.7% to the companies controlled by the Basic Element Group (2011: RUB 601,910 thousand / USD* 19,817 thousand at fixed interest rates of 6.5%-8.25%, RUB 1,297,000 thousand / USD* 42,703 thousand and fixed interest rates of 11%-12.5%, RUB 309,041 thousand / USD* 10,175 thousand at a fixed interest rate of 6.5% and RUB 600,000 thousand / USD* 19,755 thousand of long-term loan at a fixed interest rate of 12.5%).

During the year ended 31 December 2012 the Group received RUB 320,795 thousand / USD* 10,562 thousand (2011: RUB 183,295 thousand / USD* 6,035 thousand) of interest income on loans issued to related parties.

For the year ended 31 December 2012 the Group has recorded impairment of loans issued to related parties in the amount of RUB 89,193 thousand / USD* 2,936 thousand (2011: RUB 1,174,757 thousand / USD* 38,678 thousand (see Note 20).

* *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).*

(v) Trade and other payables

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

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Trade payables				
Fellow subsidiaries	591,017	427,522	19,459	14,076
Equity accounted investees	81,872	-	2,695	-
Prepayments received				-
Fellow subsidiaries	134,158	42,466	4,417	1,398
Equity accounted investees	174	-	6	-
Other payables				
Fellow subsidiaries	52,422	98,796	1,726	3,253
Equity accounted investees	59	-	2	-
	859,702	568,784	28,305	18,727

(vi) Loans received

Loans and borrowings owing to related parties were as follows:

	2012 '000 RUB	2011 '000 RUB	2012 '000 USD*	2011 '000 USD*
Current				
Companies controlled by the Basic Element Group				
In RUB at a fixed interest rate of 1% - 7.75%	36,294	30,330	1,195	999
	36,294	30,330	1,195	999

All loans received from related parties are unsecured.

During the year ended 31 December 2012 the Group received short-term loans from a company controlled by the Basic Element Group in the amount of RUB 525,680 thousand / USD* 17,308 thousand at fixed interest rates of 5%-7.75%, of which RUB 521,654 thousand / USD* 17,175 thousand was redeemed during the year (2011: RUB 510,927 thousand / USD* 16,822 thousand at a fixed interest rate of 7.75%).

During the year ended 31 December 2012 the Group accrued RUB 1,018 thousand / USD* 34 thousand (2010: RUB 13,927 thousand / USD* 459 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 2012 the Group paid RUB 55,814 thousand / USD* 1,838 thousand (2011: RUB 47,724 thousand / USD* 1,571 thousand).

* *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 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).*

38. Significant subsidiaries

	Country of incorporation	**Voting ownership 2012**	**Effective ownership 2012**	**Voting ownership 2011**	**Effective ownership 2011**
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%	75%	100%	100%
ZAO "TVEKS"	Russia	100%	75%	100%	93%
ZAO "Bryansky arsenal"	Russia	100%	75%	100%	78%
OAO "YAZDA"	Russia	90%	90%	90%	90%
OAO "YAZTA"	Russia	90%	90%	90%	90%
OAO "Autodiesel" (YaMZ)	Russia	63%	63%	63%	63%
OOO "RM-Terex"	Russia	100%	75%	100%	100%
OOO "Silovye Agregaty – GAZ Group"	Russia	100%	100%	100%	100%
ZAO "ZZGT"	Russia	100%	75%	100%	81%
OAO "UMZ"	Russia	100%	100%	100%	100%

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

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39. Events subsequent to the reporting date

The Group signed a number of agreements with banks about credit lines with a general limit of indebtness of RUB 6,000,000 thousand / USD* 197,546 thousand to finance investment expenses.

The Group received a guarantee from a related party securing a loan issued with a nominal amount of RUB 2,400,000 thousand / USD* 79,018 thousand (see Note 20 and Note 37(c)(iv)).

∗ *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).*

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Klimanova L.V.
General director ZAO KPMG

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