

SEVERSTAL-AUTO GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AND REVIEW REPORT**

30 June 2006

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REVIEW REPORT OF THE AUDITORS

To the Shareholders and Board of Directors of OAO "Severstal-auto"

1. We have reviewed the accompanying consolidated interim balance sheet of OAO "Severstal-auto" (the "Company") and its subsidiaries (the "Group") as of 30 June 2006 and the related consolidated interim statements of income, cash flows and changes in equity for the six months then ended. These consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.
2. We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the consolidated interim financial statements are free of material misstatement. A review is limited primarily to inquiries of group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
27 September 2006

Severstal-auto Group
Consolidated Interim Balance Sheet at 30 June 2006
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RUB million		Supplementary information USS million (Note 2)	
		At 30 June 2006	At 31 December 2005	At 30 June 2006	At 31 December 2005
ASSETS					
Non-current assets:					
Property, plant and equipment	5	12 255	12 227	453	425
Development costs	6	783	739	29	26
Goodwill	7	1 484	1 484	55	52
Intangible assets	8	75	96	3	3
Financial assets	9	55	53	2	2
Other non-current assets	10	378	235	14	8
Total non-current assets		15 030	14 834	556	516
Current assets:					
Inventories	11	5 156	4 702	190	163
Accounts receivable and prepayments	12	4 454	3 431	164	119
Other current assets	13	18	6	1	-
Cash and cash equivalents	14	1 650	1 296	61	45
Total current assets		11 278	9 435	416	327
Total assets		26 308	24 269	972	843
LIABILITIES AND EQUITY					
Equity:					
Capital and reserves attributable to the Company's equity holders:	15				
Share capital		530	530	20	18
Share premium		6 019	6 019	222	209
Additional paid-in capital		1 438	1 438	53	50
Retained earnings		3 641	3 422	134	119
Total capital and reserves attributable to the Company's equity holders		11 628	11 409	429	396
Minority interest		3 677	3 371	136	117
Total equity		15 305	14 780	565	513
Non-current liabilities:					
Long-term borrowings	16	1 761	1 702	65	59
Long-term taxes payable	17	153	157	6	5
Post-retirement benefit obligation	18	42	34	2	1
Deferred income on government grant and other non-current liabilities	19	323	306	12	11
Deferred income tax liabilities	29	1 325	1 268	49	44
Total non-current liabilities		3 604	3 467	134	120
Current liabilities:					
Accounts payable		3 232	2 715	119	94
Advances received and other payables	20	1 696	951	63	33
Taxes payable	17	521	476	19	17
Warranty and other provisions	21	141	130	5	5
Short-term borrowings	22	1 809	1 750	67	61
Total current liabilities		7 399	6 022	273	210
Total liabilities		11 003	9 489	407	330
Total liabilities and equity		26 308	24 269	972	843

General Director
V.A. Shvetsov

27 September 2006

Chief Financial Officer
N.A. Sobolev

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

Severstal-auto Group**Consolidated Interim Statement of Income for the six months ended 30 June 2006***(in millions of Russian Roubles)**(Amounts translated into US Dollars for convenience purposes, Note 2)*

	Note	RUB million		Supplementary information US\$ million (Note 2)	
		Six months ended 30 June		Six months ended 30 June	
		2006	2005	2006	2005
Sales	23	15,036	11,075	538	396
Cost of sales	24	(11,394)	(8,548)	(408)	(306)
Gross profit		3,642	2,527	130	90
Distribution costs	25	(598)	(375)	(21)	(13)
General and administrative expenses	26	(1,411)	(1,083)	(50)	(39)
Other operating (expenses)/ income	27	(54)	32	(2)	1
Operating income		1,579	1,101	57	39
Interest expense		(167)	(191)	(6)	(7)
Net foreign exchange gain		18	17	1	1
Gain on restructuring of assets and liabilities		10	-	-	-
Income before taxation		1,440	927	52	33
Income tax expense	29	(435)	(194)	(16)	(7)
Income for the period		1,005	733	36	26
Attributable to:					
Equity holders of the Company		699	646	25	23
Minority interest		306	87	11	3
		1,005	733	36	26
Weighted average number of shares outstanding during the period (thousands)	30	34,270	29,800	34,270	29,800
Earnings per share (in RUB and US\$) – basic and fully diluted	30	20,40	21,68	0,73	0,77

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

Severstal-auto Group
Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2006
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RUB million		Supplementary information US\$ million (Note 2)	
		Six months ended 30 June		Six months ended 30 June	
		2006	2005	2006	2005
Cash flows from operating activities					
Income before taxation		1,440	927	52	33
Adjustments for:					
Depreciation and amortization.	5	425	347	15	12
Provision for impairment of receivables	12	15	(4)	1	-
Excess of acquired share of net assets over purchase consideration	7	-	(57)	-	(2)
Interest expense		167	191	6	7
Provisions movements		11	8	-	-
Retirement benefit obligation	18	10	5	-	-
Loss on disposal of other non-current assets		32	-	1	-
Development costs write off		4	-	-	-
Gain on sale of property, plant and equipment	27	(1)	(17)	-	(1)
Operating cash flows before working capital changes					
		2,103	1,400	75	49
Increase in accounts receivable and prepayments		(1,037)	(689)	(37)	(25)
Increase/ (decrease) in inventories		(454)	21	(16)	1
Increase in other current assets		(12)	(20)	-	(1)
Increase in accounts payable, advances received and other payables		795	292	29	10
(Decrease)/increase in taxes payable, other than income tax		(69)	88	(2)	3
Cash provided from operations					
		1,326	1,092	49	37
Income tax paid		(286)	(306)	(10)	(11)
Interest paid		(174)	(158)	(6)	(6)
Net cash provided from/(used in) operating activities					
		866	628	33	20
Cash flows from investing activities:					
Purchase of property, plant and equipment		(462)	(625)	(16)	(22)
Proceeds from the sale of property, plant and equipment		55	19	2	1
Development costs capitalised	6	(68)	(252)	(2)	(9)
Increase in stake in subsidiary	7	-	(160)	-	(6)
Acquisition of subsidiary, net of cash acquired	7	-	(1,323)	-	(47)
Purchase of other non-current assets		(165)	(31)	(6)	(1)
Proceeds from sale of other non-current assets		-	17	-	1
Net cash used in investing activities:					
		(640)	(2,355)	(22)	(83)
Cash flows from financing activities:					
Proceeds from borrowings		7,092	5,285	254	189
Repayment of borrowings and long-term taxes payable		(6,949)	(4,587)	(248)	(164)
Proceeds from parent company share issue	15	-	1,615	-	58
Dividends paid		(15)	(282)	(1)	(10)
Net cash provided from financing activities					
		128	2,031	5	73
Net increase in cash and cash equivalents					
		354	304	16	10
Cash and cash equivalents at the beginning of the period	14	1,296	982	45	35
Cash and cash equivalents at the end of the period	14	1,650	1,286	61	45

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

Severstal-auto Group
Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2006
(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	Share capital	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2004		474	4,259	1,438	2,210	8,381	3,154	11,535
Income for the six months		-	-	-	646	646	87	733
Total recognised income for the half-year 30 June 2005					646	646	87	733
Dividends	15	-	-	-	(326)	(326)	-	(326)
Share of net assets acquired from minority shareholders	7	-	-	-	-	-	(165)	(165)
Business combination	7	-	-	-	-	-	5	5
Balance at 30 June 2005		474	4,259	1,438	2,530	8,701	3,081	11,782
Balance at 31 December 2005		530	6,019	1,438	3,422	11,409	3,371	14,780
Income for the six months		-	-	-	699	699	306	1,005
Total recognised income for the half-year					699	699	306	1,005
Dividends	15	-	-	-	(480)	(480)	-	(480)
Balance at 30 June 2006		530	6,019	1,438	3,641	11,628	3,677	15,305
		Share capital	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 30 June 2005		17	149	50	88	304	107	411
Balance at 30 June 2006		20	222	53	134	429	136	565

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

1 The Severstal-auto Group and its operations

OAO "Severstal-auto" (the "Company") and its subsidiaries' (the "Group") 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 and the City of Naberezhnye Chelny in Russia.

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.

The Company's parent is Newdeal Investments Limited which holds 58% of the Company's share capital. At the balance sheet date Aleksey Mordashov and Vadim Shvetsov controlled, respectively, 85% and 15% of the share capital of Newdeal Investments Limited.

During the six months ended 30 June 2005 the Company acquired control of OAO "Small Car Plant" (OAO "ZMA") based in Naberezhnye Chelny, Republic of Tatarstan.

The registered office of the Company is Prospect Pobedy, 33, Cherepovets, Vologda Region, 162614, Russian Federation.

These consolidated interim financial statements have been approved for issue by the General Director and Chief Financial Officer on 27 September 2006.

2 Basis of presentation of the financial statements

These consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

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.

The consolidated financial statements have been prepared under the historical cost convention except for financial assets which are shown at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.21.

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RUB in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated interim financial statements.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles, which is the Company's functional and presentation currency.

2 Basis of presentation of the financial statements (continued)

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 30 June 2006 of RUB 27.08 = US\$1 (at 31 December 2005 of RUB 28.78 = US\$1). The statement of income and cash flow statement has been translated at the average exchange rates during the six months ended 30 June 2006 and 30 June 2005. 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.

3 Summary of significant accounting policies

3.1 Early adoption of standards

In 2003 the Group early adopted all the applicable IFRS which are relevant to its operations with the effective date 1 January 2005. Certain new IFRSs became effective for the Group from 1 January 2006 and inherent in the Group’s accounting policies.. Listed below are those new or amended standards or interpretations which are effective from 1 January 2007 and thereafter and will be relevant to the Group’s operations in the future.

IFRS 7 “Financial Instruments: Disclosures” and a complementary amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures” (effective from 1 January 2007)

IFRIC 7, ‘Applying the Restatement Approach under IAS 29’ (effective for annual periods beginning on or after 1 March 2006)

IFRIC 8, ‘Scope of IFRS 2’ (effective for annual 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)

None of the new standards or interpretations, issued up to the date of signing these financial statements, are expected to have any significant effect upon the Group’s financial statements.

3.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.3 Group accounting

Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are included into the consolidated financial statements. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intergroup transactions, balances and unrealized gains on transactions between the Group’s companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3 Summary of significant accounting policies (continued)

Subsidiary undertakings (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued or liabilities incurred or assumed at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill (see Note 3.5). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiaries at the acquisition date, and the minorities' portion of movements in those subsidiaries' equity since the date of the combination. Minority interest is presented within equity. Transactions with minority interests are accounted for under the parent company model whereby minorities are third parties in the context of the Group's financial statements. Consequently such transactions create assets/liabilities and give rise to gains/losses in the statement of income.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor cost method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the predecessor. Related goodwill inherent in the predecessor's original acquisition is also recorded in these financial statements.

These financial statements, including corresponding figures, are presented as if the subsidiary had been accounted for under the purchase method from the date it was originally acquired by the predecessor.

3.4 Property, plant and equipment

Property, plant and equipment is recorded at purchase or construction cost. Before 1 January 2003 property, plant and equipment were recorded at purchase or construction cost restated to the equivalent purchasing power of the RUB. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the consolidated statement of income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on the amounts of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings	35 to 45
Plant and machinery	15 to 25
Other	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.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in the consolidated statement of income as incurred.

Assets under construction and land owned by the Group are not depreciated.

3 Summary of significant accounting policies (continued)

3.5 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually in December for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. When shares are acquired from minority shareholders, the management uses carrying values of the underlying net identifiable assets for the purposes of the goodwill computation.

Any excess of the Group's share of the net identifiable assets over the cost of an acquisition is recognised immediately in the statement of income.

Goodwill is allocated to cash generating units for the purposes of impairment testing, namely the two major subsidiaries: OAO "UAZ" and OAO "ZMZ".

Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred for development projects are recognised as intangible assets if, and only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Development costs with a finite useful life that have been capitalised are amortised from the commencement of commercial production on a straight-line basis over the period of their expected benefits which is 3 to 10 years. Development costs with indefinite useful life are tested for impairment at each balance sheet date and whenever there is indication of impairment.

Other intangible assets

Trademarks and licences purchased by the Group are shown at historical cost. Trademarks and licences which were acquired as a result of acquiring subsidiaries are initially recognised at fair value. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives, which are as follows:

	<u>Number of years</u>
Computer software licenses	3 to 5
Trademarks and licences	3 to 10

Trademark and licenses are tested for impairment at each balance sheet date and whenever there is indication of impairment.

3.6 Financial assets

Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. 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.

All purchases and sales of financial assets available for sale are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. Estimated discounted cash flows are used to determine fair value for the remaining financial assets. Realised and unrealised gains and losses arising from changes in the fair value of these financial assets are included in the statement of equity. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation at each reporting date.

3 Summary of significant accounting policies (continued)

3.6 Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'accounts receivable and prepayments' in the balance sheet (see Note 3.8).

3.7 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 and administrative overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Provision is made for potential losses on obsolete or slow-moving inventories taking into account their expected use and future realisable value.

3.8 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the market rate of interest for similar borrowers, less provision for impairment and include value added taxes. A provision for impairment of trade 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 the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the statement of income.

3.9 Value added tax

Value added tax (VAT) related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases, which have not been settled at the balance sheet date (VAT deferred) is recognised in the consolidated balance sheet on a net basis and disclosed separately from the actual VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

3.10 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments with less than three months of maturity since inception, which are readily converted to cash, and are not subject to significant risk of changes in value.

3.11 Borrowings and restructured taxes

Borrowings are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed in the period when incurred except for those, which are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalised as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use and when it is probable that they will result in future economic benefits to the Group and costs can be measured reliably. 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.

3 Summary of significant accounting policies (continued)

3.12 Provision for warranties

Provisions 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 of the obligation can be made.

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. Estimated costs of future product warranties are fully provided for at the time of the sale of products.

3.13 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.14 Employee benefits

Social costs

The Group incurs employee costs related to the provision of benefits such as health services and recreational activities. These amounts principally represent an implicit cost of employees and, accordingly, have been charged to other operating expenses in the consolidated statement of income.

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.

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

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

3 Summary of significant accounting policies (continued)

3.15 Government grant

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 costs are deferred and recognised in the statement of income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grant and are credited to the statement of income on a straight line basis over the expected lives of the related assets.

3.16 Use of bills of exchange and promissory notes

The Group uses third party bills of exchange in its operations. Bank promissory notes received are included in the balance sheet within cash and cash equivalents.

3.17 Shareholders' equity

Share capital

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

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.

3.18 Revenue recognition

Revenues on sales of vehicles, engines, automotive components and other products are recognised when goods are dispatched to customers as this is the date that the risks and rewards of ownership are transferred to the customers.

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

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

3.19 Earnings per share

Basic earnings per share is determined by dividing the net income attributable to ordinary shareholders by the weighted average number of participating shares in issue during the reporting period.

3.20 Foreign currency transactions

Monetary assets and liabilities which are held by Group entities and denominated in foreign currencies are translated into the RUB at the exchange rates prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of income.

3.21 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3 Summary of significant accounting policies (continued)

3.21 Critical accounting estimates and judgements (continued)

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Capitalisation of development costs

The Group capitalises development costs in accordance with the accounting policy stated in Note 3.5. Judgement is required to assess the probability that future economic benefits that are attributable to these assets will flow to the Group.

By 30 June 2006 the Group capitalized development expenditure for a diesel engine of RUB 321. In accordance with requirements of IAS 38 "Intangible Assets" this amount should be capitalized if the project will generate probable future economic benefits.

If management assumptions at 30 June 2006 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 783 at 30 June 2006.

Estimated impairment of goodwill

The Group tests annually whether the goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.5. The recoverable amounts of cash generating units have been determined, based on value-in-use calculations. These calculations require the use of estimates.

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 30 June 2006 the carrying value of buildings would have been RUB 171 higher or RUB 256 lower accordingly. If the estimated remaining useful life of plant and equipment had been 20% higher or lower than management estimates, then at 30 June 2006 the carrying value of plant and equipment would have been RUB 308 higher or RUB 462 lower accordingly.

Income tax

Judgement is required in determining a provision for income taxes. The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact income tax and deferred tax provision in the period in which such determination is made.

Warranty provision

Judgement is required in determining a warranty provision. The Group recognises liabilities for warranty based on estimates of additional liabilities to repair or replace products sold which are still under warranty at the balance sheet date. This provision is calculated based on the past history of the level of repairs and replacements. If the revised warranty expense incurred during the six months of 2006 had been 50% higher than actual, the Group would need to reduce its income attributable to the equity holders of the Company by RUB 23.

3 Summary of significant accounting policies (continued)

3.21 Critical accounting estimates and judgements (continued)

Provision for impairment of accounts receivable

Judgement is required in determining a provision for impairment of accounts receivable. The Group recognises a provision for impairment based on estimates of the collectibility of receivables. As at 30 June 2006 the Group had balances outstanding for more than one year of RUB 80 (at 31 December 2005: RUB 53). Management is confident that these balances will be recoverable in full. However, to the extent that these estimates are not realised, the Group would have to recognise additional bad debt expense.

3.22 Change in accounting policy

In accordance with the changes in IAS 39 become effective from 1 January 2006, which led to stricter requirements to the designation of financial instruments as at fair value through profit and loss the Group retrospectively changed its accounting policy and reclassified the financial assets, which were previously recognized as financial assets at fair value through profit and loss to available for sale investments.

4 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

4.1 Balances and transactions with related parties

Balances with related parties of the Group as at 30 June 2006 and 31 December 2005 consist of the following:

Nature of the relationship	Newdeal Investments Limited	Other Severstal group companies	Total
	Parent company	Significant influence of management	
Balances			
At 30 June 2006			
Accounts receivable and prepayments	-	9	9
Accounts payable	-	178	178
Cash and cash equivalents	-	160	160
Short-term borrowings	-	200	200
At 31 December 2005			
Accounts receivable and prepayments	-	25	25
Accounts payable	-	177	177
Short-term borrowings	-	3	3

The fair value of balances with related parties does not significantly differ from their carrying value.

4 Balances and transactions with related parties (continued)

Transactions with related parties of the Group for the six months ended 30 June 2006 and 30 June 2005 consist of the following:

Transactions

Six months ended 30 June 2006

Purchases (metals)		500	500
Sales revenue (vehicles)		130	130
Cash deposits		1,835	1,835

Six months ended 30 June 2005

Purchases (metals)	-	751	751
Sales revenue (vehicles)	-	50	50
Cash and cash equivalents	-	31	31
Prepayment from shareholders for unregistered share issue	1,615	-	1,615
Purchase of notes receivable	-	30	30

During 6 months 2006 the Company transfer cash deposits to bank which is related party for the Group. Cash deposit was short term period with 4% interest income. During 6 months 2006 the Company received 6% loan from the bank, which is a related party for the Group.

4.2 Directors' compensation

Compensation paid to 9 key management and directors (six months ended 30 June 2005: 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.

Total key management and directors' compensation included in general and administrative expenses in the statement of income amounted to RUB 40 for the six months ended 30 June 2006 (six months ended 30 June 2005: RUB 61).

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5 Property, plant and equipment

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

	<u>Land and Buildings</u>	<u>Plant and equipment</u>	<u>Other</u>	<u>Assets under construction</u>	<u>Total</u>
Cost					
Balance at 31 December 2004	4,792	5,558	811	896	12,057
Acquired through business combination (Note 7)	719	1,004	24	9	1,756
Additions	-	-	-	626	626
Disposals	-	(24)	(3)	-	(27)
Transfers	202	648	130	(980)	-
Balance at 30 June 2005	<u>5,713</u>	<u>7,186</u>	<u>962</u>	<u>551</u>	<u>14,412</u>
Balance at 31 December 2005	5,794	7,535	1,211	615	15,155
Acquired through business combination (Note 7)	-	10	-	-	10
Additions	-	-	-	486	486
Disposals	(1)	(16)	(9)	(36)	(62)
Transfers	27	314	65	(406)	-
Balance at 30 June 2006	<u>5,820</u>	<u>7,843</u>	<u>1,267</u>	<u>659</u>	<u>15,589</u>
Accumulated Depreciation					
Balance at 31 December 2004	(738)	(1,232)	(233)	-	(2,203)
Depreciation expense for six months of 2005	(91)	(190)	(66)	-	(347)
Disposals	-	11	4	-	15
Balance at 30 June 2005	<u>(829)</u>	<u>(1,411)</u>	<u>(295)</u>	<u>-</u>	<u>(2,535)</u>
Balance at 31 December 2005	(926)	(1,637)	(365)	-	(2,928)
Depreciation expense for six months of 2006	(98)	(226)	(90)	-	(414)
Disposals	-	4	4	-	8
Balance at 30 June 2006	<u>(1,024)</u>	<u>(1,859)</u>	<u>(451)</u>	<u>-</u>	<u>(3,334)</u>
Net Book Value					
Balance at 30 June 2005	<u>4,884</u>	<u>5,775</u>	<u>667</u>	<u>551</u>	<u>11,877</u>
Balance at 31 December 2005	<u>4,868</u>	<u>5,898</u>	<u>846</u>	<u>615</u>	<u>12,227</u>
Balance at 30 June 2006	<u>4,796</u>	<u>5,984</u>	<u>816</u>	<u>659</u>	<u>12,255</u>

Bank borrowings are secured on properties as at 30 June 2006 to the value of RUB 866 (31 December 2005: RUB 1,257); see Note 22.

During six months ended 30 June 2006 the Group capitalized borrowing costs of RUB 24 (six months ended 30 June 2005: RUB 9) in the cost of the qualifying assets (see Note 3.11), annual capitalization rate was 8% (six months ended 30 June 2005: 2%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2006 cost of the land amounts to RUB 931 (31 December 2005: RUB 931).

6 Development costs

	<u>2006</u>	<u>2005</u>
<u>Cost</u>		
Balance at the beginning of the period	753	543
Additions	68	350
Disposals	(11)	(2)
Write-off (Note 27)	(4)	(138)
Balance at the end of the period	<u>806</u>	<u>753</u>
<u>Accumulated Amortisation</u>		
Balance at the beginning of the period	(14)	-
Amortisation charge	(9)	(14)
Disposals	-	-
Balance at the end of the period	<u>(23)</u>	<u>(14)</u>
<u>Net Book Value</u>		
Balance at 30 June 2006, 31 December 2005	<u>783</u>	<u>739</u>

	<u>30 June 2006</u>	<u>31 December 2005</u>
Expenditures related to establishing production of diesel engine	151	165
Improvement of diesel engine funded by internal financing	31	32
Development of diesel engine funded by government grant	170	154
Improvement of four-cylinder petrol engine	102	102
Development of new off-road vehicle (UAZ Patriot)	137	115
Improvement of some vehicle component parts	31	33
Development of new light commercial vehicle (UAZ-2360)	22	19
Improvement of vehicles and engines to satisfy Euro-2 requirements	66	66
Development of UAZ Hunter	3	-
Development of Rexton production process	21	14
Development of Fiat production process	7	-
Other	42	39
	<u>783</u>	<u>739</u>

7 Acquisitions and goodwill

Goodwill arose on the acquisitions of OAO UAZ (vehicle segment) and OAO ZMZ (engine segment) in 2003 and 2004, and is allocated to the Group's cash generating units as follows:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Vehicle segment	1,207	1,207
Engine segment	277	277
	<u>1,484</u>	<u>1,484</u>

No impairment loss has been recognised in respect of these goodwill items.

Acquisition of OAO "ZMA"

In addition to acquisitions described above, by 3 June 2005 the Company completed the acquisition of a new subsidiary OAO "ZMA" based in Naberezhnye Chelny, Republic of Tatarstan. As a result, the Company acquired 99.66% of OAO "ZMA" shares for RUB 1,403, which also gave rise to negative goodwill of RUB 52 which was immediately written-off to profit and loss account.

7 Acquisitions and goodwill (continued)

The acquired business contributed revenues of RUB 259 and net profit of RUB 10 to the Group for the period from 3 June to 30 June 2005.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	1,398
Direct costs relating to the acquisition	5
Total purchase consideration	<u>1,403</u>
Share of net asset acquired (99.66%)	<u>(1,455)</u>
Excess of acquired share in the net identifiable assets over purchase consideration	<u>(52)</u>

The assets and liabilities arising from the acquisition are as follows:

	Note	<u>Fair value</u>
Cash and cash equivalents		80
Property, plant and equipment	5	1,756
Trademarks and licences	8	40
Other non-current assets		41
Inventories		272
Accounts receivable		510
Trade and other accounts payable		(435)
Short-term borrowings		(504)
Taxes payable		(32)
Warranty and other provisions	21	(33)
Long-term borrowings		(70)
Government grant	19	(12)
Long term tax liabilities		(16)
Net deferred tax liabilities	29	<u>(137)</u>
Net identifiable assets		<u>1,460</u>
Minority interests (0.34%)		<u>(5)</u>
Net identifiable assets acquired		<u>1,455</u>

Management considers impractical to disclose the carrying amounts of the net assets of OAO "ZMA" immediately before the combination, nor the acquiree's revenue and net profit for the period as though the acquisition was effected at the beginning of the reporting period due to the fact that the entity did not maintain IFRS compliant financial statements prior to the acquisition by the Company.

Increase in holding stake of OAO "ZMZ"

The holding stake in OAO "ZMZ" was further increased by step acquisition from 72% up to 75% of total share capital in 2005.

	<u>2005</u>
Step increase in % of ownership	2.92%
Purchase consideration	160
Share of net assets acquired from minority shareholders	<u>(165)</u>
Excess of acquired share in the net identifiable assets over purchase consideration (Note 27)	<u>(5)</u>

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.

7 Acquisitions and goodwill (continued)

Impairment tests for goodwill

The Group tested its goodwill for impairment at 31 December 2005. 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% 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 19% for vehicle segment and 18.9% for engine segment 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.

No indications exist that an impairment provision is necessary at 30 June 2006.

8 Other intangible assets

Intangible assets comprise of the following:

	<u>Trade marks</u>	<u>Licences</u>	<u>Total</u>
<u>Cost</u>			
Balance at 31 December 2004	-	71	71
Acquired through business combination (Note 7)	40	-	40
Additions	-	34	34
Disposals	-	(9)	(9)
Balance at 30 June 2005	40	96	136
Balance at 31 December 2005	40	108	148
Additions	22	8	30
Disposals	(40)	-	(40)
Balance at 30 June 2006	22	116	138
<u>Accumulated Amortisation</u>			
Balance at 31 December 2004	-	(24)	(24)
Amortisation expense for six months of 2005	(1)	(10)	(11)
Disposals	-	9	9
Balance at 30 June 2005	(1)	(25)	(26)
Balance at 31 December 2005	(8)	(44)	(52)
Amortisation expense for six months of 2006	(2)	(17)	(19)
Disposals	8	-	8
Balance at 30 June 2006	(2)	(61)	(63)
<u>Net Book Value</u>			
Balance at 30 June 2005	39	71	110
Balance at 31 December 2005	32	64	96
Balance at 30 June 2006	20	55	75

9 Financial assets

Non-current financial assets are financial assets available for sale, which comprise principally non-marketable equity securities which are not publicly traded or listed on the Russian stock exchange and, 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 discounted operating cash flows of the investee. The carrying value of these assets is approximately equal to their fair value.

10 Other non-current assets

Other non-current assets consist of the following:

	30 June 2006	31 December 2005
Advances for equipment	276	135
Advances for construction in progress	53	41
Other	49	59
	378	235

11 Inventories

Inventories consist of the following:

	30 June 2006	31 December 2005
Raw materials	2,319	2,972
Less: obsolescence provision	(56)	(49)
	<u>2,263</u>	<u>2,923</u>
Work in progress	613	640
Less: NRV provision	-	-
	<u>613</u>	<u>640</u>
Finished products	2,280	1,139
Less: NRV provision	-	-
	<u>2,280</u>	<u>1,139</u>
	<u>5,156</u>	<u>4,702</u>

Inventories of RUB 532 (31 December 2005: RUB 833) have been pledged as security for borrowings, see Note 22.

12 Accounts receivable and prepayments

	30 June 2006	31 December 2005
Trade receivables	3,095	2,511
Less: provision for impairment	(61)	(48)
	<u>3,034</u>	<u>2,463</u>
Other receivables	516	335
Less: provision for impairment	(8)	(7)
	<u>508</u>	<u>328</u>
Advances to suppliers	655	395
Less: provision for impairment	(13)	(12)
	<u>642</u>	<u>383</u>
VAT recoverable, net	229	246
Prepayments	41	11
	<u>4,454</u>	<u>3,431</u>

Included within net VAT recoverable is RUB 220 of deferred VAT payable (31 December 2005: RUB 515).

Foreign currency denominated net trade receivables:

	30 June 2006	31 December 2005
Currency		
Euro	24	39
US\$	278	377
	<u>302</u>	<u>416</u>

The carrying value of accounts receivable and prepayments as at 30 June 2006 and 31 December 2005 is approximately equal to their fair value.

Non-cash settlements

In the six months ended 30 June 2006 RUB 648 (approximately 5% of total sales) of the Group's settlements of accounts receivable were settled by means of mutual settlements and RUB 20 by means of third-party bills of exchange. In the six months ended 30 June 2005 RUB 364 (approximately 3% of total sales) of the Group's settlements of accounts receivable were settled by means of mutual settlements and RUB 218 (approximately 2% of total sales) by means of third-party bills of exchange.

13 Other current assets

Other current assets are represented mainly by bills of exchange of third parties with a turnover period of less than a year and are classified as short-term investments. They have been purchased for further settlements for supply of components.

14 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	30 June 2006	31 December 2005
Cash on hand and balances with banks	1,118	567
Letters of credit	150	88
Cash deposits	357	570
Short-term bank promissory notes	25	71
	1,650	1,296

Cash deposits of RUB 357 held by the Group at 30 June 2006 bear interest of 4% per annum (31 December 2005: RUB 570 bear interest of 6% per annum). Cash balances with banks of RUB 678 held by the Group at 30 June 2006 bear interest of 5% per annum (31 December 2005: RUB 321 bear interest of 5% per annum). Cash and cash equivalents of RUB 615 (31 December 2005: RUB 405) held by the Group are not interest bearing. Letters of credit were established for suppliers of equipment.

Foreign currency denominated cash balances consist of the following:

	30 June 2006	31 December 2005
Currency		
Euro	53	29
US\$	65	71
Japanese yen	33	-
	151	100

The carrying value of cash and cash equivalents as at 30 June 2006 and 31 December 2005 is approximately equal their fair value.

15 Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital, RUB	Share premium, RUB	Additional paid- in capital, RUB
At 31 December 2005	34,270	530	6,019	1,438
At 30 June 2006	34,270	530	6,019	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2005: 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 2005: RUB 428).

On 10 September 2004 the Federal Commission of Securities Market registered the issue of 7,726 thousand ordinary shares of the Company at a nominal value of 12.5 roubles per share. The issue started in June 2004 in the form of a rights issue at 190.71 roubles per share. Transaction costs incurred of RUB 2 were deducted from the proceeds.

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 six months ended 30 June 2006, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUB 150 and the closing balance of the accumulated profit including the current reporting period net statutory profit totalled to RUB 4,046. Management believes that the accumulated profit including the current year net statutory profit is distributable.

15 Shareholders' equity (continued)

In December 2004, interim dividends for the nine months ended 30 September 2004 were declared in the amount of RUB 298, or 10 roubles per ordinary share. In June 2005, the General Shareholders' Meeting decided to pay dividends of RUB 326 for 2004, or 11 roubles per ordinary share, in addition to the already accrued interim dividends for the nine months ended 30 September 2004.

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

On 13 January 2005 the Federal Commission of Securities Market registered the prospectus for the issue of 4,470 thousand ordinary shares of the Company at a nominal value of 12.5 roubles per share (which is approximately 15% of the Company's share capital).

In April 2005, the Company started an initial public offering of its shares in the Russian stock market. As part of this offering, Newdeal Investments Ltd. provided 8,940 thousand ordinary registered shares (amounting to approximately 30% of the Company's share capital) for the initial public offering at a price of US\$ 15.10 per share or 418 roubles converted using exchange rate at 22 April 2005. The principal shareholder invested into the Company approximately 50% of the net proceeds from the sale of its shares by purchasing newly-issued shares of the Company. The placement of all the newly-issued shares was completed in July 2005.

On 30 August 2005 the Federal Service for Financial Markets approved the results of the issue of 4,470 thousand ordinary shares. As at 31 December 2005 the Company has received RUB 1,816 from the share issue net of transaction costs of RUB 31. Newdeal Investments' equity stake in the Company's post-offering share capital was equal to 63%. In February 2006 5% of it was sold on the market, reducing Newdeal Investments' share to 58%.

16 Long-term borrowings

In January 2004 the Company issued rouble-denominated non-convertible bonds for RUB 1,500 payable in six years time with a coupon payable every six months of 11.25% per annum. Transaction costs incurred on the bond placement of RUB 16 were deducted from proceeds received. The funds received were lent on to subsidiaries at similar terms. Commencing January 2007, management has the right to change the interest rate of the non-convertible bonds, and that upon doing so, bond holders will have the right to put the bond back to the Company.

During the year ended 31 December 2004 the Group received a Euro denominated loan from Sberbank amounting to RUB 297 with an effective floating interest rate of Euro LIBOR + 4.35% for purchase of equipment for a painting workshop. As of 30 June 2006 the outstanding long-term part of this loan amounted to RUB 148. (31 December 2005: RUB 179). The loan is repayable in nine equal semi-annual instalments starting from July 2005.

Long-term debt is repayable as follows:

	30 June 2006	31 December 2005
1 to 2 years	87	89
2 to 3 years	86	1,545
3 to 4 years	1,541	60
4 to 5 years	26	8
More 5 years	21	
	1,761	1,702

As at 30 June 2006 and 31 December 2005 the carrying value of these liabilities approximates their fair value.

17 Taxes payable

Current taxes payable

Current taxes payable comprise the following:

	30 June 2006	31 December 2005
Current portion of taxes restructured to long-term	32	178
Value-added tax	140	97
Payments to the Pension Fund and other social taxes	71	54
Personal income tax	28	40
Income tax	144	52
Property tax	15	12
Tax penalties and interest	23	9
Other taxes	68	34
Total	521	476

The Group had no tax liabilities past due at 30 June 2006 and 31 December 2005.

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 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:

	30 June 2006	31 December 2005
Current	32	178
1 to 2 years	149	151
2 to 3 years	2	4
3 to 4 years	2	2
Total restructured	185	335
Less: current portion of taxes payable	(32)	(178)
Long-term portion of restructured taxes	153	157

In the event that 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 30 June 2006. Management is confident that these companies will continue to abide by the terms of the restructuring.

As at 30 June 2006 fair value of these liabilities was estimated to be RUB 174 (31 December 2005: RUB 172) using a current market interest rate of 11.25% (31 December 2005: 11.25%).

18 Post-retirement benefits

OAO "ZMZ" and its subsidiaries provide post employment benefits in the form of a lump sum payment on retirement and quarterly cash payments to their retirees via the non-state pension fund "Stalfond". 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 2005.

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

	30 June	31 December
	2006	2005
Present value of unfunded obligations	178	189
Unrecognized net actuarial loss	(36)	(42)
Unrecognised past service cost	(100)	(113)
Liability in the balance sheet	42	34

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

	30 June	31 December
	2006	2005
Recognised actuarial loss	1	-
Current service cost	5	12
Amortisation of past service cost	3	8
Interest cost	7	13
Settlement (gain)/loss	(6)	-
Total included in labour expenses (Note 28)	10	33

Plan deficit is 100% unfunded. The experience adjustment is immaterial for the reporting purposes. Deferred past service cost will be amortised over the vesting period of 12 years.

Movements in the net liability recognised in the balance sheet are as follows:

	30 June	31 December
	2006	2005
At the beginning of the period	34	18
Total expense as above	10	33
Contributions paid	(2)	(17)
Net liability at the end of the period	42	34

The principal actuarial assumptions used were as follows:

	30 June	31 December
	2006	2005
Staff turnover rate	3%	3%
Interest rate	9%	9%
Salary growth	8%	8%

19 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 30 June 2006 the Group had received RUB 330 of this grant. RUB 149 was used for the purchase of new equipment required for research and development works, RUB 170 was spent on the development of the diesel engine and RUB 11 was spent on miscellaneous purposes and capitalised as development costs in the balance sheet as at 30 June 2006. 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 period the Group commenced depreciation of the non-current assets acquired and amortization of deferred income.

19 Deferred income on government grant and other non-current liabilities (continued)

At the beginning of 2006 Management was in process of renegotiating the conditions attached to the grant with the government. Revised terms would 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 would be reduced to RUB 391. Management was successful in renegotiating these terms, and that the Group will be able to comply with the new terms of the grant and will not need to pay a fine.

The Group acquired through business combination a government grant from Research and Development Fund of Tatarstan Republic of RUB 11 in 2005. The grant was obtained to finance construction of new painting line at OAO “ZMA”, and is amortised to the statement of income on a straight line basis over the useful life of underlying asset.

20 Advances received and other payables

	30 June 2006	31 December 2005
Dividends payable	494	29
Advances from customers	569	229
Salaries payable	220	231
Vacation accrual	157	152
Bonus accrual	58	105
Payable for bills	70	74
Other	128	131
Total	1,696	951

Non-cash settlements

In the six months ended 30 June 2006 RUB 6 of the Group’s settlements of accounts payable and accrued charges were settled by means of third-party bills of exchange and RUB 648 (approximately 6% of total purchases) by means of mutual settlements with suppliers. In the six months ended 30 June 2005 RUB 233 (approximately 3% of total purchases) of the Group’s settlements of accounts payable and accrued charges were settled by means of third-party bills of exchange and RUB 364 (approximately 5% of total purchases) by means of mutual settlements.

21 Warranty and other provisions

During 6 months 2006 and 2005 the following movements of the warranty provision took place:

	Warranty	Other claims	Total
Balance at 31 December 2004	92	7	99
Acquired through business combination	22	11	33
Additional provision	75	-	75
Utilised in the six months of 2005	(63)	-	(63)
Reversal of provision	-	(3)	(3)
Balance at 30 June 2005	126	15	141
Balance at 31 December 2005	125	5	130
Additional provision	55	11	66
Utilised in the six months of 2006	(55)	-	(55)
Reversal of provision	-	-	-
Balance at 30 June 2006	125	16	141

The Group gives one-year warranty on ZMZ and UAZ products as well as 3-year warranty on ZMA vehicles, and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RUB 55 (31 December 2005: RUB 125) was recognised at 30 June 2006 for expected warranty claims based on past experience of the level of repairs and replacements. An additional provision has been recognized for Rexton vehicles based on expected costs not covered by the supplier.

22 Short-term borrowings

As at 30 June 2006 and 31 December 2005 short-term borrowings consist of bank loans amounting to RUB 1,809 and RUB 1,750 respectively. That amount included short-term part of long-term loans of RUB 59 (31 December 2005: RUB 174); and interest accrued on loans amounting to RUB 89 (31 December 2005: RUB 19). Fair value of short-term borrowings does not materially differ from its carrying value.

As at 30 June 2006 short-term debt comprises a total of rouble-denominated loans at effective fixed interest rates of 3-6% of RUB 732, 7-9% of RUB 1 006 and 11% of RUB 71. As at 31 December 2005 short-term debt comprises a total of rouble-denominated loans at effective fixed interest rates 3-5% of RUB 53, 11% of RUB 179 and 6-9% of RUB 1,518.

As at 30 June 2006 and 31 December 2005 loans for RUB 3,226 and RUB 1,897 respectively, inclusive of long-term borrowing from Sberbank (Note 16), are guaranteed by collateral of inventories and equipment; see Notes 5 and 11.

23 Sales

Sales were as follows:

	Six months ended 30 June 2006	Six months ended 30 June 2005
Vehicles	8,651	5,424
Engines	3,885	3,461
Automotive components	1,775	1,609
Assembly kits	28	37
Other sales	697	544
	15,036	11,075

24 Cost of sales

The components of cost of sales were as follows:

	Six months ended 30 June 2006	Six months ended 30 June 2005
Materials and components used	9,638	6,303
Labour costs	1,853	1,545
Other production costs	655	493
Depreciation	362	295
Change in finished goods and work in progress	(1,114)	(88)
	11,394	8,548

25 Distribution costs

Distribution costs comprise:

	Six months ended 30 June 2006	Six months ended 30 June 2005
Transportation	334	237
Materials	72	56
Advertising	123	41
Labour costs	25	24
Check and inspection performed by dealers	13	3
Other	31	14
	598	375

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26 General and administrative expenses

General and administrative expenses comprise:

	Six months ended 30 June 2006	Six months ended 30 June 2005
Labour costs	777	630
Taxes other than income	120	83
Insurance	28	17
Services provided by third parties	153	71
Depreciation	63	52
Repairs and maintenance	22	9
Materials	41	37
Training costs	14	14
Transportation	20	20
Provision for impairment of receivables	15	(4)
Fire brigade and security costs	42	47
Other	116	107
	1,411	1,083

27 Other operating expenses/ (income) - net

The components of other operating expenses were as follows:

	Six months ended 30 June 2006	Six months ended 30 June 2005
Social expenses	33	22
Charity	26	29
Provisions and settlements of claims and similar charges	-	(3)
Gain on disposal of materials	(39)	(2)
Write-off of payables	-	(1)
Gain on disposals of property, plant and equipment	(1)	(17)
Research and development expenses	4	12
Excess of acquired share over purchase consideration (Note 7)	-	(57)
Other	31	(15)
	54	(32)

28 Expenses by nature

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

	Six months ended 30 June 2006	Six months ended 30 June 2005
Cost of sales	1,853	1,545
Administrative expenses	777	630
Distribution costs	25	24
	2,655	2,199

Labour expenses comprise wages, salaries, bonuses, payroll taxes, vacation and salary accruals.

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

	Six months ended 30 June 2006	Six months ended 30 June 2005
Cost of sales	362	295
Administrative expenses	63	52
	425	347

28 Expenses by nature (continued)

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

	Six months ended 30 June 2006	Six months ended 30 June 2005
Cost of sales	9,638	6,303
Distribution costs	72	56
Administrative expenses	41	37
	9,751	6,396

29 Income tax expense

	Six months ended 30 June 2006	Six months ended 30 June 2005
Income tax expense – current	378	238
Deferred tax expense/(credit) – origination and reversal of temporary differences	57	(44)
Income tax expense	435	194

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:

	Six months ended 30 June 2006	Six months ended 30 June 2005
Income before taxation	1,440	927
Theoretical tax charge at the statutory rate of 24%	346	222
Tax effect of items which are not deductible or assessable for taxation purposes:		
Charity	6	
Tax penalties and interest	10	8
Gain on negative goodwill write-off	-	(20)
Other	73	(16)
Income tax expense	435	194

The effective tax rate was 30% as of 30 June 2006 (21% 30 June 2005)

29 Income tax expense (continued)

In general, during the six months ended 30 June 2006 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 30 June 2006 and 31 December 2005.

	31 December 2004	Acquired through business combination	Movement in the period	30 June 2005	31 December 2005	Movement in the period	30 June 2006
Tax effects of deductible temporary differences:							
Accounts receivable	25	12	9	46	21	(13)	8
Inventories	(15)	2	1	(12)	-	-	-
Financial assets	1	45	(2)	44	-	-	-
Pension liabilities	4	-	2	6	8	(8)	-
Accounts payable and provisions	67	5	3	75	97	23	120
Other non-current assets	-	(8)	18	10	39	5	44
	82	56	31	169	165	7	172
Tax effects of taxable temporary differences:							
Property, plant and equipment	(1,244)	(193)	13	(1,424)	(1,424)	(69)	(1,493)
Inventories					(9)	9	-
Debts liabilities					-	(4)	(4)
	(1,244)	(193)	13	(1,424)	(1,433)	(64)	(1,497)
Total net deferred tax (liability)/assets	(1,162)	(137)	44	(1,255)	(1,268)	(57)	(1,325)

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.

Deferred income tax liabilities of RUB 500 (31 December 2005: RUB 494) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled RUB 5,560 at 30 June 2006 (31 December 2005: RUB 5,495).

30 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.

	Six months ended 30 June 2006	Six months ended 30 June 2005
Weighted average number of ordinary shares in issue (thousands)	34,270	29,800
Income attributable to equity holders of the Company	699	646
Basic/diluted earnings per share (in roubles per share)	20.40	21.68

31 Segment information

Primary reporting format – business segments

At 30 June 2006 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 six months ended and balances at 30 June 2006 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	9,864	5,598		15,462
Inter-segmental sales	(26)	(400)		(426)
Net sales	9,838	5,198		15,036
Segment results / operating income	691	888		1,579
Interest expense			(167)	(167)
Gain on restructuring of assets and liabilities			10	10
Net foreign exchange loss			18	18
Income tax expense			(435)	(435)
Income for the period				1,005
Segment assets	15,660	8,906	1,742	26,308
Segment liabilities	3,733	1,689	5,581	11,003
Capital expenditures	524	170	-	694
Depreciation	282	143	-	425
Non-cash gains other than depreciation	(23)	12	-	(11)

Some comparative balances at 31 December 2005 were reclassified for the purposes of consistency with current reporting period. The segment results for the six months ended 30 June 2005 and balances at 31 December 2005 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	6,399	4,841	-	11,240
Inter-segmental sales	(6)	(159)	-	(165)
Net sales	6,393	4,682	-	11,075
Segment results / operating income	211	890	-	1,101
Interest expense			(191)	(191)
Net foreign exchange gain			17	17
Income tax expense			(194)	(194)
Income for the period				733
Segment assets	13,848	8,364	2,057	24,269
Segment liabilities	3,315	1,366	4,808	9,489
Capital expenditures	234	392	-	626
Depreciation	241	106	-	347
Non-cash gains other than depreciation	(68)	(18)	-	(86)

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

31 Segment information (continued)

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	Six months ended 30 June 2006	Six months ended 30 June 2005
Domestic	13,559	9,631
Export to CIS	1,237	1,261
Export to other countries	285	183
Total	15,081	11,075

All assets of the Group are located in the Russian Federation. All capital expenditures as of and for the 6 months ended 30 June 2006 were made in the Russian Federation.

32 Contingencies, commitments and operating risks

32.1 Contractual commitments and guarantees

As at 30 June 2006 the Group had contractual commitments of RUB 48 for the purchase of property, plant and equipment from third parties (31 December 2005: RUB 265).

As at 30 June 2006 one subsidiary of the Group, OAO "UAZ", had contractual commitment of RUB 95 (equivalent of 3,5 million US dollars) to deliver assembly kits to a customer in Vietnam. (31 December 2005: RUB 4,747)

32.2 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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

Before the acquisition by the Group OAO "ZMA" was the subject of a tax audit. As a result of this audit tax authorities raised a claim against this entity for additional taxes, penalties and late payment interest totalling RUB 22. This assessment relates primarily to income tax. Management is defending its position through the courts. At the date of issuing these financial statements this court case has not been resolved. Management believes that the Group's position can be sustained in the future. Therefore, no provision for this litigation or tax assessment has been recorded in these consolidated financial statements.

As at 30 June 2006 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

32.3 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.

32 Contingencies, commitments and operating risks (continued)

The engine business segment sells 65% (2005: 68%) 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.

32.4 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.

32.5 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.

32.6 Legal proceedings

During the six months ended 30 June 2006 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 interim financial statements.

32.7 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.

33 Principal subsidiaries

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

Entity	Country of incorporation	Activity	30 June 2006		31 December 2005	
			% of total share capital	% of ordinary shares	% of total share capital	% of ordinary shares
OAO "Ulyanovsky Avtomobilny Zavod"	Russia	Manufacture and sale of passenger automobiles, light trucks and minibuses	66	68	66	68
OAO "Zavolzhskiy Motor Works"	Russia	Manufacture and sale of engines for passenger automobiles, trucks and buses	75	88	75	88
OAO "Small Car Plant"	Russia	Manufacture and sale of passenger automobiles	100	100	100	100
OOO «Severstalavto»	Russia	Auto trading	100	100	-	-
OOO "UAZ-Metallurgia"	Russia	Manufacture and sale of metals products	66	-	66	-
OOO "UAZ-Autotrans"	Russia	Transport services	66	-	66	-
OOO "UAZ-Tekhinstrument"	Russia	Manufacture and sale of tooling equipment	66	-	66	-
OOO "ZMZ-Podshipniki Skolzheniya"	Russia	Manufacture and sale of bearings	100	-	100	-
OOO "RosALit"	Russia	Manufacture and sale of metals products	75	-	75	-
OOO "Zavod "Metalloform"	Russia	Manufacture and sale of metals products	75	-	75	-
OOO "Specinstrument"	Russia	Manufacture and sale of tooling equipment	75	-	75	-
OOO "ZMZ-Transservice"	Russia	Transport services	75	-	75	-

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 - Podshipniki Skolzheniya", OOO "ZMZ - Transservice", OOO "UAZ-Metallurgia", OOO "UAZ-Autotrans", OOO "UAZ-Tekhinstrument", OOO "RosALit", OOO "Zavod "Metalloform" OOO "Specinstrument" represent stockholders' stakes, not number of shares held.

During the year 2005 OAO "ZMZ" sold its share of 85% in OOO "Podshipniki Skolzheniya" to the Company. Respective portion of minority interest share of RUB 12 was transferred to retained earnings attributable to the Group.

34 Financial risks

34.1 Credit risk

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

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

34.2 Foreign exchange risk

The Group's manufacturing operation is in the Russian Federation with limited imports of raw materials and components. Revenue from export of the Group's automotive production is 10% (for six months ended 30 June 2005: 13%) of total revenue, most of these sales are denominated in foreign currency. Net foreign currency receivables amount to RUB 302 (31 December 2005: RUB 416). Hence, the Group is exposed to the related foreign exchange risk primarily with respect to U.S. Dollar. However, management believes that foreign exchange risk is not significant.

34 Financial risks (continued)

34.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing borrowings. The Group has cash deposits bearing the interest rate of 4% (see Note 14). The Group has mostly fixed rate interest bearing borrowings, however the Group has a long term loan with floating interest rate of Euro LIBOR (see Notes 16 and 22).

34.4 Fair values

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

At 30 June 2006 and 31 December 2005 the fair value of financial liabilities, which is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments with the same remaining maturity and were disclosed in relevant notes to these consolidated interim financial statements.

At 30 June 2006 and 31 December 2005 the carrying value of financial assets and cash deposits approximates their fair value.

35 Post balance sheet events

In July 2006 Severstal-Auto and Fiat Group came into agreement about production of commercial vehicle Fiat Ducato. The production is going to start at the end of 2007 in Elabuga (Republic of Tatarstan). Planned production capacity of the new business is 75,000 cars per year.

36 Seasonality

The Group's sales are not subject to significant seasonal fluctuations during the year.