KAMAZ Group

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2011

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of OAO KAMAZ:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

4 May 2012

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

In millions of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	9	27,774	28,143
Intangible assets	11	2,317	1,698
Investment in associates and joint ventures	10	2,404	2,150
Available-for-sale investments		22	46
Finance lease receivables	12	843	357
Deferred income tax assets	32	1,599	1,987
Other non-current assets	13	2,240	461
Total non-current assets		**37,199**	**34,842**
Current assets			
Inventories	14	18,101	14,925
Trade and other receivables	15	9,644	8,049
Finance lease receivables	12	1,105	864
Term deposits	16	7,725	7,147
Cash and cash equivalents	16	3,549	4,087
Other current assets		108	155
Total current assets		**40,232**	**35,227**
TOTAL ASSETS		**77,431**	**70,069**
EQUITY			
Share capital	17	35,361	35,361
Accumulated deficit		(4,680)	(6,509)
Equity attributable to owners of the Company		**30,681**	**28,852**
Non-controlling interests		**1,051**	**1,031**
TOTAL EQUITY		**31,732**	**29,883**
LIABILITIES			
Non-current liabilities			
Borrowings	18	10,557	9,572
Deferred income tax liabilities	32	774	884
Non-current taxes payable	20	1,767	1,789
Finance lease payables	23	1,018	928
Post-retirement benefit obligation	24	157	150
Total non-current liabilities		**14,273**	**13,323**
Current liabilities			
Borrowings	18	10,994	12,562
Trade and other payables	22	17,157	12,069
Finance lease payables	23	455	431
Other taxes payable	19	2,216	1,357
Provisions for liabilities and charges	21	313	212
Other current liabilities		291	232
Total current liabilities		**31,426**	**26,863**
TOTAL LIABILITIES		**45,699**	**40,186**
TOTAL EQUITY AND LIABILITIES		**77,431**	**70,069**

Approved for issue and signed on behalf of the Board of Directors on 4 May 2012.

S.A. Kogogin
General Director

A.A. Maksimov
Chief Accountant

In millions of Russian Roubles	Note	2011	2010
Revenue	25	106,830	73,773
Cost of sales (excluding Impairment of property, plant and equipment)	26	(91,964)	(63,288)
Reversal of/(Impairment) of property, plant and equipment	9	137	(305)
Gross profit		**15,003**	**10,180**
Distribution costs	27	(4,921)	(2,969)
General and administrative expenses	28	(6,225)	(4,988)
Research and development costs	11	(188)	(93)
Share of income/(loss) of associates and joint ventures	10	57	(152)
Other operating income	29	1,110	565
Other operating expenses	29	(1,147)	(953)
Operating profit		**3,689**	**1,590**
Finance income	31	354	335
Finance costs	31	(1,434)	(2,260)
Effect of change of discount rate on non-current taxes	20	6	(407)
Profit/(Loss) before income tax		**2,615**	**(742)**
Income tax expense	32	(791)	(147)
Profit/(Loss) for the year		**1,824**	**(889)**
Profit/(Loss) is attributable to:			
- owners of the Company		1,778	(763)
- non-controlling interests		46	(126)
Profit/(Loss) for the year		**1,824**	**(889)**
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company, basic and diluted (expressed in Roubles per share)	33	2.51	(1.08)

In millions of Russian Roubles	Note	2011	2010
Profit/(Loss) for the year		**1,824**	**(889)**
Other comprehensive income/(loss)			
Currency translation differences		43	(2)
Other comprehensive income/(loss) for the year		**43**	**(2)**
Total comprehensive income/(loss) for the year		**1,867**	**(891)**
Total comprehensive income/(loss) is attributable to:			
- owners of the Company		1,821	(765)
- non-controlling interests		46	(126)
Total comprehensive income/(loss) for the year		**1,867**	**(891)**

In millions of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Profit/(Loss) before income tax		2,615	(742)
Adjustments for:			
Depreciation of property, plant and equipment	9, 30	2,525	2,637
Amortization of intangible assets	11, 30	147	84
(Gain)/Loss on disposals of property, plant and equipment and impairment	29	(260)	302
Loss on write-off intangible assets	11	188	93
(Gain)/Loss on disposals of subsidiaries and share of associates and joint ventures losses	10, 29	(726)	152
Effect of change of discount rate on non-current taxes	20	(6)	407
Finance income	31	(354)	(335)
Finance costs	31	1,434	2,260
Provisions for other liabilities and charges	21, 26	282	157
Impairment (reversal)/provision for receivables and loans issued	27	391	(372)
Loss from early termination of lease contracts	29	288	-
Proceeds from government grant		100	-
Other		(58)	41
Operating cash flows before working capital changes		**6,566**	**4,684**
(Increase)/Decrease in trade and other receivables		(2,009)	1,008
(Increase)/Decrease in finance lease receivables		(715)	885
Increase in inventories		(3,223)	(1,653)
Increase in trade and other payables		5,338	1,006
Increase in taxes payable		829	310
Increase in other non-current liabilities		7	5
Cash generated from operations		**6,793**	**6,245**
Income taxes paid		(541)	(270)
Net cash from operating activities		**6,252**	**5,975**
Cash flows from investing activities			
Purchases of property, plant and equipment	9	(2,727)	(1,449)
Proceeds from sale of property, plant and equipment	9	400	281
Term deposits		(578)	(4,205)
Purchases of long-term promissory notes	13	(1,700)	-
Additional contributions to joint ventures and associates		(113)	(690)
Proceeds from sale of available-for-sale investments		26	405
Acquisition of financial instruments at fair value through profit or loss		(656)	(21)
Proceeds from disposal of financial instruments at fair value through profit or loss		711	17
Development cost incurred and purchases of intangible assets	11	(872)	(499)
Proceeds from sale of subsidiary		781	-
Loans issued		-	(145)
Loans repaid		51	221
Interest received	31	336	290
Other		-	159
Net cash used in investing activities		**(4,341)**	**(5,636)**

In millions of Russian Roubles	**Note**	**2011**	**2010**
Cash flows from financing activities			
Proceeds from borrowings	18	19,996	14,315
Repayment of borrowings	18	(24,080)	(17,317)
Bonds issued	18	3,000	2,000
Interest paid		(1,495)	(1,753)
Proceeds from interest rate subsidy	31	819	-
Repayment of non-current taxes	20	(167)	(21)
Early repayment of finance lease		(953)	-
Proceeds from lease back operations		946	-
Repayment of finance lease		(512)	(679)
Dividends paid to non-controlling interest		(3)	-
Net cash used in financing activities		**(2,449)**	**(3,455)**
Net decrease in cash and cash equivalents		**(538)**	**(3,116)**
Cash and cash equivalents at the beginning of the year	16	**4,087**	**7,203**
Cash and cash equivalents at the end of the year	16	**3,549**	**4,087**

In millions of Russian Roubles	Attributable to owners of the Company: Share capital (Note 17)	Accumulated deficit	Total	Non-controlling interest	Total Equity
Balance at 31 December 2009	**35,361**	**(5,706)**	**29,655**	**1,148**	**30,803**
Loss for the year		(763)	(763)	(126)	**(889)**
Other comprehensive loss:					
Currency translation differences	-	(2)	(2)	-	**(2)**
Other comprehensive loss for the year	**-**	**(2)**	**(2)**	**-**	**(2)**
Total comprehensive loss for 2010	**-**	**(765)**	**(765)**	**(126)**	**(891)**
Dividends to non-controlling interests	-	-	-	(2)	**(2)**
Purchase of non-controlling interests in existing subsidiaries	-	(38)	(38)	11	**(27)**
Balance at 31 December 2010	**35,361**	**(6,509)**	**28,852**	**1,031**	**29,883**
Profit for the year	-	1,778	1, 778	46	**1,824**
Other comprehensive income:					
Currency translation differences	-	43	43	-	**43**
Other comprehensive income for the year	**-**	**43**	**43**	**-**	**43**
Total comprehensive income for 2011	**-**	**1,821**	**1,821**	**46**	**1,867**
Dividends to non-controlling interests	-	-	-	(3)	**(3)**
Purchase of non-controlling interests in existing subsidiaries	-	8	8	(23)	**(15)**
Balance at 31 December 2011	**35,361**	**(4,680)**	**30,681**	**1,051**	**31,732**

1 KAMAZ Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2011 for OAO KAMAZ (the "Company") and its subsidiaries (together referred to as the "Group" or "KAMAZ Group")." The Company and the Group primarily operate in the Russian Federation. The Company is an open joint stock company and was set up in accordance with Russian regulations.

There was no ultimate controlling party of the Company at 31 December 2011. At 31 December 2011 27.3% of shares in Company were owned by an institutional investor. These shares are subject to certain restrictions on rights to vote and sell which were imposed by an individual who is also a key member of management of the Company. This institutional investor is referred to in the notes to these consolidated financial statements as the "significant shareholder". The Russian Federation represented by the Russian Technologies State Corporation (Rostechnologii) is also one of the largest shareholders owing 49.9%. 11% of the shares are owned by Daimler AG and 4% of the shares are owned by EBRD. The shares of the Company are listed on MICEX (Moscow Interbank Currency Exchange). The remaining shares are free-floating on this stock exchange.

Operating activity. The Group's core operations are production and sale of trucks in the Russian Federation and abroad. The Group's manufacturing facilities are primarily based in Naberezhnye Chelny. The Group has a distribution and service network which covers the Russian Federation, the Commonwealth of Independent States and a number of other countries.

Registered address. The Company's registered address is 2 Avtozavodskiy pr., Naberezhnye Chelny, Republic of Tatarstan, Russia, 423827.

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. The Group recognizes provisions for trade and other receivables, inventories and finished goods, using the models required by the applicable accounting standards (Refer to Notes 3, 14, 15).

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

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

3 Summary of Significant Accounting Policies (Continued)

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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

Inter-company transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the carrying value of assets transferred cannot be recovered. The Company and all its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Acquisition of non-controlling interest. The difference, if any, between the carrying amount of a non-controlling interest and the amount paid to acquire it is recorded as loss or gain directly in equity. Gains and losses on the disposal of interests in subsidiaries where the parent retains control are also reported within shareholders' equity.

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

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Investments in joint ventures. The Group's interests in jointly controlled entities are accounted for by the equity method. Jointly controlled entities are corporations, partnerships or other entities in which each venturer has an interest and for which there is a contractual arrangement between the venturers that establishes joint control over the economic activity of the entity. Investments in jointly controlled entities are initially recognised at cost. The carryingamount of jointly controlled entities includes goodwill identified on acquisition less accumulated impairment losses,if any.

Post-acquisition changes in Group's share of net assets of a jointly controlled entities are recognised as follows: (i) the Group's share of profits or losses of jointly controlled entities is recorded in the consolidated profit or loss for the year as share of result of jointly controlled entities, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of jointly controlled entities are recognised in profit or loss within the share of result of jointly controlled entities.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

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

3 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. For the purpose of determining the impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows i.e. cash generating units. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. Management assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. An impairment loss recognized in prior years is adjusted if there has been a change in the estimates used to determine the asset's recoverable amount.

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

Depreciation. Land is not depreciated. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their cost (or deemed cost for assets acquired prior to the date of transition to IFRS) to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	40-60
Plant and equipment	10-20
Vehicles	5-10
Other fixed assets	3-10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life and the asset has no scrap value. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are expensed on a straight-line basis over the period of the lease.

Finance lease payables. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalized in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of return on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to finance expense over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful lives or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as finance lease receivables and carried at the present value of the future lease payments. Finance lease receivables are initially recognized at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

Interest income earned on finance leases of the Group's own products is recorded as revenue from finance services using the effective interest method at interest rates implicit in the finance lease agreements.

The difference between the gross receivable and the present value represents unearned finance income. This income is recognized as revenue from operations over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term unless the Group acts as a manufacturer or dealer lessor, in which case such costs are expensed as part of the selling expense similarly to outright sales.

3 Summary of Significant Accounting Policies (Continued)

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

Intangible assets. The Group's intangible assets have definite useful lives and primarily include capitalized development costs and computer software.

Research and development costs. Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when costs can be measured reliably and it is probable that the project will be successful considering management's ability and intention to complete or sell the project, and the project's commercial and technological feasibility. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit (3-10 years on average).

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Patents	5-10
Software licenses	5
Capitalised internal development costs	3-10
Other licenses	3-7

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell, based on cash generating unit level.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: financial instruments carried at fair value through profit or loss, loans and receivables, held-to-maturity assets and available-for-sale investments.

Financial instruments carried at fair value through profit or loss are securities or other financial assets, which are either acquired for generating profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists (trading instruments). The Group classifies financial assets into this category if it has an intention to sell them within a short period after acquisition that is within 3 months. The Group does not voluntarily designate other financial instruments as at fair value through profit or loss.

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

Held-to-maturity classification includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. The Group did not hold any held-to-maturity investments during the reported periods.

Available-for-sale investments comprise all other financial assets not included in the previous categories.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Financial instruments carried at fair value through profit or loss (trading investments). Trading investments are carried at fair value. Interest earned on debt trading investments calculated using the effective interest method is recorded as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established and collection of the dividend is probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading investments in the period in which they arise.

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

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit and loss.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value was determined based on appropriate valuation methodologies.

Income tax. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge (credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

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

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

Non-current taxes. Non-current taxes represent a liability for the expected outflows under decrees of the Government of the Russian Federation issued during 2009, 2007, 2006, 2002 and 2001 that allowed the Group to postpone payment of tax liabilities (unified social tax, VAT, fines and penalties). Non-current taxes are recognised as provision for future liabilities in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent assets".

Non-current taxes are recognised at their fair value (which is determined using the prevailing market rate of interest for a similar instrument). Changes in the period end value are recorded in the consolidated income statement in the period in which they arise.

Inventories. Inventories are measured at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3 Summary of Significant Accounting Policies (Continued)

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

Value added taxes. Value added tax related to sales is payable to tax authorities upon delivery of goods or collection of advances from customers. Input VAT is generally reclaimable against sales VAT upon delivery of goods and services. The tax authorities permit the settlement of VAT on a net basis.

VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT paid to suppliers of property, plant and equipment is included in the cash flows for purchases of property, plant and equipment reported in the cash flows statement.

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

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Borrowings costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Other borrowing costs are recognized in profit or loss using the effective interest method.

Financial liability (or a part of a financial liability) is derecognised from consolidated statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3 Summary of Significant Accounting Policies (Continued)

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Low interest/interest-free loans received from the government and from any other counterparty are treated under International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” and recognized at inception at the present value of the future repayments, discounted using the market rate of interest for similar loans.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provision for taxes other than on income, fines and penalties are recognised in accordance with policy discussed in ”Uncertain tax position”.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. The Group recognises the estimated liability to repair or replace products sold still under warranty at the end of each reporting period. This provision is calculated based on past history of the level of repairs and replacements.

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The Company’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, Russian Roubles (“RR”).

Monetary assets and liabilities are translated into the entity’s functional currency at the official exchange rate of the CBRF at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Effects of exchange rate changes on the fair value of equity investments are reported as part of the fair value gain or loss.

Government grant – interest rate subsidy. The interest rate subsidy is recognized when there is reasonable assurance that the grant will be received and all conditions will be complied with. The subsidy relates to interest on certain borrowings and is recorded as a separate component of finance costs as a reduction of interest expense.

Revenue recognition. Revenues from sales of trucks, spare parts and other products are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport products to a specified location, revenue is recognised when the products are passed to the customer at the destination point.

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

Sales are shown net of VAT and discounts, and after eliminating sales within the Group.

Revenues are measured at the fair value of the consideration received or receivable.

Sales of trucks under the finance lease agreements are recorded at fair value at the shipment date. Interest income on the resulting finance lease receivables is recognised using the effective interest method.

Development service contracts. The Group applies the percentage of completion method for revenue recognition on certain contracts to provide services to design and build prototypes of new products. Where the outcome of a service contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Where the outcome of a service contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue is recognised only to the extent of the expenses recognised that are recoverable and profit would be only recognized when it can be estimated reliably.

3 Summary of Significant Accounting Policies (Continued)

On the balance sheet, the Company reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

Non-cash settlements. A portion of sales and purchases are settled by bills of exchange, which are negotiable debt instruments.

Sales and purchases that are expected to be settled by bills of exchange, mutual settlements or other non-cash settlements are recognised based on the management's estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the cash flows statement, so investing activities, financing activities and the total of operating activities represent actual cash flows.

Bills of exchange are issued by the Group entities as payment instruments, which carry a fixed date of repayment. Bills of exchange issued by the Group are carried at amortised cost using the effective interest method.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. Bills of exchange issued by customers or issued by third parties are carried at amortised cost using the effective interest method. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms.

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

Pension costs. In the normal course of business Group companies contribute to the Russian Federation state pension scheme on behalf of their employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Company and its largest subsidiaries operate voluntary pension schemes, which include both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors, such as age, years of service and average compensation by employee's grade. The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognised actuarial gains or losses and past service costs.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of plan liabilities corridor are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plan, the Group pays fixed contributions into separate entity and has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Earnings/loss per share. Basic earnings/loss per share are determined by dividing the profit/loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the reporting period. For the purpose of calculating diluted earnings per share, profit or loss attributable to the shareholders of the Company, and the weighted average number of ordinary shares outstanding are adjusted for the effects of an assumed conversion of all dilutive potential ordinary shares into ordinary shares.

Fair value. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group estimates the tax provision on the basis of the following: tax claims resulting from the completion of tax audits are recognised and other tax risks are also estimated with the involvement of internal tax experts and lawyers. Judgement is applied in this process. Tax assets are written down or liabilities are recorded for income tax positions that are determined as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. Other tax exposures higher than remote are disclosed, but no provision or liability is recognised in the consolidated financial statements. See also Notes 21 and 34.

Related party transactions. Disclosures are made for transactions with state-controlled entities and government bodies of the Russian Federation that are considered to be related parties for the Group. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgment is applied by management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Note 7.

Interest rates affecting fair values of liabilities. Interest rates used for calculation of the carrying values of the low interest/interest-free borrowings and non-current tax liabilities were determined for the Group at the date of the agreements on restructuring based on the cost of long-term rouble borrowings taking into account the restructuring period (Notes 18 and 20).

The interest rate used for the valuation of the borrowing denominated in Japanese Yen obtained from the Ministry of Finance which was restructured in December 2005 was estimated to be 6.62% per annum. The interest rate used for fair valuation of the provision for non-current taxes and penalties in 2011 was estimated to be 10.56% per annum (2010: 10.46%).

Useful lives of property, plant and equipment. Management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 9). This estimate is based on projected product lifecycles and past experience of usage of the similar equipment. Management will increase the depreciation charge where useful lives are less than previously estimated lives and consider whether the change in the useful life is an impairment indicator.

If the actual useful lives of the property, plant and equipment were lower or higher by 10% from management's estimates, the carrying amount of the plant and equipment and depreciation expense at 31 December 2011 would be approximately RR 1,744 million (at 31 December 2010: RR 1,464 million) higher or RR 1,593 million (at 31 December 2010: RR 1,364 million) lower, respectively. The impact on the consolidated income statement would be RR 281 million loss (2010: RR 293 million of loss) or RR 230 million of income (2010: RR 240 million of income), respectively.

Provision for trade and other receivables. The Group regularly reviews its trade and other receivables to assess if any provision is required. In determining whether a provision should be recorded, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from trade receivable. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties and provided disclosures of only individually significant transactions with government-related entities.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity ;IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

6 New Accounting Pronouncements (Continued)

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group does not expect these amendments will have impact on the consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.The management expects that the effect of the amendment on the consolidated financial statements of the Group will be approximately RR 170 million which is the amount of past service cost to be recognised in the consolidated financial statements of the Group for the period after 1 January 2013.

6 New Accounting Pronouncements (Continued)

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

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

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. An entity's joint ventures or key management personnel are also considered as related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2011 and 2010 or had significant balances outstanding at 31 December 2011 and 31 December 2010 is detailed below.

	As of 31 December 2011		**For the year ended 31 December 2011**	
In millions of Russian Roubles	**Total assets**	**Total liabilities**	**Income**	**Expenses**
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	101	48	-	543
Unified social tax	-	462	-	4,142
VAT recoverable/payable	900	1,230	-	-
Other taxes	1,060	317	-	641
Non-current taxes	-	1,970	-	175
Deferred income	-	43	-	-
Government grant (deferred income)	-	200	-	
Long-term loans and borrowings	-	6,353	-	-
Short-term loans and borrowings	-	7,376	-	-
Interest expense	-	40	-	704
Interest rate subsidy	-	-	-	(954)
Cash and cash equivalents	2,499	-	-	-
Term deposits	5,762	-	-	-
Interest income	-	-	148	-
Trade and other receivables	505	-		-
Trade and other payables	-	2,520		
Sales of goods	-	-	19,367	
Purchases of goods	-	-	-	6,499
Development services	-	-	444	-
Charity	-	-	-	103
Balances and transactions with shareholders with significant influence				
Long-term promissory notes	1,704	-	-	183
Balances and transactions with JV				
Trade and other receivables	87	-	-	-
Trade and other payables	-	526	-	-
Sales of goods	-	-	643	-
Purchases of goods	-	-	-	5,139
Balances and transactions with associates				
Trade and other receivables	627	-	-	-
Trade and other payables	-	124	-	-
Sales of goods	-	-	1,467	-
Purchases of goods	-	-	-	2,370
Other related parties				
Charity	-	-	-	144

7 Balances and Transactions with Related Parties (Continued)

	As of 31 December 2010		For the year ended 31 December 2010	
In millions of Russian Roubles	**Total assets**	**Total liabilities**	**Income**	**Expenses**
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	93	68	-	403
Unified social tax	-	249	-	2,849
VAT recoverable/payable	883	615	-	-
Other taxes	913	314	-	614
Non-current taxes	-	1,962	-	617
Deferred income	-	64	-	-
Government grant	-	100	-	-
Long-term loans and borrowings	-	6,433	-	-
Short-term loans and borrowings	-	7,187	-	-
Interest expense	-	-	-	1,243
Cash and cash equivalents	1,182	-	-	-
Term deposits	6,870	-	-	-
Interest income	-	-	172	-
Trade and other receivables	344	-	-	-
Available-for-sale investments	25	-	63	12
Trade and other payables	-	1,306	-	-
Sales of goods	-	-	14,679	-
Purchases of goods	-	-	-	4,536
Charity	-	-	-	68
Reimbursement of interest expense	-	-	-	(53)
Reimbursement of the costs for temporary workers	-	-	-	(34)
Balances and transactions with shareholders with significant influence				
Cash and cash equivalents	1,700	-	-	-
Consulting services	-	-	-	31
Balances and transactions with JV				
Trade and other receivables	366	-	-	-
Trade and other payables	-	354	-	-
Sales of goods	-	-	200	-
Purchases of goods	-	-	-	2,109
Balances and transactions with associates				
Trade and other receivables	302	-	-	-
Trade and other payables	-	415	-	-
Sales of goods	-	-	778	-
Purchases of goods	-	-	-	1,443
Loans issued	10	-	-	-
Other related parties				
Sales of goods	-	-	167	-
Accounts receivable	486	-	-	-
Charity	-	-	-	73

During 2011 a significant shareholder acting as a professional broker on behalf of its clients acquired and subsequently sold RR 1,070 million of the Company's bonds.

In 2011, the amount of remuneration of the Board of Directors (11 people) and Management Board members (8 people) comprised salaries, discretionary bonuses and other short-term benefits totaling RR 161 million (year ended 31 December 2010: RR 44 million).

In August 2005, the Board of Directors approved a long-term remuneration plan for the members of the Management Board of the Company. Under the plan, the total amount of remuneration is based on the increase in the market capitalization of the Company every four years starting from August 2005. The maximum bonus is RR 150 million for each four year period. At 31 December 2011 that was RR 243 million accrued under this plan (31 December 2010: RR 146 million). The payment of this bonus has been deferred due to the current economic conditions.

Long-term and short-term loans are issued by Sberbank, Vneshtorgbank, Ak Bars Bank, Gazprombank, Ministry of Finance of Russian Federation and other banks related to the government. Terms and conditions are disclosed in Note 18.

Guarantees received from Russian Federation Ministry of Finance and Tatarstan Ministry of Finance are disclosed in Note 34.

7 Balances and Transactions with Related Parties (Continued)

At 31 December 2011 Company had provided pledges of property for obligations of a joint venture in the amount of RR 87 million (31 December 2010: RR 88 million) and issued guarantees for obligations of the joint ventures and associate in the amount of RR 353 million (31 December 2010: RR 456 million). The Group does not expect cash outflows related to the pledges provided and guarantees issued.

The Group has contractual commitments to sell services to the companies under state control under repair and developmental contracts for the value of RR 5,090 million (31 December 2010:RR 785 million).

8 Segment Information

Management has determined the operating segments based on the management reports, which are primarily derived from statutory records. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the segment, has been identified as the General Director of the Company. To determine the operating segments management has considered the business activities of the Group's companies.

The activity of the Group comprises two operating segments whose results are regularly reported to General Director. However, based on the requirements of the IFRS 8 "Operating segments", management identified other business activities which are not reviewed by the chief operating decision-maker. Information about these other business activities, that has been derived from IFRS accounts, have been included in an "all other segment" category.

Management assesses the performance of the operating segments based on certain measures, which are presented to the General Director. The information comprises measures such as revenue, operating profit and current assets and liabilities of the segment.

The Group has following reportable segments:

- Trucks – production and sale of vehicles, assembly kits, automotive components, rendering of services and sale of goods consumed in connection of the production of trucks. The segment measures are driven from the statutory accounts with eliminations of sales within different stages of the production process.
- Buses, trailers and specialized trucks – production and sale of buses, trailers, mixer trucks and other special vehicles using the base of a standard truck, and production and resale of related components and rendering of related services;
- Other – represents information, about the business activities that are not reportable. The nature of the activities is related to distribution of the goods and other auxiliary production activities.

Information in respect of revenue by geography is disclosed in Note 25. Substantially all of the Groups' assets are located, and capital expenditure are made, in the Russian Federation.

Segment information for the year ended 31 December 2011 is as follows:

In millions of Russian Roubles	**Trucks**	**Buses, trailers and specialized trucks**	**All Others**	**Intergroup eliminations**	**Reconciliation to IFRS**	**Total IFRS**
External revenue		6,144				
Inter-segment revenue		5,158				
Total Segment revenue	**96,393**	**11,302**	**12,958**	**(15,636)**	**1,813**	**106,830**
Segment profit measure	**2,569**	**313**	**706**	**-**	**101**	**3,689**
Finance income						**354**
Finance costs						**(1,434)**
Effect of change of discount rate						**6**
Profit before income tax						**2,615**
Segment assets (Inventories and Receivables)	**25,047**		**5,765**	**(2,483)**	**(584)**	**27,745**
Segment's liability (Borrowings and Trade payable)	**28,916**		**4,229**	**(675)**	**(2,643)**	**29,827**

8 Segment Information (Continued)

Detailed elimination and reconciliation items are provided below:

In millions of Russian Roubles	Segment revenue measure	Segment profit measure	Segment assets	Segment liability
Difference in the valuation and useful life of the fixed assets	-	295	-	-
Reversal of amortization of not recognised in IFRS intangible assets	-	481	-	-
Reclassification of charity expenses from non-operating expenses	-	(695)	-	-
Reversal of VAT write-off	-	99	-	-
Reclassification of VAT to IFRS Receivables	-	-	856	-
Reclassification of loans issued	-	-	137	-
Reclassification of intangible assets from advances issued	-	-	(401)	-
Reclassification of non-current assets from advances issued	-	-	(226)	-
Impairment provision for receivables (including finance lease)	-	(129)	(537)	-
Reclassification and adjustments for lease accounting	(2,076)	(88)	-	-
Difference in inventory recognition	-	-	323	381
Reclassification of revenue from spare parts resale to third parties	7,604	-	-	-
Reclassification of accounts receivable, advances and accounts payable with joint ventures and associates	-	-	662	322
Elimination of revenue, accounts receivable and accounts payable with joint ventures	(3,626)	-	(563)	(563)
Discounting of restructuring loan	-	-	-	(2,859)
Inventory valuation adjustments	-	(18)	(539)	-
Reclassification of interest payable	-	-	-	147
Difference in allocation of overheads to work-in-progress and finished goods	-	47	370	-
Reversal of impairment of property, plant and equipment impairment	-	137	-	-
Reclassification of bonuses for dealers from non-operating expenses	(365)	(365)	-	-
Revenue recognition on development contract	276	276	-	-
Cost of Sales recognition on development contract	-	(276)	-	25
Advances net-off on development contract	-	-	(211)	-
Accounts receivable and advances received net-off	-	-	(140)	
Accrual of bonus to management	-	(220)	-	-
Development costs write-off	-	(188)	-	-
Interest rate subsidy accrual	-	-	-	(141)
Gain on sale of subsidiary	-	389	-	-
Other adjustments and reclassification, net	-	356	(315)	45
Total elimination and reconciliation items	**1,813**	**101**	**(584)**	**(2,643)**

8 Segment Information (Continued)

Segment information for the year ended 31 December 2010 is as follows:

In millions of Russian Roubles	**Trucks**	**Buses, trailers and specialized trucks**	**All others**	**Intergroup eliminations**	**Reconciliation to IFRS**	**Total IFRS**
External revenue		4,914				
Inter-segment revenue		2,720				
Total Segment revenue	**64,691**	**7,634**	**10,837**	**(11,314)**	**1,925**	**73,773**
Segment profit measure (operating profit)	**743**	**55**	**636**	**-**	**156**	**1,590**
Finance income						**335**
Finance costs						**(2,260)**
Effect of change of discount rate						**(407)**
Loss before income tax						**(742)**
Segment assets (Inventories and Receivables)	**21,230**		**5,280**	**(3,100)**	**(436)**	**22,974**
Segment's liability (Borrowings and Trade payable)	**29,078**		**3,607**	**(1,308)**	**(1,977)**	**29,400**

8 Segment Information (Continued)

Detailed elimination and reconciliation items are provided below:

In millions of Russian Roubles	**Segment revenue measure**	**Segment profit measure**	**Segment assets**	**Segment liability**
Difference in the valuation and useful life of the fixed assets	-	(286)	-	-
Reversal of amortization of not recognised in IFRS intangible assets	-	421	-	-
Reclassification of charity expenses from non-operating expenses in statutory books	-	(540)	-	-
Loss on write-off VAT		(142)	-	-
Reclassification of VAT to IFRS Receivables	-	-	835	-
Reclassification of loans issued	-	-	176	-
Reclassification of intangible assets from advances issued	-	-	(321)	-
Reclassification of non-current assets from advances issued		-	(81)	-
Reclassification of cash and cash equivalents	-	-	(1,700)	-
Reclassification of investments in associates and joint ventures	-	-	(309)	-
Impairment provision for receivables (including finance lease)	-	298	(343)	-
Reclassification and adjustments for lease accounting	(2,259)	396	-	-
Difference in inventory recognition	-	-	476	541
Reclassification of revenue from spare parts resale to third parties	5,285	-	-	-
Reclassification of accounts receivable, advances and accounts payable with joint ventures and associates	-	-	1,254	205
Elimination of revenue, accounts receivable and accounts payable with joint ventures	(1,101)	-	(101)	(101)
Discounting of restructuring loan	-	-	-	(2,713)
Inventory valuation adjustments	-	(81)	(596)	-
Reclassification of interest payable	-	-	-	58
Difference in allocation of overheads to work-in-progress and finished goods	-	371	351	-
Impairment of property, plant and equipment	-	(305)	-	-
Other adjustments and reclassification, net	-	24	(77)	33
Total elimination and reconciliation items	**1,925**	**156**	**(436)**	**(1,977)**

The elimination and reconciliation items mainly represent adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS. The revenue IFRS reconciliation and elimination items mainly represent finance leasing and consolidation adjustments.

9 Property, Plant and Equipment

Property, plant and equipment book value movements are summarised below:

In millions of Russian Roubles	Land	Buildings	Plant and equipment	Other	Assets under construc-tion	Total
Cost						
Balance at 31 December 2009	**1,673**	**19,778**	**14,896**	**2,040**	**2,949**	**41,336**
Additions	-	-	-	-	1,851	1,851
Disposals	(5)	(373)	(888)	(145)	(6)	(1,417)
Write-off	(10)	(164)	(59)	(60)	-	(293)
Transfers	10	982	2,140	601	(3,733)	-
Impairment of fixed assets	-	(226)	-	-	(119)	(345)
Currency translation differences	-	-	(45)	-	-	(45)
Balance at 31 December 2010	**1,668**	**19,997**	**16,044**	**2,436**	**942**	**41,087**
Additions	-	-	-	-	2,561	2,561
Disposals	(41)	(147)	(697)	(221)	(47)	(1,153)
Write-off	-	7	(79)	(17)	22	(67)
Transfers	5	906	975	573	(2,459)	-
Reversal of impairment of fixed assets	-	169	-	-	-	169
Currency translation differences	-	-	17	-	-	17
Balance at 31 December 2011	**1,632**	**20,932**	**16,260**	**2,771**	**1,019**	**42,614**
Accumulated Depreciation						
Balance at 31 December 2009	-	(4,106)	(5,866)	(1,204)	-	(11,176)
Depreciation expense	-	(748)	(1,543)	(346)	-	(2,637)
Disposals	-	81	389	103	-	573
Write-off	-	141	59	56	-	256
Impairment of fixed assets	-	40	-	-	-	40
Balance at 31 December 2010	**-**	**(4,592)**	**(6,961)**	**(1,391)**	**-**	**(12,944)**
Depreciation expense	-	(646)	(1,602)	(277)	-	(2,525)
Disposals	-	29	413	161	-	603
Write-off	-	1	41	16	-	58
Impairment of fixed assets	-	(32)	-	-	-	(32)
Balance at 31 December 2011	**-**	**(5,240)**	**(8,109)**	**(1,491)**	**-**	**(14,840)**
Net Book Value						
Balance at 31 December 2010	**1,668**	**15,405**	**9,083**	**1,045**	**942**	**28,143**
Balance at 31 December 2011	**1,632**	**15,692**	**8,151**	**1,280**	**1,019**	**27,774**

Interest capitalized during 2011 within the cost of acquired property, plant and equipment totalled RR 40 million (2010: RR 182 million). Interest rate used to determine the amount of borrowing costs eligible for capitalization was 5.3% (2010: 8.9%).

In 2011 previously recognised impairment loss of RR 137 million for a building was reversed. In 2010, impairment losses included RR 305 million identified as a result of the testing for specific impairment.

The amount of plant and equipment includes the equipment received under leasing agreements totalling RR 1,854 million as of 31 December 2011 (31 December 2010: RR 1,892 million) at net book value.

10 Investments in associates and joint ventures

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

In millions of Russian Roubles	2011	2010
Carrying amount at beginning of the year	**2,150**	**1,028**
Additional contributions to existing associates and joint ventures	245	577
Contributions to new associates and joint ventures	5	697
Share of results of associates and joint ventures, after tax	57	(152)
Disposals of associates	(53)	-
Carrying amount at 31 December	**2,404**	**2,150**

10 Investments in associates and joint ventures (Continued)

a) Investments in Associates

The Group has shares in 15 associates, none of which is significant individually. A summary of the Group's share in associates and summarised financial information including assets, liabilities, revenues, profit or loss at 31 December 2011 and 31 December 2010 is set out below:

In millions of Russian Roubles	Interest	Share of net asset	Share of net profit/ (loss)	Total assets	Total liabilities	Revenue	Profit/ (loss)	Country of incorpo-ration
For the year ended 31 December 2011								
KAMAZ VECTRA MOTORS LIMITED	57.9%	247	(68)	1,049	(564)	268	(133)	India
ZF KAMA	49%	367	4	1,080	(331)	2,593	8	Russia
VINACOMIN MOTOR INDUSTRY JSC	37.64%	28	2	236	(161)	458	6	Vietnam
CNH-KAMAZ Commerce LLC	49%	40	10	1,345	(1,263)	2,183	21	Russia
Other	24%-50%	30	7	308	(194)	1,291	28	Russia
Total		**712**	**(45)**	**4,018**	**(2,513)**	**6,793**	**(70)**	
For the year ended 31 December 2010								
KAMAZ VECTRA MOTORS LIMITED	51%	256	(29)	790	(288)	70	(56)	India
ZF KAMA	49%	363	44	1,595	(855)	1,573	90	Russia
KAMAZ-V-ITASCO AUTOMOBILE JSC	36%	64	4	523	(346)	286	10	Vietnam
VINACOMIN MOTOR INDUSTRY JSC	37.64%	26	2	175	(106)	375	6	Vietnam
CNH-KAMAZ Commerce LLC	49%	29	-	122	(62)	-	(1)	Russia
Other	24%-50%	15	(30)	1,080	(1,017)	1,159	(65)	Russia
Total		**753**	**(9)**	**4,285**	**(2,674)**	**3,463**	**(16)**	

b) Investments in Joint Ventures

As at 31 December 2011 the Group has interests in the following jointly controlled entities: CUMMINS KAMA, Federal-Mogul, Knorr-Bremse KAMA, Fuso KAMAZ Trucks Rus, Mercedes-Benz Trucks Vostok, CNH-KAMAZ Industry LLC. A summary of the Group's share in joint ventures and related financial information including total assets, liabilities, revenues, profit or loss at 31 December 2011 and 31 December 2010 is set out below:

In millions of Russian Roubles	Interest	Share of net assets	Share of net profit/ (loss)	Total assets	Total liabilities	Revenue	Profit/ (loss)	Country of incorpo-ration
For the year ended 31 December 2011								
Federal Mogul	50%	553	(142)	1,451	(345)	1,441	(284)	Russia
CUMMINS KAMA	50%	218	6	2,329	(1,893)	2,583	12	Russia
Knorr-Bremse KAMA	50%	162	63	652	(328)	2,305	126	Russia
Fuso KAMAZ Trucks Rus	50%	57	(61)	2,475	(2,361)	1,613	(122)	Russia
Mercedes-Benz Trucks Vostok	50%	462	211	4,572	(3,648)	10,102	422	Russia
CNH-KAMAZ Industry LLC	50%	231	22	2,444	(1,982)	3,222	44	Russia
Other	50%	9	3	81	(63)	325	6	Austria
Total		**1,692**	**102**	**14,004**	**(10,620)**	**21,591**	**204**	
For the year ended 31 December 2010								
Federal Mogul	50%	510	(80)	1,324	(305)	659	(160)	Russia
CUMMINS KAMA	50%	212	(20)	2,515	(2,091)	1,040	(40)	Russia
Knorr-Bremse KAMA	50%	99	43	418	(220)	1,420	86	Russia
Fuso KAMAZ Trucks Rus	50%	118	(58)	912	(677)	351	(116)	Russia
Mercedes-Benz Trucks Vostok	50%	251	1	2,343	(1,842)	2,338	2	Russia
CNH-KAMAZ Industry LLC	50%	209	(27)	1,988	(1,571)	608	(54)	Russia
Other	50%	-	(2)	4	(4)	-	(4)	Austria
Total		**1,399**	**(143)**	**9,504**	**(6,710)**	**6,416**	**(286)**	

10 Investments in associates and joint ventures (Continued)

The additional contribution to the charter capital of Federal Mogul joint venture in the form of property, plant and equipment with a carrying value of RR 43 million has the fair value of RR 231 million. As the Group has a 50% interest in this entity, only 50% or RR 95 million of the RR 190 million gain was recognised in 2011; the balance was eliminated against the investment and will be recognised as income over the remaining useful lives of the assets transferred. Other party made contribution in the form of cash at nominal value of it's share in the charter capital.

Shares of the Group's associates and joint ventures are not listed on any stock exchange.

11 Intangible Assets

Intangible assets comprise the following:

In millions of Russian Roubles	**Development costs**	**Other Intangible Assets**	**Total**
Cost			
Balance at 31 December 2009	**1,321**	**250**	**1,571**
Additions	519	83	602
Write-off	(54)	(39)	(93)
Balance at 31 December 2010	**1,786**	**294**	**2,080**
Additions	608	346	954
Write-off	(188)	-	(188)
Balance at 31 December 2011	**2,206**	**640**	**2,846**
Accumulated Amortisation			
Balance at 31 December 2009	**(236)**	**(62)**	**(298)**
Amortisation expense	(82)	(2)	(84)
Balance at 31 December 2010	**(318)**	**(64)**	**(382)**
Amortisation expense	(73)	(74)	(147)
Balance at 31 December 2011	**(391)**	**(138)**	**(529)**
Net Book Value			
Balance at 31 December 2010	**1,468**	**230**	**1,698**
Balance at 31 December 2011	**1,815**	**502**	**2,317**

Development costs capitalized comprise the following projects:

In millions of Russian Roubles	**Expected useful life**	**2011**	**2010**
New cab family	7-10 years	544	450
Engines Euro-5	5-10 years	422	330
Heavy truck family (KAMAZ-6520)	7 years	146	140
Light truck family	7 years	204	134
Long-haul truck (KAMAZ-6520)	7 years	155	129
Others	3-10 years	344	285
Total		**1,815**	**1,468**

The development costs include interest capitalized during 2011 totalled RR 82 million (2010: RR 103 million). Interest rate used to determine the amount of borrowing costs eligible for capitalization was 5.3% (2010: 8.9%).

Other intangible assets represent licences for software and other intangibles purchased outside the Group.

12 Finance Lease Receivables

Information on minimum finance lease payments and their present value is specified below:

In millions of Russian Roubles	**Due within 1 year**	**Due between 2 and 5 years**	**Total**
Minimum lease payments at 31 December 2011	1,212	1,170	2,382
Less future finance charges	(101)	(322)	(423)
Less impairment provision	(6)	(5)	(11)
Present value of minimum lease payments at 31 December 2011	**1,105**	**843**	**1,948**

The Group provides leasing facilities to the buyers of trucks and buses. The common terms of leasing agreements include 30% advance payment and 2-3 years lease period. Effective interest rate for finance lease receivables is 24% in 2011 (2010: 24%). The fair value of finance lease receivables as at 31 December 2011 is not significantly different to their carrying values.

At 31 December 2011 and 31 December 2010 lease balances are as following:

In millions of Russian Roubles	**31 December 2011**	**31 December 2010**
Current and not impaired	1,819	841
Past due but not impaired (less than 30 days overdue)	37	143
Past due but not impaired (30 days to 90 days overdue)	66	75
Individually impaired		
- 30 days to 90 days overdue	-	13
- 90 days to 120 days overdue	33	113
- more than 120 days overdue	4	114
Total individually impaired	37	240
Impairment loss provision	(11)	(78)
Total lease balances	**1,948**	**1,221**

The fair value of collateral (leased out trucks) for past due but not impaired and individually impaired balances comprised RR 218 million (2010: RR 357 million).

The finance lease receivables are effectively collateralized by the leased assets as the right to the asset reverts to the Group in case of the counterparty's default. In addition to this, the above receivables in amount of RR 475 million are collateralized by the guarantees received from third parties. Pledge value is equal or exceeds the carrying value of receivables.

13 Other Non-Current Assets

Other non-current assets consist of the following:

In millions of Russian Roubles	**31 December 2011**	**31 December 2010**
Long-term promissory notes	1,704	-
Advances issued for equipment	386	176
Long term loans issued	83	123
Long term receivables	67	153
Other	-	9
Total non-current assets	**2,240**	**461**

13 Other Non-Current Assets (Continued)

In March 2011 the Company acquired US Dollar denominated promissory notes issued by a significant shareholder at nominal value of US$ 59 million maturing in three years time through December 2014.The fair value of these promissory notes is US$ 53 million calculated by applying a discount rate 4% (Note 31).

14 Inventories

In millions of Russian Roubles	31 December 2011	31 December 2010
Raw materials and consumables	6,059	5,094
(Less net realizable value provision)	(462)	(519)
Raw materials and consumables, net	5,597	4,575
Work in progress	5,292	3,914
Finished goods	7,409	6,812
(Less net realizable value provision)	(197)	(376)
Finished goods, net	7,212	6,436
Total inventory	**18,101**	**14,925**

Movements in the impairment provision for inventories and finished goods are as follows:

	2011		2010	
In millions of Russian Roubles	Inventories	Finished goods	Inventories	Finished goods
As of 1 January	**519**	**376**	**603**	**624**
Provision charged	47	-	33	-
Provision utilised	(104)	(179)	(117)	(248)
As of 31 December	**462**	**197**	**519**	**376**

15 Trade and Other Receivables

In millions of Russian Roubles	31 December 2011	31 December 2010
Trade receivables	6,529	4,623
(less impairment provision for trade accounts receivable)	(449)	(284)
Trade receivables, net	6,080	4,339
Advances issued and prepayments	1,162	1,271
(less impairment provision for advances issued and prepayments)	(40)	(41)
Advances issued and prepayments, net	1,122	1,230
Other receivables	997	988
(less impairment provision for other receivables)	(522)	(351)
Other receivables, net	475	637
Loans issued	134	164
(less impairment provision for loans issued)	(127)	(117)
Loans issued, net	7	47
VAT recoverable	900	883
Other prepaid taxes	1,060	913
Total trade and other receivables	**9,644**	**8,049**

The Group's receivables include RR 134 million (at 31 December 2010: RR 164 million) loans issued to its dealers. Loans bear interest of 18.4% per annum (2010:18-19% per annum).

The fair value of each class of the trade and other receivables is not significantly differs from their carrying values.

15 Trade and Other Receivables (Continued)

Analysis of trade receivables is as following:

In millions of Russian Roubles	31 December 2011	31 December 2010
Current and not impaired	5,554	3,274
Past due but not impaired		
- less than 30 days overdue	166	240
- 30 days to 60 days overdue	83	76
- 60 days to 90 days overdue	86	28
- 90 days to 120 days overdue	1	206
- 120 days to 365 days overdue	53	118
- more than 1 year overdue	137	396
Total past due but not impaired	526	1,064
Individually impaired		
- less than 30 days overdue	16	6
- 30 days to 60 days overdue	-	3
- 60 days to 90 days overdue	-	10
- 90 days to 120 days overdue	12	16
- 120 days to 365 days overdue	38	31
- more than 1 year overdue	383	219
Total individually impaired	449	285
Impairment loss provision	(449)	(284)
Total trade receivables	**6,080**	**4,339**

Accounts receivable denominated in foreign currency:

In millions of Russian Roubles	31 December 2011	31 December 2010
USD	1,096	1,046
Euros	366	298
Other foreign currencies	294	217
Total	**1,756**	**1,561**

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

In millions of Russian Roubles	2011	2010
As of 1 January	**871**	**1,243**
Provision charged	588	179
Provision reversed	(197)	(548)
Amounts written off as uncollectible	(113)	(3)
As of 31 December	**1,149**	**871**

The Group trade receivables collateralised by bank guarantee, pledge of property, letter of credit or other assets are as follows:

In millions of Russian Roubles	31 December 2011	31 December 2010
Trade receivables collateralised by:		
- residential real estate	1,266	433
- bank guarantee	1,053	692
- other	83	226
Non-collateralised	3,678	2,988
Total	**6,080**	**4,339**

Pledge value is equal or exceeds the carrying value of receivables.

Other receivables are not collateralized.

16 Cash and Cash Equivalents and Term Deposits

In millions of Russian Roubles	31 December 2011	31 December 2010
Deposits	552	2,306
Cash in bank	2,952	1,314
Bank promissory notes	45	467
Subtotal cash and cash equivalents	**3,549**	**4,087**
Term deposits	7,725	7,147
Total cash, cash equivalents and terms deposits	**11,274**	**11,234**

Deposits in cash and cash equivalents bear interest in 2011 from 0.1% to 7.9% per annum (2010: from 0.01% to 5.75% per annum) depend on maturity and nominal currency. The other cash balances are not interest-bearing.

Term deposits, that are not included in cash and cash equivalents and disclosed in a separate caption of the statement of financial position, consist of deposits with a maturity from 1 to 12 months and interest rates from 4.6% to 8.75% (2010: from 2.8% to 14.5%).

Cash balances denominated in foreign currency:

In millions of Russian Roubles	31 December 2011	31 December 2010
Euros	203	146
USD	55	28
Other foreign currencies	197	195
Total	**455**	**369**

17 Share Capital

In millions of Russian Roubles	Number of outstanding shares (in thousands)	Ordinary shares Nominal amount
At 31 December 2011	**707,230**	**35,361**
At 31 December 2010	**707,230**	**35,361**

Total amount of authorised ordinary shares is 707,230 thousand (2010: 707,230 thousand shares) with a nominal value of RR 50 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

18 Borrowings

The Group's borrowings mature as follows:

In millions of Russian Roubles	31 December 2011	31 December 2010
Borrowings due:		
- within 1 year	10,994	12,562
- between 2 and 5 years	7,372	7,166
- after 5 years	3,185	2,406
Total borrowings	**21,551**	**22,134**

Borrowings payable after 5 years includes a 1% loan from the Russian Federation Ministry of Finance for RR 2,674 million (31 December 2010: RR 2,370 million). This loan matures in 2034.

18 Borrowings (Continued)

Long-term borrowings

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

In millions of Russian Roubles		31 December 2011				31 December 2010			
	Currency	Effective interest rate	Nominal interest rate	Carrying value	Fair value	Effective interest rate	Nominal interest rate	Carrying value	Fair value
Term loans									
Sberbank	Rouble	10%	9%	3,538	3,569	10%	9.5%	4,354	4,321
RF Ministry of Finance	Japanese Yen	6.6%	1%	3,268	2,288	6.6%	1%	2,921	2,037
Domestic bonds	Rouble	9%	9%	3,000	3,030	9%	9%	2,000	2,020
Ak Bars Bank	Rouble	9%	9%	2,313	2,353	8%	8%	867	867
Vnesheconombank	Rouble	11%	CBR rate + 2.5 %	1,187	1,187	-	-	-	-
Commerzbank (Eurasija)	US Dollar	5%	3-month Libor +4.75%	263	263	5%	3-month Libor +4.75%	761	761
EBRD	US Dollar	2%	6m USD LIBOR+ 1%	217	217	2%	6-month Libor+1%	410	410
Syndicated loan	Euro	-	-	-	-	4%	3-month Euribor +3.5%	2,240	2,240
Others		7-9%	7-8%	588	599	4%	4%	308	294
Total term loans				**14,374**	**13,506**			**13,861**	**12,950**
Revolving lines of credit									
Vneshtorgbank	Rouble	8%	8%	1,000	1,026	10%	9,6%	1,695	1,687
Uralsib	Rouble	8%	8%	400	411	11%	10%	200	200
Investcapitalbank	Rouble	9%	9%	320	324	11%	9%	180	180
Vneshtorgbank	Euro	5%	6-month Euribor + 3.6%	111	111	5%	6-month Euribor + 3.6%	528	528
Bank severniy	Euro	-	-	-	-	13%	12%	304	304
Others	Rouble	9-10%	9-10%	931	941	11%-12%	11%-12%	864	864
Total revolving lines of credit				**2,762**	**2,813**			**3,771**	**3,763**
Total long-term borrowings				**17,136**	**16,319**			**17,632**	**16,713**
Less Current portion				**(6,579)**	**(6,655)**			**(8,060)**	**(7,992)**
Total long-term portion				**10,557**	**9,664**			**9,572**	**8,721**

In December 2010 the Company issued Rouble denominated non-convertible coupon bearer bonds for RR 2,000 million maturing in December 2013 with interest of 9% per annum through December 2012. After this date the Company can change the interest rate for the period of the bonds. If any of the bondholders do not accept the new rate they can require the Company to repurchase the bonds. In February 2011 the Company issued the second tranche of Rouble-denominated non-convertible bonds for RR 3,000 million maturing through February 2014 with 8.6% per annum. As at 31 December 2011, the fair value of the first tranche of the bonds was estimated to be RR 2,020 million (31 December 2010: RR 2,020 million), the fair value of the second tranche of bonds was estimated to be RR 3,030 million.

18 Borrowings (Continued)

Short-term borrowings

In millions of Russian Roubles		31 December 2011				31 December 2010			
	Currency	**Effective interest rate**	**Nominal interest rate**	**Carrying value**	**Fair value**	**Effective interest rate**	**Nominal interest rate**	**Carrying value**	**Fair value**
Term loans									
Domestic bonds	Rouble	9%	9%	2,000	2,020	-	-	-	-
Ak Bars Bank	Rouble	8%	9%	100	102	8%	9%	500	490
Vneshtorgbank	Rouble	-	-	-	-	10%	10%	910	906
Akibank	Rouble	18%	18%	55	55	8%	9%	505	495
Others		17%	17%	168	168	14-15%	14-15%	301	301
Term loans				**2,323**	**2,345**			**2,216**	**2,192**
Revolving lines of credit									
Sberbank	Rouble	2.6%	3,5%	1,819	1,976	2%	3.5%	1,783	1,650
Akibank	Rouble	11%	9%	102	102	-	-	-	-
Zenit	Rouble	14%	14%	10	10	9%	8.5%	302	296
Others		12%	12%	125	125	11%	11%	114	114
Revolving lines of credit				**2,056**	**2,213**			**2,199**	**2,060**
Total short-term borrowings				**4,379**	**4,558**			**4,415**	**4,252**
Total current portion of long-term borrowings				**6,579**	**6,655**			**8,060**	**7,992**
Interest payable				177				87	
Less interest rate subsidy receivable				(141)				-	
Current borrowings				**10,994**	**11,213**			**12,562**	**12,244**

The loans from Sberbank in amount of RR 5,357 million (31 December 2010: RR 6,137 million) are secured by a guarantee from Russian Federation Ministry of Finance of RR 1,613 million (31 December 2010: RR 2,150 million), by a pledge of the Group's property RR 2,276 million (31 December 2010: RR 1,050 million) and by a pledge of finished goods 1,097 million (31 December 2010: RR 1,084 million).

Under the certain loan agreements with Sberbank in amount of RR 1,720 million (31 December 2010: RR 1,750 million) the Company received the bank's promissory notes instead of cash. Interest rate on such loan is 2% (2010: 3.5%).

The loan from the Russian Federation Ministry of Finance in amount of RR 3,268 million (31 December 2010: RR 2,921 million) is secured by a real estate pledge RR 872 million (31 December 2010: RR 871 million) and by a pledge of subsidiaries' shares RR 2,387 million (31 December 2010: at net assets value of RR 2,383 million).

Leasing company's borrowings from Ak Bars Bank in amount of RR 2,413 million (31 December 2010: RR 1,368 million) is secured by a pledge of finished goods of RR 3,605 million (31 December 2010: RR 1,473 million), Commerzbank's loan in amount of RR 263 million (31 December 2010: RR 761 million) is secured by a property pledge RR 817 million (31 December 2010: RR 768 million) and by a pledge of the leasing payments of RR 860 million (31 December 2010: RR 860 million).

A new credit line from Vnesheconombank in the amount of RR 1,187 million at the interest rate of 10.7% per annum was obtained by the Group in 2011 with a limit of RR 1,742 million. The funds received were used for financing the Group's joint venture development projects and purchasing of production equipment. The loan from Vnesheconombank is secured by a pledge of the Group's property RR 1,033 million and by a guarantee of the largest subsidiaries.

The EBRD loan in amount of RR 217 million (31 December 2010: RR 410 million) is secured by a guarantee from Russian Federation Ministry of Finance of RR 2,270 million (31 December 2010: RR 2,149 million) and by a guarantee from Republic of Tatarstan Ministry of Finance of RR 412 million (31 December 2010: RR 390 million).

18 Borrowings (Continued)

Short-term borrowings (continued)

The Vneshtorgbank loans in amount of RR 1,111 million (31 December 2010: RR 3,133 million) are secured by property pledge of RR 1,913 million (31 December 2010: RR 5,083 million) and by a guarantee from Ministry of Finance of RR nil million (31 December 2010: RR 1,450 million).

Under the terms of its agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios, financial indebtedness and cross-default provisions.

The Group did not comply with certain financial covenants related to the EBRD loan agreement. The total liability under this agreement is RR 217 million (31 December 2010: RR 3,484 million). This amount is recognized as short-term borrowing in the statement of financial position. The lender has the right to require the early repayment of the whole amount of this loan due to the breach of covenants.

19 Other Taxes Payable

Taxes payable within one year comprise the following:

In millions of Russian Roubles	**31 December 2011**	**31 December 2010**
Value-added tax	1,230	615
Unified social tax	462	249
Personal income tax	156	156
Current portion of non-current taxes payable	203	173
Other taxes	165	164
Total	**2,216**	**1,357**

20 Non-Current Taxes Payable

Non-current taxes represent a provision for the expected outflows under decrees of the Government of the Russian Federation issued during 2009, 2007, 2006, 2002 and 2001 that allowed the Group to postpone payment of tax liabilities (unified social tax, VAT, fines and penalties).

Movements in the liabilities for non-current taxes are as follows:

In millions of Russian Roubles	**2011**	**2010**
Carrying amount at beginning of the year	**1,962**	**1,366**
Effect of change of discount rate	(6)	407
Payments	(167)	(21)
Interest expense	181	210
Carrying amount at 31 December	**1,970**	**1,962**
Current portion of non-current taxes	203	173
Long-term portion of non-current taxes	1,767	1,789

The above liability is carried at the present value of the amounts expected to be paid to settle the obligation, calculated by applying the discount rate of 10.56% (2010: 10.46%).

The liability for non-current taxes is denominated in Russian roubles and matures as follows:

In millions of Russian Roubles	**31 December 2011**	**31 December 2010**
- within 1 year	203	173
- between 2 and 5 years	813	750
- after 5 years	954	1,039
Total	**1,970**	**1,962**

In the event of the Company's failure to make current tax payments and payments of postponed tax liabilities, the Ministry of Taxes and Duties may call the entire liability.

21 Provisions for Liabilities and Charges

Provisions for liabilities and charges changed in the following manner:

In millions of Russian Roubles	**Warranty provision**	**Taxes other than on income, fines and penalties**	**Other liabilities and charges**	**Total**
Carrying value at 31 December 2009	**119**	**99**	**7**	**225**
Accruals charged to profit and loss	164	63	-	227
Reversal of unused provision	-	(113)	(7)	(120)
Utilized	(120)	-	-	(120)
Carrying value at 31 December 2010	**163**	**49**	**-**	**212**
Accruals charged to profit and loss	216	3	66	285
Utilised	(152)	(32)	-	(184)
Carrying value at 31 December 2011	**227**	**20**	**66**	**313**

Warranty. The Group provides warranties in respect of automotive trucks for a period of 12 months or 75,000 km of mileage and undertakes to repair or replace items that fail to perform satisfactorily. A provision has been recognised for expected warranty claims based on past experience of the level of repairs and returns.

22 Trade and Other Payables

In millions of Russian Roubles	**31 December 2011**	**31 December 2010**
Trade payables	8,276	7,266
Advances received	6,325	2,872
Wages and salaries payable	1,751	1,439
Other	805	492
Trade and other payables	**17,157**	**12,069**

The fair value of each class of financial liabilities included within trade and other payables is not significantly different to its carrying value.

Trade and other payables denominated in foreign currency are as follows:

In millions of Russian Roubles	**31 December 2011**	**31 December 2010**
Euros	842	568
USD	96	60
Other currencies	180	144
Total	**1,118**	**772**

23 Finance Lease Payables

Minimum lease payments under finance leases and their present values are as follows:

In millions of Russian Roubles	**Due within 1 year**	**Due between 2 and 5 years**	**Due more than 5 years**	**Total**
Minimum lease payments at 31 December 2011	495	1,031	328	1,854
Less future finance charges	(40)	(298)	(43)	(381)
Present value of minimum lease payments at 31 December 2011	**455**	**733**	**285**	**1,473**

Leased assets with the carrying amount disclosed in Note 7 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default. The ownership of the leased assets and related risks remains with the lessor and transferred to lessee at the end of the repayment of the obligation under contracts. In case of early repayment the lessee should compensate to lessor bank penalties on termination of the related debt. The average effective interest rate under lease agreements is 15% for 2011 (2010: 25%).

24 Post-Retirement Benefit Obligation

Payments to state pension fund were RR 5,035 million for 2011 (2010: RR 2,680 million). At 31 December 2011 defined benefit liabilities recognised in the consolidated statement of financial position as other non-current liabilities were RR 157 million (31 December 2010: RR 150 million), gross amount of defined benefit obligations was RR 383 million (31 December 2010: RR 336 million). The difference in the amount of RR 226 million (31 December 2010: RR 186 million) between the benefit obligation and the liability recognised is primarily due to the deferral of past service costs that are expensed over the remaining estimated periods of service.

25 Revenue

In millions of Russian Roubles	**2011**	**2010**
Trucks and assembly kits	76,765	47,841
Spare parts	13,437	11,836
Buses, truck trailers and truck mixers	7,331	5,664
Metallurgical products	1,990	2,111
Truck repair services	1,840	1,645
Development services	444	-
Finance lease income	300	320
Other sales of goods	2,853	3,214
Other services	1,870	1,142
Total	**106,830**	**73,773**

Sales of goods include RR 1,075 million (2010: RR 884 million) and purchase of the materials include RR 7,500 million (2010: RR 6,410 million) settled using bills of exchange.

The Company conducts certain transactions under sale and repurchase agreements with the same counterparties. Revenue and Cost of Sales are shown net of amounts of RR 3,626 million (2010: RR 1,101 million) arising out of these transactions.

During 2011 the Group sold under finance lease agreement trucks and buses on total amount RR 1,563 million (2010: RR 458 million).

In millions of Russian Roubles	**2011**	**2010**
Domestic sales		
Trucks and assembly kits	66,627	41,856
Spare parts	11,493	9,851
Buses, truck trailers and truck mixers	7,085	5,522
Development services	444	-
Leasing income	300	320
Other sales, services	8,372	7,973
Total domestic sales	**94,321**	**65,522**
Export sales		
Trucks and assembly kits	10,138	5,985
Spare parts	1,944	1,985
Buses, truck trailers and truck mixers	246	142
Other sales, services	181	139
Total export sales	**12,509**	**8,251**
Total	**106,830**	**73,773**

The largest export markets are Kazakhstan and Ukraine.

26 Cost of Sales

Cost of sales includes the following items:

In millions of Russian Roubles	2011	2010
Materials and components used	67,442	44,602
Labour costs	14,513	9,596
Fuel and energy	5,236	4,690
Services	3,741	2,218
Depreciation of property, plant and equipment	2,327	2,377
Warranty accruals	216	164
Provisions for other liabilities and charges	66	(7)
Inventory provision	47	33
Other costs	530	288
Changes in inventory of finished goods and work in progress	(2,154)	(673)
Total	**91,964**	**63,288**

27 Distribution Costs

Distribution costs comprise:

In millions of Russian Roubles	2011	2010
Labour costs	1,455	1,082
Transportation expenses	1,157	606
Materials consumed	564	529
Impairment provision for receivables charge/(utilisation)	391	(369)
Advertising	345	302
Depreciation of property, plant and equipment	62	55
Other services	639	569
Other distribution costs	308	195
Total	**4,921**	**2,969**

28 General and Administrative Expenses

General and administrative expenses include the following items:

In millions of Russian Roubles	2011	2010
Labour costs	3,575	2,647
Services	744	724
Taxes other than income tax	641	614
Insurance	211	130
Consulting and information services	181	164
Depreciation of property, plant and equipment	136	205
Bank services	71	66
Net reversal of provision for taxes other than income tax	(29)	(50)
Other expenses	695	488
Total	**6,225**	**4,988**

29 Other Operating Income and Expenses

Other operating income comprises:

In millions of Russian Roubles	2011	2010
Gain on sale and disposals of subsidiaries	669	-
Gain on disposal of property, plant and equipment	123	40
Foreign exchange gains	37	132
Gain on write-off payables	-	129
Other operating income	281	264
Total	**1,110**	**565**

In December 2011 the Group sold the wheels production business and recognised a gain of RR 486 million.

29 Other Operating Income and Expenses (Continued)

Other operating expenses comprise:

In millions of Russian Roubles	**2011**	**2010**
Social expenditures and charity	739	598
Loss from early termination of lease contracts	288	-
Loss on write-off VAT	-	142
Other operating expenses	120	213
Total	**1,147**	**953**

30 Expenses by Nature

Materials and components in:

In millions of Russian Roubles	**2011**	**2010**
Cost of sales (excluding Impairment of property, plant and equipment)	67,442	44,602
Distribution costs	564	529
General and administrative expenses	139	103
Total	**68,145**	**45,234**

Wages and salaries in:

In millions of Russian Roubles	**2011**	**2010**
Cost of sales (excluding Impairment of property, plant and equipment)	14,513	9,596
General and administrative expenses	3,575	2,647
Distribution costs	1,455	1,082
Total	**19,543**	**13,325**

Depreciation of property, plant and equipment and amortisation of intangible assets in:

In millions of Russian Roubles	**2011**	**2010**
Cost of sales (excluding Impairment of property, plant and equipment)	2,327	2,377
General and administrative expenses	136	205
Distribution costs	62	55
Total depreciation of property, plant and equipment	**2,525**	**2,637**
Amortization of intangible assets	147	84
Total	**2,672**	**2,721**

31 Finance Income and Costs

Finance income comprises of the following:

In millions of Russian Roubles	**2011**	**2010**
Interest income on deposits, promissory notes and loans issued	336	290
Interest rate swap	18	45
Total	**354**	**335**

Finance cost comprises the following:

In millions of Russian Roubles	**2011**	**2010**
Foreign exchange loss	195	128
Interest on loans and borrowings	1,580	1,733
Less interest rate subsidy	(954)	-
Less interest capitalized	(122)	(284)
Interest expense	504	1,449
Interest expense on finance leases where the Group is the lessee	195	284
Loss from discounting of long-term promissory notes	183	-
Amortisation of the discount on non-current taxes	181	210
Amortisation of the discount on restructured loans	137	126
Bank services	39	63
Total	**1,434**	**2,260**

31 Finance Income and Costs (Continued)

In August 2011, as amended in December 2011, the Russian Government introduced a program of interest rate subsidies for automotive producers covering loans used for qualified investments during the period 2009-2013, for bonds used for investment purposes issued in 2010-2013 and for loans issued in 2009-2010 which are guaranteed by the Russian Government. The subsidies recorded in 2011 cover both 2010 and 2011.

32 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2011	2010
Current tax	543	403
Additional payments for previous periods	-	30
Deferred tax	278	(134)
Reversal of provisions for tax exposures	(30)	(152)
Income tax expense for the year	**791**	**147**

Reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2011	2010
Profit/(Loss) before tax	**2,615**	**(742)**
Theoretical tax charge/(benefit) at statutory rate (2011: 20%; 2010: 20%)	523	(148)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductable expenses	359	417
Refund of previous period	(61)	-
Additional provision for previous periods	-	30
Reversal of provisions for tax exposures	(30)	(152)
Income tax expense for the year	**791**	**147**

Non-deductable expenses mainly consist of social expenses and other general and administrative expenses not included in the taxable profit in accordance with tax legislation. Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at a rate of 20% (2010: 20%).

Deferred tax movements for the year ended 31 December 2011 are as follows:

In millions of Russian Roubles	1 January 2011	Charged/ (credited) to profit or loss	31 December 2011
Tax effect of taxable temporary differences			
Property, plant and equipment	(923)	83	(840)
Loans and borrowings	(556)	(60)	(616)
Taxes payable and postponed taxes	(250)	72	(178)
Finance lease receivables	(88)	82	(6)
Finance lease payables	(143)	(104)	(247)
Accounts payable	(94)	34	(60)
Accounts receivable	(123)	79	(44)
Intangible assets	-	(36)	(36)
Inventory	(309)	(168)	(477)
Gross deferred tax liability	**(2,486)**	**(18)**	**(2,504)**
Tax effect of deductible temporary differences and tax loss carried forward			
Property, plant and equipment	2,833	(173)	2,660
Accounts payable	165	7	172
Provisions	55	19	74
Intangible assets	21	29	50
Inventory	68	9	77
Accounts receivable	53	78	131
Tax loss carry forward	394	(229)	165
Gross deferred tax asset	**3,589**	**(260)**	**3,329**
Net deferred tax asset	**1,103**	**(278)**	**825**

33 Income Taxes (Continued)

Deferred tax movements for the year ended 31 December 2010 are as follows:

In millions of Russian Roubles	**1 January 2010**	**Charged/ (credited) to profit or loss**	**31 December 2010**
Tax effect of taxable temporary differences			
Property, plant and equipment	(1,156)	233	(923)
Loans and borrowings	(510)	(46)	(556)
Taxes payable and postponed taxes	(374)	124	(250)
Finance lease receivables	(179)	91	(88)
Finance lease payables	(208)	65	(143)
Accounts payable	(136)	42	(94)
Accounts receivable	(139)	16	(123)
Inventory	(334)	25	(309)
Gross deferred tax liability	**(3,036)**	**550**	**(2,486)**
Tax effect of deductible temporary differences and tax loss carried forward			
Property, plant and equipment	2,991	(158)	2,833
Accounts payable	130	35	165
Provisions	62	(7)	55
Intangible assets	64	(43)	21
Inventory	102	(34)	68
Accounts receivable	61	(8)	53
Tax loss carry forward	595	(201)	394
Gross deferred tax asset	**4,005**	**(416)**	**3,589**
Net deferred tax asset	**969**	**134**	**1,103**

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

A deferred tax asset in the amount of RR 1,599 million (2010: RR 1,987 million) and a deferred tax liability in the amount of RR 774 million (2010: RR 884 million) have been recorded in the consolidated statement of financial position after offsetting of the gross amounts presented above.

The Group has not recorded deferred tax liabilities in respect of taxable temporary differences of RR 808 million (2010: RR 764 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Income tax payable includes profit tax payable related to uncertain tax position of nil as at 31 December 2011 (2010: RR 30 million).

33 Earnings per Share

Earnings/(loss) per share are calculated as follows:

	2011	**2010**
Basic and diluted earnings/(loss) per share:		
Profit/(Loss) attributable to equity holders of the Company (RR million)	1,778	(763)
Weighted average number of ordinary shares in issue (thousands)	707,230	707,230
Basic and diluted earnings/(loss) per share (Roubles per share)	**2.51**	**(1.08)**

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the year (Note 17). There were no potentially dilutive instruments outstanding during 2011 and 2010.

34 Contingencies and Commitments

Litigation. From time to time and in the normal course of business, claims against the Group are received. On the basis of their own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims.

34 Contingencies and Commitments (Continued)

At 31 December 2011 and 2010 the Group was engaged in litigation proceedings as a defendant with a number of clients and customers. No provision has been made as the Group's Management believes that risks of these proceedings are remote.

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

At 31 December 2011, total liabilities recorded for uncertain tax positions that are determined by management as more likely than not to result in additional taxes amounted to RR 20 million (2010: RR 79 million).

In addition, the Group estimates its uncertain tax positions other than remote that are determined by management as not likely to result in additional taxes of approximately RR 242 million (2010: RR 194 million). No provision has been recognised in relation to such uncertain tax positions.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax position will be sustained.

Contractual commitments. The Group has contractual commitments for the acquisition of property, plant and equipment as at 31 December 2011 totalling RR 529 million (31 December 2010: RR 676 million).

34 Contingencies and Commitments (Continued)

Guarantees. The Group received guarantees for the following liabilities:

		2011		2010	
In millions of Russian Roubles	**Notes**	**Guarantees received**	**Related liability**	**Guarantees received**	**Related liability**
Russian Federation Ministry of Finance (EBRD loan – nominated in US Dollars)	18	2,270	183	2,149	347
Russian Federation Ministry of Finance (Sberbank loan-nominated in RR)	18	2,150	1,613	2,150	2,150
Russian Federation Ministry of Finance (Vneshtorgbank loan-nominated in RR)	18	-	-	1,450	1,450
Tatarstan Ministry of Finance (Kanematsu loan – nominated in Japanese Yens)	18	-	-	692	72
Tatarstan Ministry of Finance (EBRD loan – nominated in US Dollars)	18	412	34	390	63
Total guarantees		**4,832**	**1,830**	**6,831**	**4,082**

Assets pledged and restricted. The Group had the following assets pledged as collateral as at 31 December 2011 and 31 December 2010:

		2011		2010	
In millions of Russian Roubles	**Notes**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Inventory	14	4,660	4,120	3,123	1,702
Property, plant and equipment	9	7,068	6,908	7,176	8,973
Shares of subsidiary at net asset value		2,387	2,393	2,383	1,692
Leasing receivable		860	135	860	402
Total		**14,975**	**13,556**	**13,542**	**12,769**

At 31 December 2011 and 31 December 2010 12,000 thousand shares of OAO KAMAZ-Metallurgiya representing a controlling stake (52%) with total nominal value of RR 1,200 million were pledged as collateral for a loan issued by the Russian Federation Ministry of Finance.

Loan covenants. The EBRD and other loan agreements include a number of financial covenants. The fact of a technical breach of covenants of EBRD loan agreement is disclosed in Note 18.

Loan commitments. In most cases the Group could repay its debts early without penalties. The exceptions are loans from the EBRD (the penalty is 0.125% of the loan amount due), Vneshtorgbank (early repayment could be made only after receipt of written permission given by the bank) and AK Bars Bank (early repayment is forbidden for some loan agreements).

35 Financial Risk Management

The classification of the financial assets and liabilities fits classification by the lines of the statement of financial position.

Financial risk factors

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

The main risk management techniques in the Group are insurance, provisioning, regulation of transactions (development of regulatory documents), establishing limits on transactions and avoidance.

35 Financial Risk Management (Continued)

Financial risk factors (Continued)

(a) Market risk

The Group takes on exposure to market risks. Market risks arise from changes in open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. Group Management monitors the risk of negative changes in prices and interest rates. However, the use of this approach does not prevent losses in the event of significant market movements.

(i) Currency risk

The Group exports production to CIS countries and other countries and attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Notes 15, 16) and liabilities (Notes 18, 22 and 23) give rise to foreign exchange exposure. Currency risk is monitored monthly.

The Group is exposed to currency risk arising on open loan positions denominated in Euro, US dollars and Japanese Yen obtained to finance purchases of equipment and working capital. Management considers hedging of these positions unsuitable.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2011:

	Monetary financial assets			**Monetary financial liabilities**			
In millions of Russian Roubles	**Cash, cash equivalents and term deposits**	**Accounts Receivable**	**Finance lease receivables**	**Accounts Payable**	**Borrowings**	**Finance lease payables**	**Net balance sheet position**
US Dollar	55	1,069	-	(7)	(480)	(534)	103
Euro	203	296	-	(766)	(117)	(547)	(931)
Yen	-	-	-	-	(3,268)	-	(3,268)
Other CIS currencies	197	272	-	(38)	(35)	-	396
Russian Rouble	10,819	4,925	1,948	(8,270)	(17,651)	(392)	(8,621)
Total monetary assets and liabilities	**11,274**	**6,562**	**1,948**	**(9,081)**	**(21,551)**	**(1,473)**	**(12,321)**

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2010:

	Monetary financial assets			**Monetary financial liabilities**			
In millions of Russian Roubles	**Cash, cash equivalents and term deposits**	**Accounts Receivable**	**Finance lease receivables**	**Accounts Payable**	**Borrowings**	**Finance lease payables**	**Net balance sheet position**
US Dollar	28	1,014	-	(20)	(1,337)	(534)	(849)
Euro	146	46	-	(504)	(3,366)	(775)	(4,453)
Yen	-	-	-	-	(2,993)	-	(2,993)
Other CIS currencies	195	176	-	(80)	(87)	-	204
Russian Rouble	10,865	3,787	1,221	(7,154)	(14,351)	(50)	(5,682)
Total monetary assets and liabilities	**11,234**	**5,023**	**1,221**	**(7,758)**	**(22,134)**	**(1,359)**	**(13,773)**

The above analysis includes only monetary assets and liabilities included in the related captions of the statement of financial position. No other financial assets and liabilities subject to currency risks exist at the dates. The Group does not hold any currency derivatives.

Investments in non-monetary assets are not considered to give rise to any material currency risk.

Group monitors exchange rates and market forecasts on foreign exchange rates regularly as well as prepares budgets for long-term, medium-term and short-term periods.

The following table presents sensitivities of profit and loss and equity to reasonable possible changes in exchange rates applied at the end of reporting period relative to the Group's functional currency, with all other variables held constant. When the Group has net liabilities in each foreign currency, a strengthening of the foreign currency against the Rouble would generate an exchange loss to the Group.

35 Financial Risk Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

In millions of Russian Roubles	**2011**	**2010**
Pre-tax impact on profit or loss and on equity of:		
US Dollar strengthening/weakening by 10%	10/(10)	(86)/86
Euro strengthening/weakening by 10%	(93)/93	(448)/448
Yen strengthening/weakening by 10%	(327)/327	(299)/299

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

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest-bearing short-term and long-term borrowings the majority of which are at fixed interest rates.

Financial department is monitoring the market and makes decisions on about the loans conditions on on-going basis, when financing required.

The table below summarises the Group's exposure to interest rate risks. The table presents the amounts of the Group's financial liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In millions of Russian Roubles	**On demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
31 December 2011					
Fixed interest rate	337	9,904	7,372	39	17,652
Fixed interest rate, EURO	4	-	-	-	4
Fixed interest rate, USD	-	-	-	-	-
Fixed interest rate, Yen	-	122	-	3,146	3,268
EURIBOR based interest rates	109	2	-	-	111
LIBOR based interest rates, USD	-	480	-	-	480
LIBOR based interest rates,Yen	-	-	-	-	-
Total	**450**	**10,508**	**7,372**	**3,185**	**21,515**

In millions of Russian Roubles	**On demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
31 December 2010					
Fixed interest rate	608	7,453	6,304	36	14,401
Fixed interest rate, EURO	91	617	665	-	1,373
Fixed interest rate, USD	13	104	285	298	700
Fixed interest rate, Yen	-	117	434	2,370	2,921
EURIBOR based interest rates	2,240	420	108	-	2,768
LIBOR based interest rates, USD	1,171	-	-	-	1,171
LIBOR based interest rates, Yen	72	-	-	-	72
Total	**4,195**	**8,711**	**7,796**	**2,704**	**23,406**

At 31 December 2011, if market interest rates at that date had been 1% lower with all other variables held constant, interest expense for the year would have been RR 23 million (2010: RR 61 million) lower. If market interest rates had been 1% higher, with all other variables held constant, interest expense would have been RR 23 million (2010: RR 61 million) higher.

35 Financial Risk Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates:

	2011				**2010**			
In % p.a.	**RR**	**USD**	**Euros**	**Yen**	**RR**	**USD**	**Euros**	**Yen**
Assets								
Cash and cash equivalents	0,1- 7,9%	-	3,75- 5 %	-	0,01- 3,62 %	-	5,75%	-
Term deposits	4,6- 8,75%	-	-	-	2,79-14,5 %	-	-	-
Finance lease receivables	21- 31%	-	-	-	17-40%	-	-	-
LT promissory notes	4%	-	-	-	-	-	-	-
Liabilities								
Borrowings	2- 18%	6 m LIBOR + 1 max 3 m LIBOR +4,75	EURIBOR +3,6	1%p.a.	3,5-15%	LIBOR + 1 max 12% p.a.	EURIBOR + 2,65 max 12% p.a.	1%p.a. max Yen LIBOR +3%
Finance lease payables	12-23%	4-5%	17-44%	-	13%	5%	20-48%	-

(b) Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, other receivables, loans issued and balances with banks. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of monetary financial assets, net of provision for impairment, represents the maximum amount exposed to credit risk. Although collection of the financial assets could be influenced by economic factors, Management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which, at the time of deposit, are considered to have a minimal risk of default. However, the use of this approach does not prevent losses in the event of significant market movements.

35 Financial Risk Management (Continued)

Financial risk factors (Continued)

(b) Credit risk (Continued)

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

In millions of Russian Roubles	31 December 2011	31 December 2010
Cash and cash equivalents (Note 16)	**3,549**	**4,087**
-BBB- to A-	2,034	1,260
-BB- to BB+	858	238
-B- to B+	25	1,946
-CCC+	-	-
-Other	632	643
Term deposits (Note 16)	**7,725**	**7,147**
-BBB- to A-	5,621	6,715
-BB- to BB+	142	155
-B- to B+	324	211
-CCC+	-	-
-Other	1,638	66
Financial instruments at fair value through profit or loss	**7**	**62**
Held-to-maturity investments - Promissory notes (related party) (Note 7)	**1,704**	**25**
Long term receivables – unrated (Note 13)	**67**	**153**
Finance lease receivables – unrated (Note 12)	**1,948**	**1,221**
Group 1 – Current finance lease receivables	1,105	864
Group 2 – Non-current finance lease receivables	843	357
Trade receivables (Note 15)	**6,080**	**4,339**
Group 1 – companies under state control	305	253
Group 2 – medium to small sized companies	3,851	1,048
Group 3 – other companies	1,924	2,342
Group 4 – customers with extended payments terms	-	696
Loans issued (Note 15)	**7**	**47**
Long-term loans issued (Note 13)	**83**	**123**
Other receivables – unrated (Note 15)	**475**	**637**
Guarantees issued for obligations of the joint ventures and associate (Note 7)	**353**	**456**
Total maximum exposure to credit risk	**21,998**	**18,297**

The process of management of credit risk includes assessment of credit reliability of counterparties and reviewing payments received. All the leasing receivables from the Group customers are secured by the pledge of vehicles. The fair value of vehicles pledged at 31 December 2011 was RR 2,467 million (2010: RR 1,398 million). Term of collateral equals to the term of lease contract.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in this Note.

Cash and cash equivalents are kept in stable Russian and regional banks. Management considers credit risk associated with these banks negligible.

35 Financial Risk Management (Continued)

Financial risk factors (Continued)

(b) Credit risk (Continued)

Credit risks concentration

Trade accounts receivable, includes two customer totalling RR 826 (2010: 696 million), which represents about 4% of total credit risk exposure (2010: 4%).

In the normal course of business there is no concentration of credit risks: the Group does not have single trade debtor balance comprising more than 5% of the total credit risks exposures, except as mentioned above.

The Group's cash and cash equivalents are distributed among 44 banks (2010: 44 banks) consequently there is no significant exposure of the Group to a concentration of credit risk.

(c) Liquidity risk

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

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times for all cash flow obligations as they become due. The Group monitors the following financial ratios in order to ensure that no liquidity difficulties arise:

	Current ratio	**Target ratio**
Net debt/EBITDA	1.8	not more than 2.5
EBIT/Interest expense	2.3	not less than 5

Although these financial ratios are targets, due to economic crisis the Company has exceeded these ratios.

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

The analysis below represents management's assessment of the repayment schedule of monetary assets and liabilities of the Group in case all borrowings where the Group breached the covenants are classified as current as of 31 December 2011. Nevertheless, management believes that this scenario is unlikely and that the borrowings will be repaid in accordance with the initial contractual terms. The table below is based on the earliest possible repayment dates. Foreign currency cash flows are translated using spot exchange rates as of 31 December 2011 and 31 December 2010.

In millions of Russian Roubles	**Demand and less than 3 month**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
31 December 2011					
Cash, cash equivalents and term deposits	3,549	7,725	-	-	11,274
Trade receivables	5,124	776	180	-	6,080
Finance lease receivables	276	829	843	-	1,948
Future finance lease charges	25	76	322	-	423
Other receivables and loans issued	423	37	21	1	482
Long-term receivables	-	-	1,854	-	1,854
Available-for-sale investments	-	7	-	15	22
Other financial assets	7	-	-	-	7
Total monetary financial assets	**9,404**	**9,450**	**3,220**	**16**	**22,090**
Borrowings	(450)	(10,508)	(7,372)	(3,184)	(21,514)
Future interest expenses on borrowings	(904)	(3,435)	(1,772)	(2,607)	(8,718)
Trade payables	(8,259)	(14)	(3)	-	(8,276)
Finance lease payables	(114)	(341)	(733)	(285)	(1,473)
Future finance lease charges	(10)	(30)	(298)	(43)	(381)
Other non-current liabilities	-	-	-	(157)	(157)
Other payables	(744)	(48)	(13)	-	(805)
Total monetary financial liabilities	**(10,481)**	**(14,376)**	**(10,191)**	**(6,276)**	**(41,324)**
Guarantees issued for obligations of the joint ventures and associate (Note 7)	**-**	**-**	**(353)**	**-**	**(353)**
Net balance of payments at 31 December 2011	**(1,077)**	**(4,926)**	**(7,324)**	**(6,260)**	**(19,587)**

35 Financial Risk Management (Continued)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

In millions of Russian Roubles	Demand and less than 3 month	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
31 December 2010					
Cash, cash equivalents and term deposits	4,087	7,086	61	-	11,234
Trade receivables	3,620	315	404	-	4,339
Finance lease receivables	216	648	357	-	1,221
Future finance lease charges	20	59	166	-	245
Other receivables and loans issued	547	87	50	-	684
Long-term receivables	-	-	285	-	285
Available-for-sale investments	-	-	32	14	46
Other financial assets	5	6	51	-	62
Total monetary financial assets	**8,495**	**8,201**	**1,406**	**14**	**18,116**
Borrowings	(4,087)	(8,388)	(7,166)	(2,406)	(22,047)
Future interest expenses on borrowings	(433)	(1,909)	(1,469)	(2,545)	(6,356)
Trade payables	(6,949)	(222)	(95)	-	(7,266)
Finance lease payables	(108)	(323)	(629)	(299)	(1,359)
Future finance lease charges	(14)	(43)	(376)	(119)	(552)
Other non-current liabilities	-	-	-	(150)	(150)
Other payables	(410)	(74)	(8)	-	(492)
Total monetary financial liabilities	**(12,001)**	**(10,959)**	**(9,743)**	**(5,519)**	**(38,222)**
Guarantees issued for obligations of the joint ventures (Note 7)	**-**	**-**	**(456)**	**-**	**(456)**
Net balance of payments at 31 December 2010	**(3,506)**	**(2,758)**	**(8,793)**	**(5,505)**	**(20,562)**

Capital management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total equity. The Group considers total capital under management to be RR 43,476 million (2010: RR 42,080 million).

The gearing ratios at 31 December 2011 and 31 December 2010 were as follows:

In millions of Russian Roubles	31 December 2011	31 December 2010
Long-term borrowings	10,557	9,572
Short-term borrowings	10,994	12,562
Non-current finance lease payables	1,018	928
Current finance lease payables	455	431
Less: cash, cash equivalents and term deposits	(11,274)	(11,234)
Less: financial assets at fair value through profit and loss	(7)	(62)
Net debt	**11,743**	**12,197**
Equity	31,732	29,883
Gearing ratio	**37%**	**41%**

The Group management constantly monitors profitability ratios, market share price and debt/capitalization ratio. The targeted gearing ratio is 43%. In the current economic environment the gearing ratio may exceed the 43% target from time-to-time.

36 Events After the End of the Reporting Period

In 2012 the Group entered into a number of credit arrangements for approximately RR 1,500 million at 9% average interest rate and for 2-3 years.