SEVERSTAL-AUTO GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

31 December 2007

Contents

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Independent auditor's report

To the Shareholders and Board of Directors of the Open Joint-Stock Company "Severstal-auto"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "Severstal-auto" and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
15 April 2008

Severstal-auto Group
Consolidated Balance Sheet at 31 December 2007
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

		RUB million		Supplementary information US$ million (Note 2)	
	Note	At 31 December 2007	At 31 December 2006	At 31 December 2007	At 31 December 2006
ASSETS					
Non-current assets:					
Property, plant and equipment	7	17,861	13,012	729	494
Development costs	8	870	803	35	31
Goodwill	9	1,484	1,484	60	56
Other intangible assets	10	481	163	20	6
Financial assets	11	54	54	2	2
Other non-current assets	12	496	272	20	10
Total non-current assets		**21,246**	**15,788**	**866**	**599**
Current assets:					
Inventories	13	7,770	6,396	317	243
Accounts receivable and prepayments	14	6,970	4,662	284	177
Other current assets		16	19	1	1
Cash and cash equivalents	15	2,030	1,033	82	40
Total current assets		**16,786**	**12,110**	**684**	**461**
Total assets		**38,032**	**27,898**	**1,550**	**1,060**
LIABILITIES AND EQUITY					
Equity:					
Capital and reserves attributable to the Company's equity holders:	16				
Share capital		530	530	22	20
Treasury shares		(735)	-	(30)	-
Share option		39	-	2	-
Share premium		6,019	6,019	245	229
Additional paid-in capital		1,438	1,438	59	55
Retained earnings		6,697	4,769	273	181
Total capital and reserves attributable to the Company's equity holders		**13,988**	**12,756**	**571**	**485**
Minority interest		4,426	4,008	180	152
Total equity		**18,414**	**16,764**	**751**	**637**
Non-current liabilities:					
Long-term borrowings	17	6,146	252	250	10
Long-term taxes payable	18	4	6	-	-
Post-retirement benefit obligation	19	53	57	2	2
Deferred income on government grant and other non-current liabilities	20	327	369	13	14
Deferred income tax liabilities	30	1,180	1,186	48	45
Total non-current liabilities		**7,710**	**1,870**	**313**	**71**
Current liabilities:					
Trade accounts payable		6,094	4,273	248	162
Advances received and other payables	21	2,605	1,327	106	50
Taxes payable	18	579	522	24	20
Warranty and other provisions	22	139	186	6	7
Short-term borrowings	23	2,491	2,956	102	113
Total current liabilities		**11,908**	**9,264**	**486**	**352**
Total liabilities		**19,618**	**11,134**	**799**	**423**
Total liabilities and equity		**38,032**	**27,898**	**1,550**	**1,060**

General Director
V.A. Shvetsov

Chief Financial Officer
N.A. Sobolev

15 April 2008

The accompanying notes are an integral part of the consolidated financial statements.

(in millions of Russian Roubles)

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

		RUB million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	**2007**	**2006**	**2007**	**2006**
Sales	24	49,136	33,462	1,921	1,231
Cost of sales	25	(38,925)	(25,590)	(1,522)	(941)
Gross profit		**10,211**	**7,872**	**399**	**290**
Distribution costs	26	(2,019)	(1,312)	(79)	(48)
General and administrative expenses	27	(3,301)	(2,656)	(129)	(98)
Other operating income/(expenses)	28	105	(431)	4	(16)
Operating income		**4,996**	**3,473**	**195**	**128**
Interest expense		(345)	(336)	(13)	(12)
Foreign exchange gain - net		36	82	1	3
Gain on forgiveness of tax penalties		-	10	-	-
Net income before taxation		**4,687**	**3,229**	**183**	**119**
Income tax expense	30	(1,318)	(765)	(52)	(28)
Net income for the year		**3,369**	**2,464**	**131**	**91**
Attributable to:					
Equity holders of the Company		2,603	1,827	102	67
Minority interest		766	637	29	24
		3,369	**2,464**	**131**	**91**
Weighted average number of shares outstanding during the period – basic (thousands)	31	33,982	34,270	33,982	34,270
Weighted average number of shares outstanding during the period – diluted (thousands)	31	34,323	34,270	33,982	34,270
Earnings per share (in RUB and US$) – basic	31	76.60	53.31	3.0	2.0
Earnings per share (in RUB and US$) – diluted	31	75.84	53.31	3.0	2.0

(in millions of Russian Roubles)

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

		RUB million		Supplementary information US$ million (Note 2)	
		Year ended 31 December		Year ended 31 December	
	Note	**2007**	**2006**	**2007**	**2006**
Cash flows from operating activities					
Income before taxation		**4,687**	**3,229**	**183**	**119**
Adjustments for:					
Depreciation	29	1,200	921	47	34
Share options		39	-	2	-
Provision for impairment of receivables	14	(5)	5	-	-
Excess of acquired share of net assets over purchase consideration	9	(32)	-	(1)	-
Interest expense		345	336	13	12
Provisions movements		(26)	56	(1)	2
Loss on disposal of other non-current assets		-	32	-	1
Post-employment benefit obligation	19	(4)	23	-	1
Fair value losses on financial assets at fair value through profit or loss		-	6	-	-
Forgiveness of tax debts		-	(10)	-	-
Government grant amortisation	28	(42)	(14)	(2)	(1)
Development expenses write off	8	89	95	3	3
Loss on sale of property, plant and equipment	28	100	86	4	3
Gain on disposal of subsidiary		(338)	-	(13)	-
Operating cash flows before working capital changes		**6,013**	**4,765**	**235**	**174**
Increase in accounts receivable and prepayments		(2,327)	(1,237)	(91)	(45)
Increase in inventories		(1,451)	(1,694)	(57)	(62)
Increase in other current assets		-	(13)	-	-
Increase in accounts payable, advances received and other payables		2,087	1,802	82	66
Decrease in taxes payable, other than income tax		(141)	(299)	(6)	(11)
Cash provided from operations		**4,181**	**3,324**	**163**	**122**
Income tax paid		(1,125)	(709)	(44)	(26)
Interest paid		(269)	(188)	(10)	(7)
Net cash from operating activities		**2,787**	**2,427**	**109**	**89**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(5,075)	(1,956)	(198)	(73)
Proceeds from the sale of property, plant and equipment		135	251	5	10
Development costs	8	(397)	(212)	(16)	(8)
Acquisition of minority interest in subsidiary, net of cash acquired	9	(316)	-	(12)	-
Purchase of other non-current assets		(582)	(174)	(23)	(6)
Proceeds from sale of subsidiary net of cash disposed of	35	505	-	20	-
Net cash used in investing activities:		**(5,730)**	**(2,091)**	**(224)**	**(77)**
Cash flows from financing activities:					
Proceeds from borrowings		22,644	12,378	885	455
Repayment of borrowings and long-term taxes payable		(17,289)	(12,704)	(676)	(467)
Proceeds from government grant		-	77	-	3
Dividends paid		(680)	(350)	(26)	(13)
Purchase of treasury shares		(735)	-	(28)	-
Net cash provided from/(used in) financing activities		**3,940**	**(599)**	**155**	**(22)**
Net increase/(decrease) in cash and cash equivalents		**997**	**(263)**	**40**	**(10)**
Effect of exchange rate changes on cash & cash equivalents		-	-	2	5
Cash and cash equivalents at the beginning of the period	15	**1,033**	**1,296**	**40**	**45**
Cash and cash equivalents at the end of the period		**2,030**	**1,033**	**82**	**40**

The accompanying notes are an integral part of the consolidated financial statements.

(in millions of Russian Roubles)

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

	Note	Share capital	Treasury shares	Share options	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2005		**530**	**-**	**-**	**6,019**	**1,438**	**3,422**	**11,409**	**3,371**	**14,780**
Net income recognised directly in equity		-	-	-	-	-	-	-	-	-
Profit for the year		-	-	-	-	-	1,827	1,827	637	2,464
Total recognised income for the year		**-**	**-**	**-**	**-**	**-**	**1,827**	**1,827**	**637**	**2464**
Dividends	16	-	-	-	-	-	(480)	(480)	-	(480)
Balance at 31 December 2006		**530**	**-**	**-**	**6,019**	**1,438**	**4,769**	**12,756**	**4,008**	**16,764**
Net income recognised directly in equity		-	-	-	-	-	-	-	-	-
Profit for the year		-	-	-	-	-	2,603	2,603	766	3,369
Total recognised income for the year		**-**	**-**	**-**	**-**	**-**	**2,603**	**2,603**	**766**	**3,369**
Dividends	16	-	-	-	-	-	(675)	(675)	-	(675)
Treasury shares		-	(735)	-	-	-	-	(735)	-	(735)
Share options		-	-	39	-	-	-	39	-	39
Share of net assets acquired from minority shareholders	9	-	-	-	-	-	-	-	(348)	(348)
Balance at 31 December 2007		**530**	**(735)**	**39**	**6,019**	**1,438**	**6,697**	**13,988**	**4,426**	**18,414**

	Share capital	Treasury shares	Share options	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Supplementary information US$ million (Note 2)									
Balance at 31 December 2006	**20**	**-**	**-**	**229**	**55**	**181**	**485**	**152**	**637**
Balance at 31 December 2007	**22**	**(30)**	**2**	**245**	**59**	**273**	**571**	**180**	**751**

1 The Severstal-auto Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for OAO "Severstal-auto" (the "Company") and its subsidiaries (the "Group").

The Group's principal activities are the manufacture and sale of vehicles, including automotive components, assembly kits, and engines. The Group's manufacturing facilities are primarily based in the City of Ulyanovsk, the Nizhny Novgorod Region, the City of Naberezhnye Chelny and Elabuga in the Russian Federation.

OAO "Severstal-auto" was incorporated as an open joint stock company in the Russian Federation in March 2002 by OAO "Severstal" (the predecessor) by contributing its controlling interests in OAO "UAZ" and OAO "ZMZ", which were acquired through purchases close to the end of 2000, in exchange for the Company's share capital.

Subsequently in 2002 the shares of OAO "Severstal-auto" were distributed among OAO "Severstal" shareholders. As at 31 December 2006 Alexey Mordashov and Vadim Shvetsov controlled 85% and 15% of shares of Newdeal Investments company respectively, owning effectively 58% of shares of OAO "Severstal-auto".

After completing the acquisition of Newdeal Investments, which took place in January 2007, Vadim Shvetsov became the owner of 58% of OAO "Severstal-auto" shares and ultimate shareholder of the Group.

In 2006 the Group commenced production of FIAT and SsangYong passenger cars and began sales of FIAT and SsangYong imported vehicles.

The Company's parent is Newdeal Investments Limited which holds 58% (31 December 2006: 58%) of the Company's share capital.

During the year ended 31 December 2007 the Group established 7 new subsidiary companies, which are intended for logistic, production and distribution activities.

The registered office of the Company is Kolpachniy pereulok, 6, building 2, Moscow, 101000, Russian Federation.

These consolidated financial statements were approved for issue by the General Director and Chief Financial Officer on 15 April 2008.

2 Basis of preparation and significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

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

2.1. Presentation currency

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

2 Basis of presentation and significant accounting policies (continued)

2.2. Accounting for the effects of hyperinflation

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

2.3. Supplementary information

U.S. Dollar ("US$") amounts shown in the consolidated financial statements are translated from the RUB as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2007 of RUB 24.55 = US$1 (at 31 December 2006 of RUB 26.33 = US$1). The statement of income and cash flow statement have been translated at the average exchange rates during the years ended 31 December 2007 and 31 December 2006. The difference was recognised in equity. The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RUB amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

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

2.4. Consolidated financial statements

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

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

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

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

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

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

2 Basis of presentation and significant accounting policies (continued)

2.5. Purchases of minority interests

The difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as gain or loss directly in equity.

2.6. Purchases of subsidiaries from parties under common control

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

2.7. Financial instruments - key measurement terms

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related consolidated balance sheet items.

2 Basis of presentation and significant accounting policies (continued)

2.7. Financial instruments - key measurement terms (continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

2.8. Classification of financial assets

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

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

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

Other financial assets are included in the *available-for-sale* category. Financial assets classified as fair value through profit or loss are not material.

2.9. Classification of financial liabilities

The Group classifies its financial liabilities into the other financial liabilities measurement category. Other financial liabilities are carried at amortised cost.

2.10. Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit 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 and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

2.11. Derecognition of financial assets

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

2 Basis of presentation and significant accounting policies (continued)

2.12. Valuation of 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. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of benefits is probable. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

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 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 removed from equity and recognised in profit or loss. 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 or loss.

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

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

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

Bifurcated derivatives are carried at fair value with gains and losses arising from changes in the fair value of derivatives included in the consolidated income statement in the period in which they arise. Assets purchased are recognised in the consolidated balance sheet at the forward rate determined at the contract date.

2.13. Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

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

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

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

2.14. Depreciation

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

2 Basis of presentation and significant accounting policies (continued)

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

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

2.15. Operating leases

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

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2.16. Share based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained: OAO "UAZ" and OAO "ZMZ".

2.18. Other intangible assets

All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks, licences and clips.

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

2 Basis of presentation and significant accounting policies (continued)

2.18. Other intangible assets (continued)

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

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

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

2.19. Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

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

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

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2.20. Inventories

Inventories are recorded at the lower of cost and net realisable 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 overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2 Basis of presentation and significant accounting policies (continued)

2.21. Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated income statement. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

2.22. Prepayments

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

2.23. Cash and cash equivalents

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

2.24. Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated balance sheet are not reclassified or re-presented in the comparative consolidated balance sheet to reflect the classification at the end of the current period.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

2 Basis of presentation and significant accounting policies (continued)

2.24. Non-current assets classified as held for sale (continued)

Held for sale property, plant and equipment, investment properties, intangible assets, or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated balance sheet.

2.25. Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

2.26. Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.27. Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

2.28. Value added tax

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

2.29. Borrowings

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

Accrued interest is recorded within the relevant borrowing.

Restructured taxes are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument). In subsequent periods, restructured taxes are stated at amortised cost.

2.30. Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets. Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

2 Basis of presentation and significant accounting policies (continued)

2.31. Trade and other payables

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

2.32. Provisions for liabilities and charges

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

2.33. Financial guarantees

Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

2.34. Foreign currency translation

The Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The 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 each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

2.35. Revenue recognition

Revenues from sales of vehicles, engines and automotive components 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 goods to a specified location, revenue is recognised when the goods 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.

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

2 Basis of presentation and significant accounting policies (continued)

2.36. Barter transactions and mutual cancellations

A portion of sales and purchases are settled by mutual cancellations, barter or non-cash settlements. These transactions are generally in the form of direct settlements by dissimilar goods and services from the final customer (barter), cancellation of mutual balances or through a chain of non-cash transactions involving several companies. Non-cash settlements include promissory notes or bills of exchange, which are negotiable debt instruments.

Sales and purchases that are expected to be settled by mutual settlements, barter 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 flow statement. Investing and 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 terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2.37. Research and development costs

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

2.38. Employee benefits

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

2.39. 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.

OAO "ZMZ" and its subsidiaries operate voluntary pension schemes, which are defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and average compensation by employee's grade.

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by management using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

2 Basis of presentation and significant accounting policies (continued)

2.39. Pension costs (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income in excess of 10% of plan liabilities corridor 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.

2.40. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during period. The weighted average number of ordinary shares was adjusted for the effect of treasury shares acquired by the Group.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares under the share based compensation program. For the share options used in the share based compensation program a calculation is done to determine the number of shares that could have been issued at 31 December 2007 if this date was the vesting date.

2.41. Segment reporting

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

2.42. Changes in presentation

In these financial statements certain prior year balances have been reclassified in presentation purposes (see Notes 15, 23)

3 Critical accounting Estimates, and Judgements in applying accounting policies

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

Tax legislation
Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 34.

Capitalisation of development costs
The Group capitalises development costs in accordance with the accounting policy stated in Note 2.37. Judgement is required to assess the probability that future economic benefits that are attributable to these assets will flow to the Group.

If management assumptions at 31 December 2007 in relation to the flow of future economic benefits are not fulfilled, writing off all development costs which do not meet recognition criteria would reduce the operating income by RUB 870 at 31 December 2007 (RUB 803 at 31 December 2006).

Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.17. The recoverable amounts of cash generating units have been determined, based on value-in-use calculations. These calculations require the use of estimates.

3 Critical accounting Estimates, and Judgements in applying accounting policies (continued)

If the operating margin had been 20% lower, or the estimated pre-tax discount rate applied to the individual segments' cash flows had been 20% higher than management has assumed in its impairment testing, the carrying value of the goodwill relating to either segment would have remained unchanged.

Remaining useful life of property, plant and equipment

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.If the estimated remaining useful life of buildings had been 20% higher or lower than management estimates, then at 31 December 2007 the carrying value of buildings would have been RUB 220 higher or RUB 331 lower accordingly. If the estimated remaining useful life of plant and equipment had been 20% higher or lower than management estimates, then at 31 December 2007 the carrying value of plant and equipment would have been RUB 420 higher or RUB 630 lower accordingly.

4 Adoption of new and revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation.* The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

Other new standards or interpretations. The Group has adopted the following interpretations which became effective from 1 January 2007:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

Effect of adoption. The new IFRIC interpretations 7 to 10 did not significantly affect the Group's financial statements.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

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

5 New accounting Pronouncements (continued)

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

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. This amendment will not have any impact on Company's financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group has a policy of capitalisation of these borrowing costs, the change will not affect financial statements of the Group.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The application of the standard is prospective and will affect only future acquisitions..

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). **IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group is currently assessing the impact of the Interpretation on its consolidated financial statements**

(in millions of Russian Roubles - RUB)

5 New Accounting Pronouncements (continued)

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

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

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

6 Balances and transactions with related parties

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

6.1. Balances and transactions with related parties

Balances with related parties of the Group as at 31 December 2007 and 31 December 2006 consist of the accounts receivable and prepayments in amount of RUB 25 and accounts payable in amount of RUB 168.

Transactions with related parties of the Group for the years ended 31 December 2007 and 31 December 2006 consist of the following:

Transactions	**Newdeal Investments Limited**	**Other Severstal group companies**	**Other related parties**	**Total**
Nature of relationship	Parent company	Significant influence through common shareholder	Significant influence	
Year ended 31 December 2007				
Purchases	-	91	-	91
Sales revenue	-	3	757	760
Dividends paid	411	-	-	411
Year ended 31 December 2006				
Purchases	-	983	-	983
Sales revenue	-	203	-	203
Borrowings issued	-	4,175	-	4,175
Borrowings repaid	-	-	-	-
Dividends paid	278	-	-	278

Borrowings issued during 2006 represent cash transferred through bank, related to Severstal group.

(in millions of Russian Roubles - RUB)

6 Balances and transactions with related parties (continued)

6.2. Directors' compensation

Compensation paid to 9 key management and directors (year ended 31 December 2006: 9 people) for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results.

Additional fees, compensation and allowances to directors for their services in that capacity, and also for attending board meetings and board committees' meetings were not paid.

On 30 May 2007 the Group granted senior management options to acquire in total 790,000 of the Company's ordinary shares at exercise price of $30.5. The options are exercisable during 3 years after a 1 year vesting period for the members of the Board of directors (150,000 shares) and during 2 years after a 2 years vesting period for the senior management (640,000 shares), subject to certain conditions, including remaining in employment in the Group up until the vesting date.

At 31 December 2007 the Group had 790,000 outstanding options with exercise price of US$30.5 per share. No options were exercisable or vested.

The fair value of options granted was determined using the Black-Scholes valuation model. The significant inputs into the model were share price of US$30 at the grant date, exercise price shown above, standard deviation of expected share price returns of 32%, option life disclosed above, and an annual risk-free interest rate of 5.7%. Historical 2-year volatility of Russian stock exchange index adjusted for the Company's beta was used as a proxy for the expected volatility of the share price.

Total key management and directors' compensation included in general and administrative expenses in the statement of income amounted to RUB 120 for the year ended 31 December 2007 (year ended 31 December 2006: RUB 65) representing short-term employee benefits only. Management and independent directors do not have any other pension or termination benefits except for these there are entitled to under Russian legislation.

In the year ended 31 December 2007 the Group also recognized an expense in the amount of RUB 39 (year ended 31 December 2006: RUB 0) for the equity-settled, share based compensation plan.

7 Property, plant and equipment

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

	Land and Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2005	5,794	7,535	1,211	615	15,155
Additions	3	-	-	1,953	1,956
Disposals	(21)	(93)	(21)	(234)	(369)
Transfers	162	922	215	(1,299)	-
Balance at 31 December 2006	**5,938**	**8,364**	**1,405**	**1,035**	**16,742**
Additions	-	-	-	6,167	6,167
Disposals	(62)	(276)	(25)	(99)	(462)
Transfers	301	1,289	398	(1,988)	-
Balance at 31 December 2007	**6,177**	**9,377**	**1,778**	**5,115**	**22,447**
Accumulated Depreciation					
Balance at 31 December 2005	(926)	(1,637)	(365)	-	(2,928)
Depreciation expense for year 2006	(198)	(468)	(168)	-	(834)
Disposals	-	25	7	-	32
Balance at 31 December 2006	**(1,124)**	**(2,080)**	**(526)**		**(3,730)**
Depreciation expense for year 2007	(205)	(511)	(228)	-	(944)
Disposals	7	70	11	-	88
Balance at 31 December 2007	**(1,322)**	**(2,521)**	**(743)**	**-**	**(4,586)**
Net Book Value					
Balance at 31 December 2006	**4,814**	**6,284**	**879**	**1,035**	**13,012**
Balance at 31 December 2007	**4,855**	**6,856**	**1,035**	**5,115**	**17,861**

(in millions of Russian Roubles - RUB)

7 Property, plant and equipment (continued)

Bank borrowings are secured on properties as at 31 December 2007 to the value of RUB 785 (31 December 2006: RUB 1,202); see Notes 17, 23.

During 2007 the Group capitalized borrowing costs of RUB 156 (year ended 31 December 2006: RUB 69) in the cost of the qualifying assets (see Note 2.13), annual capitalization rate was 6% (year ended 31 December 2006: 8%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2007 cost of the land amounts to RUB 931 (31 December 2006: RUB 931).

The Group does not have any material financial lease arrangements or investment property.

8 Development costs

	31 December 2007	31 December 2006
Cost		
Balance at the beginning of the year	870	753
Additions	397	212
Disposals	(17)	-
Write-off	(89)	(95)
Balance at the end of the year	**1,161**	**870**
Accumulated amortisation and impairment		
Balance at the beginning of the year	(67)	(14)
Amortisation charge	(224)	(53)
Disposals	-	-
Balance at the end of the year	**(291)**	**(67)**
Net Book Value		
Balance at 31 December	**870**	**803**

The write-off consists of costs that will not result in future economic benefits to the Group.

8.1. Breakdown of development cost

	31 December 2007	31 December 2006
Development of diesel engine funded by government grant	206	224
Expenditures related to establishing production of diesel engine	134	146
Development of new off-road vehicle (UAZ Patriot)	153	135
Improvement of vehicles and engines to satisfy Euro-2 requirements	22	60
Improvement of vehicles and engines to satisfy Euro-3 requirements	67	-
Improvement of four-cylinder petrol engine	-	58
Development of SYMC production process	64	52
Improvement of some vehicle component parts	25	29
Development of new light commercial vehicle (UAZ-2360)	23	23
Improvement of diesel engine funded by internal financing	7	22
Development of Fiat passenger cars production process	39	20
ISUZU light trucks	1	2
Development of FIAT Ducato production	21	-
Development of stamping	51	-
Other	57	32
	870	**803**

(in millions of Russian Roubles - RUB)

9 Acquisitions and goodwill

Goodwill arose first on the original purchase of controlling stake in OAO "UAZ" and OAO "ZMZ" and then on the increase of holding stake in OAO "UAZ" in 2003 and OAO "ZMZ" in 2004. The positive goodwill is attributable to the profitability of the acquired businesses and the significant synergies expected to arise after the Group's acquisition of OAO "UAZ" and OAO "ZMZ".

	31 December 2007	31 December 2006
Vehicle segment	1,207	1,207
Engine segment	277	277
	1,484	**1,484**

Impairment tests for goodwill

The Group tested its goodwill for impairment at 31 December 2007. Goodwill is allocated to the Group's cash generating units (CGUs) according to business segments namely the two major subsidiaries: OAO "UAZ" (vehicle segment) and OAO "ZMZ" (engine segment).

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Management has based the CGU's cash flow projections on three key assumptions related to the operating margin, growth rate and discount rate specific to each CGU. Management determined budgeted operating margin based on past performance for the last two years and its expectations for market development. For the vehicle segment these include continued strong demand for quality vehicles in the niche markets in which the segment operates, and the segment's sales price advantage over its foreign competition in those markets. For the engine segment these include the consolidation of its position as the dominant supplier of car engines to the Russian market, and its capability to upgrade its products in line with expected increases in regulations over emission levels. Cash flows beyond the five-year period are extrapolated using estimated growth rates of 7.7% for the vehicle segment and 8.7% (31 December 2006: 7.7% and 8.7% respectively) for the engine segment; these growth rates do not exceed the long-term average growth rate for the automotive business in which the CGUs operate. The discount rates used of 14% for vehicle segment and 17.6% for engine segment (31 December 2006: 19% and 18.9% respectively) are pre-tax and reflect specific risks relating to the relevant segments. Management believes that any reasonably possible change in the key assumptions described above would not cause the carrying amount of goodwill related to vehicle and engine segments to exceed their recoverable amounts.

Increase in holding stake of OAO "ZMZ"

The holding stake in OAO "ZMZ" was further increased by step acquisition from 75% up to 79% of total share capital in the year ended 31 December 2007.

	Year ended 31 December 2007
Step increase in % of ownership	3.8%
Purchase consideration	316
Share of net assets acquired from minority shareholders	(348)
Excess of acquired share in the net identifiable assets over purchase consideration	**(32)**

The Company was able to increase the ownership in this subsidiary by acquiring shares from minority shareholders who, having lost significant influence, sold their shares at favourable prices to the Company.

(in millions of Russian Roubles - RUB)

10 Other intangible assets

Intangible assets comprise of the following:

	Trade marks	Licences	Total
Cost			
Balance at 31 December 2005	**40**	**108**	**148**
Additions	-	133	133
Disposals	(40)	-	(40)
Balance at 31 December 2006	**-**	**241**	**241**
Additions	-	355	355
Disposals	-	(7)	(7)
Balance at 31 December 2007	**-**	**589**	**589**
Accumulated Amortisation			
Balance at 31 December 2005	**(8)**	**(44)**	**(52)**
Amortisation expense	-	(34)	(34)
Disposals	8	-	8
Balance at 31 December 2006	**-**	**(78)**	**(78)**
Amortisation expense	-	(37)	(37)
Disposals	-	7	7
Balance at 31 December 2007		**(108)**	**(108)**
Net Book Value			
Balance at 31 December 2006	**-**	**163**	**163**
Balance at 31 December 2007	**-**	**481**	**481**

The Group has acquired additional SsangYong and FIAT production licences in 2007. Term and useful life of the licences vary from 5 to 10 years.

11 Financial assets

Available-for-sale investments include equity securities with a carrying value of RUB 34 (2006: RR 43) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the investee's net asset value. For the other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December.

	31 December 2007	31 December 2006
Unlisted securities	36	43
Listed securities	18	11
	54	**54**

12 Other non-current assets

Other non-current assets consist of the following:

	31 December 2007	31 December 2006
Advances for equipment	429	192
Advances for construction in progress	26	54
Other	41	26
	496	**272**

(in millions of Russian Roubles - RUB)

13 Inventories

	31 December 2007	31 December 2006
Raw materials	4,935	4,083
Less: provision	(43)	(56)
	4,892	4,027
Work in progress	836	694
Less: provision	-	-
	836	694
Finished products	2,043	1,677
Less: provision	(1)	(2)
	2,042	1,675
Total	**7,770**	**6,396**

Inventories of RUB 221 (31 December 2006: RUB 776) have been pledged as security for borrowings, see Notes 17, 23.

14 Accounts receivable and prepayments

	31 December 2007	31 December 2006
Trade receivables	5,238	2,789
Less: provision for impairment	(46)	(48)
	5,192	2,741
Total financial assets	**5,192**	**2,741**
Other receivables	224	208
Less: provision for impairment	(7)	(8)
	217	200
Advances to suppliers, other than for equipment	612	831
Less: provision for impairment	(13)	(16)
	599	815
Taxes	492	600
VAT recoverable, net	455	276
Prepayments	15	30
Total	**6,970**	**4,662**

Foreign currency denominated financial assets:

Currency	31 December 2007	31 December 2006
Russian rouble	5,075	2,331
Euro	10	333
US$	107	77
Total	**5,192**	**2,741**

(in millions of Russian Roubles - RUB)

14 Accounts receivable and prepayments (continued)

Analysis by credit quality of trade and other receivables is as follows:

	31 December 2007	31 December 2006
Current and not impaired – exposure to		
- Group 1 – large corporate clients (GAZ)	537	390
- Group 2 – dealers	3,683	1,733
- Group 3 – other clients	958	607
Total current and not impaired	**5,178**	**2,730**
Past due but not impaired		
- less than 30 days overdue	-	-
- 30 to 90 days overdue	1	-
- 90 to 180 days overdue	-	-
- 180 to 360 days overdue	2	11
- over 360 days overdue	11	
Total past due but not impaired	**14**	**11**
Individually determined to be impaired (gross)		
- 30 to 90 days overdue	-	1
- 90 to 180 days overdue	-	10
- 180 to 360 days overdue	4	5
- over 360 days overdue	42	32
Total individually impaired	**46**	**48**
Less impairment provision	**(46)**	**(48)**
Total	**5,192**	**2,741**

As at 31 December 2007 fair value of the financial assets does not differ from their carrying value (2006: no difference).

15 Cash and cash equivalents

	31 December 2007	31 December 2006
Cash on hand and balances with banks	784	919
Cash deposits	1,226	69
Short-term bank promissory notes	20	45
Total	**2,030**	**1,033**

Cash deposits of RUB 531 held by the Group at 31 December 2007 bear interest of 4%-4.6% per annum, RUB 605 bear interest of 5%-5.42%, RUB 90 bear interest of 6%-7.75% (31 December 2006: RUB 69 bear interest of 4.5% per annum). Cash and cash equivalents of RUB 252 bear interest of 1%-3%, RUB 363 bear interest of 4%-5% (31 December 2006: RUB 251 bear interest of 2%-3% per annum and RUB 398 bear interest of 5%), RUB 189 held by the Group are not interest bearing (31 December 2006: RUB 315).

Certain of the Group's liabilities were guaranteed by banks issuing letters of credits to suppliers of imported assembly kits. For presentation purposes the Group have changed prior year treatment of these guarantees as separate cash and loans balances and disclosed a zero net value. As a result, cash and liabilities have decreased by RUB 657 as at 31 December 2007 and RUB 416 as at 31 December 2006.

Currency	**31 December 2007**	**31 December 2006**
Euro	17	14
US$	9	8
Total	**26**	**22**

(in millions of Russian Roubles - RUB)

15 Cash and cash equivalents (continued)

The carrying value of cash and cash equivalents as at 31 December 2007 and 31 December 2006 is approximately equal their fair value.

The Group holds cash and cash equivalents in top-20 Russian banks. Credit ratings of banks are provided in the analysis below.

	31 December 2007	31 December 2006
Rating by Fitch		
- AA-	12	-
- A	38	12
- A-	11	8
- BBB+	701	619
- BB	849	-
- B	-	5
- Unrated	416	389
- Cash on hand	3	-
Total	**2,030**	**1,033**

Management of the Group monitors both Standard and Poors and Fitch ratings of the banks used to ensure appropriate level of credit risk.

16 Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Number of treasury shares (thousands)	Share capital, RUB	Treasury shares, RUB	Share premium, RUB	Additional paid-in capital, RUB
At 31 December 2006	34,270	-	530	-	6,019	1,438
At 31 December 2007	34,270	750	530	(735)	6,019	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2006: 82,074 thousand). Nominal value of all shares is 12.5 roubles per share. Statutory share capital of the Company totalled RUB 428 (31 December 2006: RUB 428).

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2007, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUB 1,159 (for the year ended 31 December 2006: RUB 3,661) and the closing balance of the accumulated profit including the current reporting period net statutory profit totalled to RUB 8,040 (as at 31 December 2006: RUB 7,556). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

In June 2006, the General Shareholders' Meeting decided to pay dividends of RUB 480 for 2005, or 14 roubles per ordinary share. In June 2007, the General Shareholders' Meeting decided to pay dividends of RUB 675 for 2006, or 19.7 roubles per ordinary share.

During the year ended 31 December 2007 the Group acquired 750 thousands of ordinary shares of the Company on the market for RUB 735 at average price of 980 roubles per share (market price at the date of share options agreement was $30 per share). The Company reserved these treasury shares for a share option programme for senior management and members of the Board of directors (see Note 6.2).

(in millions of Russian Roubles - RUB)

17 Long-term borrowings

As at 31 December 2007 long-term debt comprises a total of:
(a) rouble denominated non-convertible bonds for RUB 1,495 (31 December 2006: RUB 0) payable in six years time with a coupon payable every six month issued in January 2004. Initially the coupon rate was 11.25% per annum. In January 2007 the Group changed the bond interest rate from 11.25% to 8%. As a result the holders of a part of the bonds in the amount of RUB 762 requested early redemption of the bonds and all the amount was subsequently placed at the secondary market.
(b) rouble-denominated non-convertible bonds for RUB 2,990 (31 December 2006: RUB 0) payable in six years time with a coupon payable every six month of 7.7% per annum issued in July 2007.
(c) rouble and foreign currency denominated loans at floating rates of EURIBOR +0.25%-2.375%, LIBOR +1.75%, MOSPRIME +1.5% of RUB 1,661 (31 December 2006: RUB 252).

Long-term debt repayments schedule is presented in Note 33.

As at 31 December 2007 and 31 December 2006 the carrying value of these liabilities approximates their fair value.

No significant or special covenants were issued during the year ended 31 December 2007 (year ended 31 December 2006: none).

18 Taxes payable

Current taxes payable

	31 December 2007	31 December 2006
Value-added tax	248	94
Income tax	125	56
Payments to the Pension Fund and other social taxes	76	70
Personal income tax	39	38
Property tax	25	19
Current portion of taxes restructured to long-term	6	187
Tax penalties and interest	3	7
Other taxes	57	51
Total	**579**	**522**

The Group had no tax liabilities past due at 31 December 2007 and 31 December 2006.

Long-term taxes payable

Long-term taxes payable comprise various taxes payable other than income tax to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of various Government Resolutions including No. 410 dated 23 May 2001 “On making changes and amendments to the Russian Government Resolution and No. 1002 dated 3 September 1999 “Terms of the restructuring of payables to the Federal Budget”, as described below. The carrying value of this debt and its maturity profile is as follows:

	31 December 2007	31 December 2006
Current	6	187
1 to 2 years	3	4
2 to 3 years	1	2
3 to 4 years	-	-
Total restructured	**10**	**193**
Less: current portion of taxes payable	(6)	(187)
Long-term portion of restructured taxes	**4**	**6**

In the event that the Group companies fail to make current tax payments and payments of restructured tax liabilities by the end of each quarter, the Ministry of Taxes and Duties may, within one month, recommend to the Government to cancel the restructuring agreement and call-in the entire liability. OAO “UAZ”, OAO “ZMZ” and OAO “ZMA” are in compliance with the terms of the restructuring of the federal, regional and local tax debts at 31 December 2007. Management is confident that these companies will continue to abide by the terms of the restructuring.

(in millions of Russian Roubles - RUB)

19 Post-retirement benefits

OAO "ZMZ" and its subsidiaries provide post employment benefits in the form of a lump sum payment on retirement and monthly cash payments to their retirees via the non-state pension fund "Stalfond". The Company adopted monthly payments since 2007 having changed its policy from quarter payments to monthly payments. The benefit amount is determined by key management. The entitlement to benefits (cash payments) ceases when the retirees die. To date it has been an unfunded plan, with no assets specifically allocated to cover the scheme liabilities. The scheme's retirement age is the State retirement age (55 for females and 60 for males). The last actuarial valuation was performed by management in December 2007.

The amounts recognised in the balance sheet are determined as follows:

	31 December 2007	31 December 2006
Present value of unfunded obligations	165	194
Unrecognized net actuarial loss	(21)	(43)
Unrecognised past service cost	(91)	(94)
Net liability in the balance sheet	**53**	**57**

The amounts recognised in the statement of income are as follows:

	31 December 2007	31 December 2006
Current service cost	7	11
Interest cost	13	14
Recognised actuarial gain	2	3
Amortisation of past service cost	5	9
Settlement loss/(gain)	-	(5)
Other	(17)	-
Total included in labour expenses (Note 29)	**10**	**32**

Deferred past service cost will be amortised over the employees' average remaining working life of 12 years.

Movements in the defined benefit obligation:

	31 December 2007	31 December 2006
Defined benefit obligation at the beginning of the period	194	189
Service cost	7	11
Interest cost	13	14
Actuarial losses/gains	(20)	7
Losses/(gain) on curtailments	-	(19)
Benefits paid	(7)	(8)
Sale of subsidiary	(5)	-
Other	(17)	-
Defined benefit obligation at the end of period	**165**	**194**

The principal actuarial assumptions used were as follows:

	31 December 2007	31 December 2006
Withdrawal rate (up to 44 years old for females and 49 for males)	3.0%	3.0%
Nominal discount rate	6.6%	6.8%
Nominal pension entitlement increase (prior to benefit commencements)	8.12%	7.10%

(in millions of Russian Roubles - RUB)

20 Deferred income on government grant and other non-current liabilities

In May 2003 the Group won a government grant for a total of RUB 500 for the development of a new diesel engine during the years 2003 - 2007. As at 31 December 2007 the Group had received RUB 391 of this grant. RUB 162 was used for the purchase of new equipment required for research and development works and RUB 229 was spent on the development of the diesel engine and capitalised as development costs in the balance sheet as at 31 December 2007. As at 31 December 2007 the Group recognised RUB 42 (2006: RUB 14) of government grant in consolidated statement of income. Initially, to fulfil the terms of the grant the Group should sell during the period from 2005 to 2007 developed new diesel engines in the amount of RUB 4,000. If the sales target is not met, the Group would have to pay a fine to the government equal to 20% of the difference between the volume designated and sales made. During the reporting year the Group continued depreciation of the non-current assets acquired and amortization of deferred income.

As at the end of the year 2006 management finalized renegotiating the conditions attached to the grant with the government. Revised terms require the Group to sell diesel engines in the amount of RUB 2,000 over the period 2006 – 2009. The overall financing of the project was reduced to RUB 391, which was utilized by the end of 2006. Management believes that the Group will be able to comply with the new terms of the grant and will not need to pay a fine. As at 31 December 2007 the Group received the full amount of government grant and report of utilization was accepted by government.

21 Advances received and other payables

	31 December 2007	31 December 2006
Payable for equipment	1,103	15
Other	232	45
Total financial liabilities	**1,335**	**60**
Advances from customers	517	588
Salaries payable	303	207
Bonus accrual	175	185
Dividends payable	155	159
Vacation accrual	120	128
Total non-financial liabilities	**1,270**	**1,267**
Total	**2,605**	**1,327**

22 Warranty and other provisions

During 2007 and 2006 the following movements of the warranty provision took place:

	Warranty	Tax claims	Total
Balance at 31 December 2005	125	5	130
Additional provision	117	65	182
Utilised in the year of 2006	(121)	(5)	(126)
Balance at 31 December 2006	**121**	**65**	**186**
Additional provision	115	7	122
Utilised in the year of 2007	(104)	(65)	(169)
Balance at 31 December 2007	**132**	**7**	**139**

The Group gives one-year warranty on UAZ products (for UAZ Patriot – 2 years), two-year warranty on ZMZ as well as 3-year warranty on sport utility vehicles and 2 and 3-year warranty on passenger cars produced at ZMA, and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RUB 132 (31 December 2006: RUB 121) was recognised at 31 December 2007 for expected warranty claims based on past experience of the level of repairs and replacements. An additional provision has been recognized for Rexton and FIAT vehicles based on expected costs not covered by the supplier.

(in millions of Russian Roubles - RUB)

23 Short-term borrowings

As at 31 December 2007 and 31 December 2006 short-term borrowings consist of bank loans amounting to RUB 2,491 and RUB 2,956 respectively. That amount included short-term part of long-term loans of RUB 31 December 2006: RUB 96); and interest accrued on loans amounting to RUB 172 (31 December 2006: RUB 87).

As at 31 December 2007 short-term debt comprises a total of rouble and foreign currency denominated loans at effective fixed interest rates of 6.8%-7% of RUB 1,401, 7%-8% of RUB 418 and floating rates of EURIBOR +0.25%-2.375% of RUB 303 and LIBOR +1.75% RUB 369. As at 31 December 2006 short-term debt comprises a total of rouble and foreign currency denominated loans at effective fixed interest rates of 6-7% of RUB 739, 7-11.25% of RUB 1,722, floating rate of EURIBOR +0.85-2% of RUB 93 and LIBOR +2.25% RUB 402.

As at 31 December 2007 and 31 December 2006 loans for RUB 1,141 and RUB 2,690 respectively, inclusive of long-term borrowing from Sberbank (Note 17), are guaranteed by collateral of inventories and equipment; see Notes 7 and 13.

Rouble-denominated bonds of RUB 1,484, classified as long term in prior year financial statements, were renegotiated in January 2007. As a result of the renegotiation the Group changed the bond interest rate from 11.25% to 8%. Because the bonds holders had the right to redeem their bonds during this renegotiation, these bonds have been reclassified as short term as at 31 December 2006 in these financial statements. For presentation purposes we have also changed classification of loans received to finance letters of credits (see Note 15).

24 Sales

	Year ended 31 December 2007	Year ended 31 December 2006
Vehicles	33,084	19,102
Engines	9,139	8,488
Automotive components	4,994	4,047
Assembly kits	19	30
Other sales	1,900	1,795
Total	**49,136**	**33,462**

25 Cost of sale

	Year ended 31 December 2007	Year ended 31 December 2006
Materials and components used	32,337	20,429
Labour costs	4,364	3,669
Other production costs	1,687	1,290
Depreciation	1,045	792
Change in finished goods and work in progress	(508)	(590)
Total	**38,925**	**25,590**

26 Distribution costs

	Year ended 31 December 2007	Year ended 31 December 2006
Transportation	932	675
Advertising	740	346
Materials	135	142
Labour costs	126	67
Check and inspection performed by dealers	3	7
Other	83	75
Total	**2,019**	**1,312**

(in millions of Russian Roubles - RUB)

27 General and administrative expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Labour costs	1,873	1,573
Services provided by third parties	411	316
Taxes other than income	268	233
Depreciation	168	129
Fire brigade and security costs	93	80
Materials	48	67
Insurance	67	59
Transportation	92	37
Repairs and maintenance	38	19
Training costs	19	9
Provision for impairment of receivables	(5)	5
Other	229	129
Total	**3,301**	**2,656**

28 Other operating (income)/expenses - net

	Year ended 31 December 2007	Year ended 31 December 2006
Research and development expenses	89	132
Loss on disposals of property, plant and equipment	100	86
Social expenses	80	68
Claims and similar charges	(22)	65
Charity	49	48
Gain on disposal of subsidiary	(338)	-
Excess of acquired shares over purchase consideration	(32)	-
Amortisation of deferred income	(42)	(14)
Gain on disposal of materials	(37)	(43)
Other	48	89
Total	**(105)**	**431**

29 Expenses by nature

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

	Year ended 31 December 2007	Year ended 31 December 2006
Cost of sales	4,364	3,653
Administrative expenses	1,834	1,567
Distribution costs	126	67
Total	**6,324**	**5,287**

Bonuses under share option plan (Note 16):

	Year ended 31 December 2007	Year ended 31 December 2006
Cost of sales	-	-
Administrative expenses	39	-
Distribution costs	-	-
Total	**39**	**-**

(in millions of Russian Roubles - RUB)

29 Expenses by nature (continued)

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

	Year ended 31 December 2007	Year ended 31 December 2006
Cost of sales	1,045	792
Administrative expenses	168	129
Total	**1,213**	**921**

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

	Year ended 31 December 2007	Year ended 31 December 2006
Cost of sales	32,337	20,429
Distribution costs	135	142
Administrative expenses	48	67
Total	**32,520**	**20,638**

30 Income tax expense

	Year ended 31 December 2007	Year ended 31 December 2006
Income tax expense – current	1,324	847
Deferred tax credit – origination and reversal of temporary differences	(6)	(82)
Income tax expense	**1,318**	**765**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Income before taxation	**4,687**	**3,229**
Theoretical tax charge at the statutory rate of 24%	1,125	775
Tax effect of items which are not deductible or assessable for taxation purposes:		
Forgiveness of tax penalties	-	(2)
Charity	22	11
Tax penalties and interest	-	-
Fixed assets write-off	8	-
Development costs write-off	20	-
Previous year expenses	36	-
Obsolete inventories provision	11	
Other	96	(19)
Income tax expense	**1,318**	**765**

The weighted average applicable tax rate was 28% (2006: 24%).

(in millions of Russian Roubles - RUB)

30 Income tax expense (continued)

In general, during the year ended 31 December 2007 the Group was subject to tax rates of 24% on taxable profits. Deferred tax assets/liabilities are measured at the rate of 24% as at 31 December 2007 and 31 December 2006.

	31 December 2005	Movement in the year 2006	31 December 2006	Movement in the year 2007	31 December 2007
Tax effects of deductible temporary differences:					
Accounts receivable	21	1	22	(2)	20
Inventories	-	8	8	(6)	2
Financial assets	-	3	3	(2)	1
Pension fund liabilities	8	(8)	-	-	-
Accounts payable and provisions	97	9	106	17	123
Investments	-	-	-	3	3
Long-term debt	-	9	9	9	18
Other non-current assets	39	(36)	3	32	35
	165	**(14)**	**151**	**51**	**202**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(1,424)	87	(1,337)	(45)	(1,382)
Inventories	(9)	9	-	-	-
	(1,433)	**96**	**(1,337)**	**(45)**	**(1,382)**
Total net deferred tax liabilities	**(1,268)**	**82**	**(1,186)**	**6**	**(1,180)**

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

Unremitted earnings totalled RUB 10,614 at 31 December 2007 (31 December 2006: RUB 7,608). 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.

31 Earnings per share

Earnings per share is calculated by dividing the income attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December 2007	Year ended 31 December 2006
Basic earnings per share (in roubles per share)	76.60	53.31
Income attributable to equity holders of the Company	2,604	1,827
Weighted average number of shares outstanding (thousands)	33,982	34,270

(in millions of Russian Roubles - RUB)

31 Earning per share (continued)

	Year ended 31 December 2007	Year ended 31 December 2006
Diluted earnings per share (in roubles per share)	75.84	53.31
Income attributable to equity holders of the Company	2,604	1,827
Weighted average number of ordinary shares in issue (thousands)	34,323	34,270

32 Segment information

Primary reporting format – business segments

At 31 December 2007 the Group is organised as two main business segments:

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

Other Group operations are not sufficiently significant to record as separate reportable segments.

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

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

(in millions of Russian Roubles - RUB)

32 Segment information (continued)

The segment results for the year ended and balances at 31 December 2006 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	21,687	12,691	-	34,378
Inter-segmental sales	(32)	(884)	-	(916)
Net sales	**21,655**	**11,807**	**-**	**33,462**
Segment results / operating income	1,224	2,249	-	3,473
Interest expense	-	-	(336)	(336)
Net foreign exchange gain	80	2	-	82
Gain on forgiveness of tax penalties	-	10	-	10
Segment results	**1,123**	**2,295**	**(189)**	**3,229**
Income tax expense				(765)
Income for the year				**2,464**
Segment assets	17,610	8,387	1,901	27,898
Segment liabilities	7,132	2,147	1,855	11,134
Capital expenditures	2,007	335	-	2,342
Depreciation	604	317	-	921
Non-cash gains other than depreciation	(79)	5	-	(74)

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

Secondary reporting format – geographical segments

The Group's sales are mainly within Russia and in CIS countries.

Geographical reportable segments by location of customers are as follows:

Sales	Year ended 31 December 2007	Year ended 31 December 2006
Domestic	45,138	30,119
Export to CIS	3,609	2,796
Export to other countries	389	547
Total	**49,136**	**33,462**

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

33 Financial Risk Management

33.1. Financial risk factors

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

(a) Market risk

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

(in millions of Russian Roubles - RUB)

33 Financial Risk Management (continued)

33.1. Financial risk factors (continued)

(i) Currency risk
The Group is exposed to currency risk from changes in exchange rate of three currencies: Euro, US dollar and Japanese yen. The risks arise on purchase agreements for delivery of major production components denominated in foreign currencies. Management believes that the nature of it's business enables the Group offset currency risk by changing rouble denominated retail prices.

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

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

	Monetary financial assets		Monetary financial liabilities		Net balance sheet position
	Cash and cash equivalents	**Accounts receivable**	**Accounts payable**	**Loans and bonds**	
Russian Roubles	2,004	5,075	(5,853)	(6,799)	**(5,573)**
US Dollars	9	10	(898)	(369)	**(1,248)**
Euros	17	107	(1,500)	(1,469)	**(2,845)**
Japanese Yens	-	-	(587)	-	**(587)**
Total	**2,030**	**5,192**	**(8,838)**	**(8,637)**	**(10,253)**

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2006:

	Monetary financial assets		Monetary financial liabilities		Net balance sheet position
	Cash and cash equivalents	**Accounts receivable**	**Accounts payable**	**Loans and bonds**	
Russian Roubles	1,011	2,331	(3,899)	(2,328)	**(2,875)**
US Dollars	8	77	(1,747)	(523)	**(2,185)**
Euros	14	333	(140)	(357)	**(150)**
Total	**1,033**	**2,741**	**(5,786)**	**(3,208)**	**(5,210)**

The above analysis includes only monetary assets and liabilities. The Group does not hold any currency derivatives. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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 reasonably possible changes in exchange rates applied at the balance sheet date relative to the Group's functional currency, with all other variables held constant:

	2007	**2006**
Impact on profit or loss and on equity of:		
US Dollar strengthening by 10%	(125)	(219)
US Dollar weakening by 10%	125	219
Euro strengthening by 10%	(285)	(15)
Euro weakening by 10%	285	15
Japanese yen strengthening by 10%	(59)	-
Japanese yen weakening by 10%	59	-

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

(in millions of Russian Roubles - RUB)

33 Financial Risk Management (continued)

(ii) Price risk
The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities.

(iii) Interest rate risk
The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Management believes the Group will be able to swap floating interest rate loans with fixed interest rate loans in case of significant adverse change of market conditions. 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.

	Demand and less than 3 month	From 3 to 12 months	More than 1 year	More than 5 years	Total
31 December 2007					
Fixed interest rate	91	1,570	4,483	-	**6,144**
EURIBOR based interest rates	34	256	914	249	**1,453**
LIBOR based interest rates	368	-	-	-	**368**
MOSPRIME based interest rates	-	-	500	-	**500**
Total	**493**	**1,826**	**5,897**	**249**	**8,465**

31 December 2006	Demand and less than 3 month	From 3 to 12 months	More than 1 year	More than 5 years	Total
Fixed interest rate	1,493	883	-	-	**2,376**
EURIBOR based interest rates	49	49	252	-	**350**
LIBOR based interest rates	395	-	-	-	**395**
MOSPRIME based interest rates	-	-	-	-	-
Total	**1,937**	**932**	**252**	**-**	**3,121**

At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, interest expense for the year would have been RUB 22 (2006: RUB 4) lower.

If interest rates had been 100 basis points higher, with all other variables held constant, interest expense would have been RUB 24 (2006: RUB 4) higher.

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

	2007			2006		
In % p.a.	**RR**	**USD**	**Euro**	**RR**	**USD**	**Euro**
Assets						
Cash and cash equivalents	0%-8%	-	-	0%-5%	-	-
Liabilities						
Borrowings	6.8%-8.0%, MOSPRIME +1.5%	LIBOR +1.75%	EURIBOR +0.25% to 2.375%	6%-8%	LIBOR +2.25%	EURIBOR +0.85 to 4.35%

(in millions of Russian Roubles - RUB)

33 Financial Risk Management (continued)

(b) Credit risk

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

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

	31 December 2007	**31 December 2006**
Cash and cash equivalents (Note 15)	**2,030**	**1,033**
- AA-	12	-
- A	38	12
- A-	11	8
- BBB+	701	619
- BB	849	-
- B	-	5
- Unrated	416	389
- Cash on hand	3	-
Non-current financial assets (Note 11)	**54**	**54**
- Listed securities	18	11
- Unlisted securities	36	43
Financial receivables (Note 14)	**5,192**	**2,741**
- Trade receivables:	5,178	2,730
Group 1 – large corporate clients (GAZ)	537	390
Group 2 – dealers	3,683	1,733
Group 3 – other customers	958	607
- Past due but not impaired	14	11
Total maximum exposure to credit risk	**7,276**	**3,828**

All of the financial assets of the Group, except for RUB 18 (2006: RUB 11) in shares, categorised as assets with fair value through profit and loss statement, are loans and receivables.

The process of management of credit risk includes assessment of credit reliability of the counterparties and reviewing payments received. All the receivables from the Group dealers are secured by the pledge of goods dispatched.

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 Note 14.

Group cash and cash equivalents are kept in top-20 Russian banks. Management considers credit risk associated with these banks negligible.

The Group did not issue any financial guarantees in 2007 and 2006.

Credit risks concentration

The Group has accounts receivable from GAZ group (the major customer of engine segment) of RUB 537 (2006: RUB 390) which represents 10% (2006: 14%) of total trade accounts receivable. No other single debtor balance comprises more than 3% (2006: 3%) of the trade accounts receivable of the Group.

The Group's cash and cash equivalents are held with 17 banks (2006: 16 banks) thus there is no significant exposure of the Group to a concentration of credit risk.

Management considers hedging of these positions unsuitable.

(c) Liquidity risk

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

(in millions of Russian Roubles - RUB)

33 Financial Risk Management (continued)

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

The Group monitors the following financial ratios in order to ensure that no liquidity difficulties arise:

	Target ratio
Net debt/EBITDA	not more than 2.5
EBIT/Interest expense	not less than 5.0

Managements considers the targeted ratios sustainable in the foreseeable future.

Management believes that the Group has access to additional credit facilities if required. The available upon request credit facilities amounted to RUB 1,807 (2006: RUB 583).

The analysis below represents management expectations of repayment schedule of monetary assets and liabilities of the Group as of 31 December 2007 and 31 December 2006. The table below is based on the earliest possible repayment dates and on nominal cash flows excluding future interest payments. Foreign currency cash flows are translated using spot exchange rates as of 31 December 2007 and 31 December 2006.

	Demand and less than 3 month	**From 3 to 12 months**	**More than 1 year**	**More than 5 years**	**Total**
31 December 2007					
Total monetary financial assets	7,409	2	-	-	**7,411**
Cash and cash equivalents	2,030	-	-	-	**2,030**
Trade receivables	5,190	2	-	-	**5,192**
Other receivables	174	-	-	-	**174**
Other financial assets	15	-	-	-	**15**
Total monetary financial liabilities	(7,533)	(2,984)	(6,052)	(249)	**(16,818)**
Loans and bonds	(665)	(1,826)	(5,897)	(249)	**(8,637)**
Trade payables	(4,936)	(1,158)	-	-	**(6,094)**
Other payables	(1,932)	-	(155)	-	**(2,087)**
Future interest payments	(152)	(377)	(1,289)	(189)	**(2,007)**
Net balance of payments at 31 December 2007	**(276)**	**(3,359)**	**(7,341)**	**(438)**	**(11,414)**
31 December 2006					
Total monetary financial assets	3,992	1	-	-	**3,993**
Cash and cash equivalents	1,033	-	-	-	**1,033**
Trade receivables	2,740	1	-	-	**2,741**
Other receivables	200	-	-	-	**200**
Other financial assets	19	-	-	-	**19**
Total monetary financial liabilities	(5,432)	(2,377)	(411)	-	**(8,220)**
Loans and bonds	(2,024)	(932)	(252)	-	**(3,208)**
Trade payables	(2,828)	(1,445)	-	-	**(4,273)**
Other payables	(580)	-	(159)	-	**(739)**
Future interest payments	(57)	(128)	(331)		**(516)**
Net balance of payments at 31 December 2006	**(1,497)**	**(2,504)**	**(742)**	**-**	**(4,743)**

The Group did not have any derivative financial instruments issued/held during the year ended 31 December 2007 and 31 December 2006.

(in millions of Russian Roubles - RUB)

33 Financial Risk Management (continued)

33.2. Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by a sum of total equity and net debt. The Group considers total capital under management to be RUB 25,021.

The gearing ratios at 31 December 2007 and 31 December 2006 were as follows:

	31 December 2007	**31 December 2006**
Long-term borrowings	6,146	252
Short-term borrowings	2,491	2,956
Less: cash and cash equivalents	(2,030)	(1,033)
Net debt	**6,607**	**2,175**
Equity	18,414	16,764
Total net debt and equity	25,021	18,939
Gearing ratio	**26%**	**11%**

The Group management constantly monitors profitability ratios, market share price and debt/capitalization ratio. The level of dividends is also monitored by the Board of the Group.

34 Contingencies, commitments and operating risks

34.1. Contractual commitments and guarantees

As at 31 December 2007 the Group had contractual commitments of RUB 942 for the purchase of property, plant and equipment from third parties (31 December 2006: RUB 950).

34.2. Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

34 Contingencies, Commitments and Operating Risks (Continued)

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2007 no provision for potential tax liabilities had been recorded (2006: no provision).

34.3. Dependency on a limited number of suppliers and customers

The Group is dependent on a relatively limited number of suppliers for several raw materials and components used in the manufacturing of its products. Consequently, there is a risk that the Group may not be able to negotiate favourable terms, ensure adequate quality of its raw material and components and the performance of its business segments could be affected.

The engine business segment sells 56% (2006: 54%) of its production to one customer – OAO "GAZ". Consequently, the segment performance, results of the operation and prospects of the engine business are highly dependent on the continued relationship with this customer. In 2005 the Group signed a 3 year contract with OAO "GAZ" for delivery of engine supplies.

34.4. Insurance policies

The Group holds insurance policies in relation to its operating assets and vehicles and all events subject to mandatory insurance. The Group does not have business interruption insurance. The Group is subject to political, legislative, tax and regulatory developments and risks, which are not covered by insurance.

34.5. Environmental matters

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

34.6. Legal proceedings

During the year ended 31 December 2007 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

34.7. Operating environment of the Group

Whilst there have been improvements in the economic trends in the country, the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

(in millions of Russian Roubles - RUB)

35 Principal subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by OAO "Severstal-auto" are as follows:

			31 December 2007			31 December 2006		
Entity	Country of incorpo-ration	Activity	Voting, %	% of total share capital	% of ordinary shares	Voting, %	% of total share capital	% of ordinary shares
OAO "Ulyanovsky Avtomobilny Zavod"	Russia	Manufacture and sale of passenger automobiles, light trucks and minibuses	100	66	68	100	66	68
OAO "Zavolzhskiy Motor Works"	Russia	Manufacture and sale of engines for passenger automobiles, trucks and buses	100	79	88	100	75	88
OAO "Small Car Plant"	Russia	Manufacture and sale of passenger automobiles	100	100	100	100	100	100
OOO "Severstalavto-Elabuga"	Russia	Manufacture and sale of commercial vehicles	100	100	-	100	100	-
OOO «Severstalavto»	Russia	Auto trading	100	100	-	100	100	-
ZAO "Severstalauto-Isuzu"	Russia	Manufacture and sale of commercial vehicles	100	66	-	-	-	-
OOO Torgoviy dom Severstalauto	Russia	Auto trading	100	100	-	-	-	-
OOO Severstalauto-Invest	Russia	Auto trading	100	100	-	-	-	-
OOO "Turin-Auto"	Russia	Auto trading	100	100	-	-	-	-
OOO "UAZ-Metallurgia"	Russia	Manufacture and sale of metal products	100	66	-	100	66	-
OOO "UAZ-Autotrans"	Russia	Transport services	100	66	-	100	66	-
OOO "UAZ-Tekhinstrument"	Russia	Manufacture and sale of tooling equipment	100	66	-	100	66	-
OOO "ZMZ-Podshipniky Skolzheniya"	Russia	Manufacture and sale of bearings	-	-	-	100	100	-
OOO "RosALit"	Russia	Manufacture and sale of metals products	100	79	-	100	75	-
OOO "Zavod "Metalloform"	Russia	Manufacture and sale of metals products	100	79	-	100	75	-
OOO "Specinstrument"	Russia	Manufacture and sale of tooling equipment	100	79	-	100	75	-
OOO "ZMZ-Transservice"	Russia	Transport services	100	79	-	100	75	-
OOO "Remservis"	Russia	Repair services	100	79	-	100	75	-
ZAO "Kapital"	Russia	Rent services	100	100	-	100	72	-
OOO "Severstalauto-Kama"	Russia	Manufacture and sale of commercial vehicles	100	100	-	-	-	-
OOO "Severstalauto-Chelny"	Russia	Manufacture and sale of commercial vehicles	100	100	-	-	-	-
OOO "Severstalauto-ST"	Russia	Auto trading	100	100	-	-	-	-

OOO "ZMZ - Transservice", OOO "RosALit", OOO "Zavod "Metalloform", OOO "Specinstrument" are 100% owned by the Company's subsidiary OAO "ZMZ". OOO "UAZ – Autotrans", OOO "UAZ-Tekhinstrument" and OOO "UAZ-Metallurgia" are 100% owned by the Company's subsidiary OAO "UAZ". Share in OOO "ZMZ – Podshipniky Skolzheniya", OOO "ZMZ - Transservice", OOO "UAZ-Metallurgia", OOO "UAZ-Autotrans", OOO "UAZ-Tekhinstrument", OOO "RosALit", OOO "Zavod "Metalloform", OOO "Specinstrument", OOO "Severstalauto-Elabuga", OOO "Severstalauto" represent stockholders' stakes, not number of shares held.

35 Principal subsidiaries (continued)

In 2007 the Group disposed of 100% shares of a subsidiary together with related fixed assets for a total consideration of RUB 505.

36 Post balance sheet events

In February and March of 2008 the Group incorporated 3 subsidiaries: OOO Severstlauto-Finance, Aviaction Incorporated and PDL Supervisory Assistance, where the Group controls 100% of voting rights. OOO Severstalauto-Finance is intended for providing customers with financial services. Aviaction Incorporated and PDL Supervisory Assistance are logistic companies.

The Company was in the process of rebranding during 2007-2008 and in April 2008 Company’s new brand “Sollers” was announced.