SEVERSTAL-AUTO GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AND REVIEW REPORT

30 June 2005

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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 2005 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”.

PricewaterhouseCoopers

Moscow, Russian Federation
29 September 2005

(in millions of Russian Roubles)

	Note	RUB million		Supplementary information US$ million (Note 2)	
		At 30 June 2005	**At 31 December 2004**	**At 30 June 2005**	**At 31 December 2004**
ASSETS					
Non-current assets:					
Property, plant and equipment	5	11,877	9,854	415	355
Development costs	6	795	543	28	20
Goodwill	7	1,484	1,484	52	53
Intangible assets	8	110	47	4	2
Financial assets	9	67	83	2	3
Other non-current assets	10	232	185	8	7
Total non-current assets		**14,565**	**12,196**	**509**	**440**
Current assets:					
Inventories	11	3,698	3,448	129	124
Accounts receivable and prepayments	12	3,358	2,145	117	77
Other current assets	13	73	53	3	2
Cash and cash equivalents	14	1,286	982	44	35
Total current assets		**8,415**	**6,628**	**293**	**238**
Total assets		**22,980**	**18,824**	**802**	**678**
LIABILITIES AND EQUITY					
Equity:					
Capital and reserves attributable to the Company's equity holders:	15				
Share capital		474	474	17	17
Share premium		4,259	4,259	149	153
Additional paid-in capital		1,438	1,438	50	52
Retained earnings		2,530	2,210	88	80
Total capital and reserves attributable to the Company's equity holders		**8,701**	**8,381**	**304**	**302**
Minority interest		3,081	3,154	107	114
Total equity		**11,782**	**11,535**	**411**	**416**
Non-current liabilities:					
Long-term borrowings	16	1,800	1,782	62	64
Long-term taxes payable	17	252	286	9	10
Post-retirement benefit obligation	18	23	18	1	1
Deferred income on government grant	19	303	291	11	10
Deferred income tax liabilities	29	1,255	1,162	44	42
Total non-current liabilities		**3,633**	**3,539**	**127**	**127**
Current liabilities:					
Accounts payable		2,021	1,448	70	52
Advances received and other payables	20	1,198	1,001	42	36
Taxes payable	17	454	372	16	13
Warranty and other provisions	21	141	99	5	4
Short-term borrowings	22	2,136	830	75	30
Prepayment from shareholders for unregistered shares	15	1,615	-	56	-
Total current liabilities		**7,565**	**3,750**	**264**	**135**
Total liabilities		**11,198**	**7,289**	**391**	**262**
Total liabilities and equity		**22,980**	**18,824**	**802**	**678**

General Director
V.A. Shvetsov

Chief Financial Officer
N.A. Sobolev

29 September 2005

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

(in millions of Russian Roubles)

		RUB million		Supplementary information US$ million (Note 2)	
		Six months ended 30 June		Six months ended 30 June	
	Note	**2005**	**restated 2004**	**2005**	**restated 2004**
Sales	23	11,075	11,261	396	391
Cost of sales	24	(8,548)	(8,564)	(306)	(298)
Gross profit		**2,527**	**2,697**	**90**	**93**
Distribution costs	25	(375)	(383)	(13)	(13)
General and administrative expenses	26	(1,083)	(981)	(39)	(34)
Other operating income/(expenses)	27	32	(81)	1	(3)
Operating income		**1,101**	**1,252**	**39**	**43**
Interest expense		(191)	(227)	(7)	(8)
Net foreign exchange gain /(loss)		17	(11)	1	-
Income before taxation		**927**	**1,014**	**33**	**35**
Income tax expense	29	(194)	(319)	(7)	(11)
Income for the period		**733**	**695**	**26**	**24**
Attributable to:					
Equity holders of the Company		646	547	23	19
Minority interest		87	148	3	5
		733	**695**	**26**	**24**
Weighted average number of shares outstanding during the period (thousands)	30	29,800	22,074	29,800	22,074
Earnings per share (in RUB and US$) – basic and fully diluted	30	21.68	24.78	0.77	0.86

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

(in millions of Russian Roubles)

		RUB million		Supplementary information US$ million (Note 2)	
		Six months ended 30 June		Six months ended 30 June	
	Note	2005	restated 2004	2005	restated 2004
Cash flows from operating activities					
Income before taxation		**927**	**1,014**	**33**	**35**
Adjustments for:					
Depreciation	5	347	287	12	10
Provision for impairment of receivables	12	(4)	7	-	-
Excess of acquired share of net assets over purchase consideration	7	(57)	(24)	(2)	(1)
Interest expense		191	227	7	8
Provisions movements		8	38	-	1
Retirement benefit obligation	18	5	18	-	1
Fair value losses on financial assets at fair value through profit or loss		-	10	-	-
(Gain)/loss on sale of property, plant and equipment	27	(17)	13	(1)	-
Operating cash flows before working capital changes		**1,400**	**1,590**	**49**	**54**
Increase in accounts receivable and prepayments		(689)	(536)	(25)	(18)
Decrease/(increase) in inventories		21	(339)	1	(12)
(Increase)/decrease in other current assets		(20)	23	(1)	1
Increase/(decrease) in accounts payable, advances received and other payables		292	(308)	10	(10)
Increase/(decrease) in taxes payable, other than income tax		88	(193)	3	(7)
Cash provided from operations		**1,092**	**237**	**37**	**8**
Income tax paid		(306)	(117)	(11)	(4)
Interest paid		(158)	(144)	(6)	(5)
Net cash provided from/(used in) operating activities		**628**	**(24)**	**20**	**(1)**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(625)	(462)	(22)	(16)
Proceeds from the sale of property, plant and equipment		19	6	1	-
Development costs capitalised	6	(252)	(39)	(9)	(1)
Increase in stake in subsidiary	7	(160)	(29)	(6)	(1)
Acquisition of subsidiary, net of cash acquired	7	(1,323)	-	(47)	-
Purchase of other non-current assets		(31)	(11)	(1)	-
Proceeds from sale of other non-current assets		17	-	1	-
Net cash used in investing activities:		**(2,355)**	**(535)**	**(83)**	**(18)**
Cash flows from financing activities:					
Proceeds from borrowings		5,285	5,708	189	198
Repayment of borrowings and long-term taxes payable		(4,587)	(5,758)	(164)	(200)
Proceeds from parent company share issue	15	1,615	1,272	58	44
Dividends paid		(282)	(319)	(10)	(11)
Net cash provided from financing activities		**2,031**	**903**	**73**	**31**
Net increase in cash and cash equivalents		**304**	**344**	**10**	**12**
Cash and cash equivalents at the beginning of the period	14	**982**	**595**	**35**	**20**
Cash and cash equivalents at the end of the period	14	**1,286**	**939**	**45**	**32**

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

(in millions of Russian Roubles)

	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 2003		**377**	**2,885**	**1,438**	**1,527**	**6,227**	**3,153**	**9,380**
Change in accounting policy	3.2	-	-	-	14	14	6	20
Restated balance at 31 December 2003		**377**	**2,885**	**1,438**	**1,541**	**6,241**	**3,159**	**9,400**
Income for the six months		-	-	-	547	547	148	695
Dividends	15	-	-	-	(375)	(375)	-	(375)
Share of net assets acquired from minority shareholders	7	-	-	-	-	-	(52)	(52)
Balance at 30 June 2004		**377**	**2,885**	**1,438**	**1,713**	**6,413**	**3,255**	**9,668**
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
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**

	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 31 December 2004	**17**	**153**	**52**	**80**	**302**	**114**	**416**
Balance at 30 June 2005	**17**	**149**	**50**	**88**	**304**	**107**	**411**

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 87.69% of the Company's share capital. At the balance sheet date Alexey Mordashov and Vadim Shvetsov controlled, respectively, 85% and 15% of the share capital of Newdeal Investments Limited. See Note 15 for subsequent reduction.

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. OAO "ZMA" produces Class A cars branded as the OKA. Please refer to Note 7 for greater detail.

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 29 September 2005.

2 Basis of presentation of the financial statements

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 as disclosed in the accounting policies below. For example, financial assets 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 3.22.

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.

(in millions of Russian Roubles)

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 2005 of RUB 28.67 = US$1 (at 31 December 2004 of RUB 27.75 = US$1). The statement of income and cash flow statement has been translated at the average exchange rates during the six months ended 30 June 2005 and 30 June 2004. The difference was recognised in equity. The US$ 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. 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 Change in accounting policy

From 1 July 2004 the Company changed its accounting policy regarding interest on borrowings. Borrowings costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset.

Management believes that capitalisation of borrowings costs within qualifying assets results in the financial statements providing more reliable and relevant information about the effects of transactions.

The change in accounting policy resulted in:

	Year ended 31 December 2004	Six months ended 30 June 2004	Year ended 31 December 2003
Increase in property, plant and equipment	46	32	26
Increase in retained earnings	25	17	14
Increase in equity attributable to minority	10	8	6
Increase in deferred income tax liabilities	11	7	6
Decrease in interest expenses	(20)	(6)	(26)
Increase in deferred income tax expenses	5	1	6
Increase in minority share of profit for the period	4	2	6
Increase in basic and diluted earnings per share	0.45	0.14	0.63

3.3 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.

(in millions of Russian Roubles)

3 Summary of significant accounting policies (continued)

3.4 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 unrealised gains on transactions between the Group's companies are eliminated. Unrealised 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.

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 3.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised 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.

3.5 Property, plant and equipment

Property, plant and equipment is recorded at purchase or construction cost. Before 31 December 2002 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 recognised as an expense (impairment loss) in the consolidated statement of income. 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 recoverable amount.

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

	Number of years
Buildings	35 to 45
Plant and machinery	15 to 25
Other	5 to 12

3 Summary of significant accounting policies (continued)

3.5 Property, plant and equipment (continued)

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 is not depreciated.

3.6 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 use 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. Development costs with indefinite useful life are tested for impairment at each balance sheet date.

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. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives, which are as follows:

	Number of years
Computer software licenses	3 to 5
Trademarks and licences	3 to 10

3.7 Investments

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. These financial assets are classified in this category if acquired principally for the purpose of selling or if so designated by management. Assets in this category are classified as non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. 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)

3.7 Investments (continued)

All purchases and sales of financial assets at fair value through profit or loss 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 income in the period in which they arise.

3.8 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.

3.9 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.

3.10 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.

3.11 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.

3.12 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. This accounting policy has been applied in 2004 retrospectively (Note 3.2).

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)

3.13 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.

3.14 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.

3.15 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.

One subsidiary of the Group, OAO “ZMZ”, operates a voluntary pension scheme, which is a defined benefit plan. 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 compensation.

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 less the fair value of plan assets, 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)

3.16 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.

3.17 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.

3.18 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.

3.19 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.

3.20 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 year.

3.21 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.

3.22 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)

3.22 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 year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether the goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.6. 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 2005 the carrying value of buildings would have been RUB 109 higher or RUB 163 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 2005 the carrying value of plant and equipment would have been RUB 177 higher or RUB 271 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.

Capitalisation of development costs

The Group capitalises development costs in accordance with the accounting policy stated in Note 3.6. 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 30 June 2005 of the degree of certainty attached to the flow of future economic benefits are not fulfilled, all development costs which do not meet recognition criteria would reduce the operating income by RUB 795 at 30 June 2005.

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 2005 had been 50% higher than actual, the Group would need to reduce its income attributable to the equity holders of the Company by RUB 57.

3.23 Comparatives

The Group previously disclosed advances paid to suppliers of property, plant and equipment within 'property, plant and equipment'. Management believes that their inclusion in 'other non-current assets' is a fairer representation of these advances.

(in millions of Russian Roubles)

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 or exercise 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

Severstal group companies are controlled by the same ultimate controlling party as the Company.

Balances with related parties of the Group as at 30 June 2005 and 31 December 2004 consist of the following:

	Newdeal Investments Limited	**Other Severstal group companies**	**Total**
Nature of the relationship	Parent company	Significant influence of management	
Balances			
At 30 June 2005			
Accounts receivable and prepayments	-	18	18
Notes receivable	-	30	30
Accounts payable	1,615	39	1,654
Borrowings issued	-	57	57
At 31 December 2004			
Accounts receivable and prepayments	-	7	7
Accounts payable	-	55	55
Borrowings issued	-	26	26

Transactions with related parties of the Group for the six months ended 30 June 2005 and 30 June 2004 consist of the following:

Transactions			
Six months ended 30 June 2005			
Purchases	-	751	751
Sales revenue	-	50	50
Prepayment from shareholders for unregistered share issue	1,615	-	1,615
Purchase of notes receivable	-	30	30
Borrowings issued	-	31	31
Six months ended 30 June 2004			
Purchases	-	509	509
Sales revenue	-	108	108
Interest accrued	159	-	159
Prepayment from shareholders for unregistered share issue	1,272	-	1,272
Borrowings repaid	1,340	-	1,340

(in millions of Russian Roubles)

4 Balances and transactions with related parties (continued)

4.2 Directors' compensation

Compensation paid to 9 key management and directors (six month ended 30 June 2004: 6 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 61 for the six months ended 30 June 2005 (six months ended 30 June 2004: RUB 19).

5 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 2003	4,740	4,711	676	582	10,709
Additions	-	-	-	625	625
Disposals	-	(21)	(1)	-	(22)
Transfers	21	213	78	(312)	-
Balance at 30 June 2004	**4,761**	**4,903**	**753**	**895**	**11,312**
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	**5,713**	**7,186**	**962**	**551**	**14,412**
Accumulated Depreciation					
Balance at 31 December 2003	(564)	(929)	(157)	-	(1,650)
Depreciation expense for six months of 2004	(88)	(157)	(42)	-	(287)
Disposals	-	3	-	-	3
Balance at 30 June 2004	**(652)**	**(1,083)**	**(199)**	**-**	**(1,934)**
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	**(829)**	**(1,411)**	**(295)**	**-**	**(2,535)**
Net Book Value					
Balance at 30 June 2004	**4,109**	**3,820**	**554**	**895**	**9,378**
Balance at 31 December 2004	**4,054**	**4,326**	**578**	**896**	**9,854**
Balance at 30 June 2005	**4,884**	**5,775**	**667**	**551**	**11,877**

Bank borrowings are secured on properties as at 30 June 2005 to the value of RUB 1,280 (31 December 2004: RUB 1,596); see Note 22. During six months ended 30 June 2005 the Group capitalised borrowing costs of RUB 9 (six months ended 30 June 2004: RUB 6) in the cost of the qualifying assets (see Note 3.2).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2005 cost of the land amounts to RUB 931 (31 December 2004: RUB 896).

(in millions of Russian Roubles)

6 Development costs

	30 June 2005	31 December 2004
Expenditures related to establishing production of diesel engine	187	154
Development of diesel engine funded by government grant	114	114
Improvement of diesel engine funded by internal financing	39	32
Development of certain parts of gear box for GM-Avtovaz	144	-
Improvement of four-cylinder petrol engine	101	80
Development of new off-road vehicle (UAZ Patriot)	57	34
Improvement of vehicles and engines to satisfy Euro-2 requirements	46	52
Improvement of some vehicle component parts	40	39
Development of new light commercial vehicle (UAZ-2360)	16	14
Technical documentation for UAZ gear boxes	23	-
Other	28	24
	795	**543**

Development projects expenditures capitalised by the Group were in development phase as at 30 June 2005. No amortisation was accumulated as at the end of the period and charged to the cost of sales.

7 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”.

In addition to acquisitions described above, by 3 June 2005 the Company had completed the acquisition of a new subsidiary OAO “ZMA” based in Naberezhnye Chelny, Republic of Tatarstan. OAO “ZMA” produces Class A cars branded as the OKA. In 2004 its output was 46 thousand vehicles. 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. OAO “ZMA” balances and operations for June 2005 have been consolidated in these financial statements.

	OAO “UAZ”	OAO “ZMZ”	OAO “ZMA”	Total
<u>Cost</u>				
Balance at 31 December 2003	**1,207**	**277**	**-**	**1,484**
Excess of acquired share over purchase consideration	-	(24)	-	(24)
Write off excess of acquired share over purchase consideration	-	24	-	24
Balance at 30 June 2004	**1,207**	**277**	**-**	**1,484**
Excess of acquired share over purchase consideration	**-**	(97)	**-**	(97)
Write off excess of acquired share over purchase consideration	**-**	97	**-**	97
Balance at 31 December 2004	**1,207**	**277**	**-**	**1,484**
Excess of acquired share over purchase consideration	-	(5)	(52)	(57)
Write off excess of acquired share over purchase consideration (Note 27)	-	5	52	57
Balance at 30 June 2005	**1,207**	**277**	**-**	**1,484**

(in millions of Russian Roubles)

7 Acquisitions and goodwill (continued)

Acquisition of OAO "ZMA"

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	**1,403**
Share of net asset acquired (99.66%)	(1,455)
Excess of acquired share in the net identifiable assets over purchase consideration	**(52)**

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

	Note	Fair value
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	(137)
Net identifiable assets		1,460
Minority interests (0.34%)		(5)
Net identifiable assets acquired		**1,455**

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 66% to 72% in 2004 and further up to 75% of total share capital in 2005.

	2005	2004
Step increase in % of ownership	2.92%	6.29%
Purchase consideration	160	214
Share of net assets acquired from minority shareholders	(165)	(335)
Excess of acquired share in the net identifiable assets over purchase consideration (Note 27)	**(5)**	**(121)**

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)

7 Acquisitions and goodwill (continued)

Impairment tests for goodwill

The Group tested its goodwill for impairment at 31 December 2004. 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 31 December 2004.

8 Intangible assets

Intangible assets comprise of the following:

	Trade marks	Licences	Total
Cost			
Balance at 31 December 2003	-	46	46
Additions	-	16	16
Disposals	-	(11)	(11)
Balance at 30 June 2004	**-**	**51**	**51**
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**
Accumulated Amortisation			
Balance at 31 December 2003	-	(23)	(23)
Amortisation expense for six months of 2004	-	(10)	(10)
Disposals	-	11	11
Balance at 30 June 2004	**-**	**(22)**	**(22)**
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)**
Net Book Value			
Balance at 30 June 2004	**-**	**29**	**29**
Balance at 31 December 2004	**-**	**47**	**47**
Balance at 30 June 2005	**39**	**71**	**110**

(in millions of Russian Roubles)

9 Financial assets

Non-current financial assets are financial assets at fair value through profit or loss, 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 2005	31 December 2004
Advances for equipment	164	160
Other	68	25
	232	**185**

11 Inventories

Inventories consist of the following:

	30 June 2005	31 December 2004
Raw materials	2,530	2,402
Less: obsolescence provision	(128)	(162)
	2,402	2,240
Work in progress	687	621
Less: NRV provision	(6)	(20)
	681	601
Finished products	618	619
Less: NRV provision	(3)	(12)
	615	607
	3,698	**3,448**

The obsolescence provision relates only to raw materials. As at 30 June 2005 finished products and work in progress in the amount of RUB 19 were recorded at net realisable value (31 December 2004: RUB 115). Inventories of RUB 1,179 (31 December 2004: RUB 887) have been pledged as security for borrowings, see Note 22.

12 Accounts receivable and prepayments

	30 June 2005	31 December 2004
Trade receivables	2,274	1,182
Less: provision for impairment	(70)	(27)
	2,204	1,155
Other receivables	447	358
Less: provision for impairment	(16)	(19)
	431	339
Advances to suppliers	444	264
Less: provision for impairment	(8)	(5)
	436	259
VAT recoverable, net	272	384
Prepayments	15	8
	3,358	**2,145**

(in millions of Russian Roubles)

12 Accounts receivable and prepayments (continued)

Included within net VAT recoverable is RUB 446 of deferred VAT payable (31 December 2004: RUB 166).

Foreign currency denominated net trade receivables:

Currency	30 June 2005	31 December 2004
Euro	62	92
US$	83	76
	145	**168**

The carrying value of accounts receivable and prepayments as at 30 June 2005 and 31 December 2004 is approximately equal to their fair value.

Non-cash settlements

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. In the six months ended 30 June 2004 RUB 158 (approximately 1.4% of total sales) of the Group's settlements of accounts receivable were settled by means of mutual settlements, and no accounts were settled 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 2005	31 December 2004
Cash on hand and balances with banks	800	298
Letters of credit	192	239
Cash deposits	56	345
Short-term bank promissory notes	238	100
	1,286	**982**

Cash deposits of RUB 56 held by the Group at 30 June 2005 bear interest of 4.5% per annum (31 December 2004: RUB 345 bear interest of 5.5% per annum). Cash and cash equivalents of RUB 1,230 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:

Currency	30 June 2005	31 December 2004
Euro	121	237
US$	76	5
	197	**242**

The carrying value of cash and cash equivalents as at 30 June 2005 and 31 December 2004 is approximately equal their fair value.

(in millions of Russian Roubles)

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 2004	29,800	474	4,259	1,438
At 30 June 2005	29,800	474	4,259	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2004: 82,074 thousand). Nominal value of all shares is 12.5 roubles per share. Statutory share capital of the Company totalled RUB 374.

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 2005, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUB 2,068 and the closing balance of the accumulated profit including the current reporting period net statutory profit totalled to RUB 4,124. Management believes that the accumulated profit including the current year net statutory profit is distributable.

The Company declared dividends of RUB 375, or 17 roubles per ordinary share, for the year ended 31 December 2003.

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.

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 Limited 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. The parent company invested into the Company approximately 50% of the net proceeds from the sale of its shares by purchasing newly-issued shares of the Company. As at 30 June 2005 the Company has received RUB 1,646 from the share issue. The proceeds are recorded net of transaction costs of RUB 31 within current liabilities as prepayment from shareholders for unregistered shares of RUB 1,615. The placement of all the newly-issued shares was completed in July 2005. After approval of the additional share issue in August 2005, the liability has been extinguished and the share capital looks as follows:

	Number of outstanding ordinary shares (thousands)	Share capital, RR	Share premium, RR	Additional paid-in capital, RR
At 30 August 2005	34,270	530	6,019	1,438

Newdeal Investments Limited equity stake in the Company's post-offering share capital is equal to 63%.

(in millions of Russian Roubles)

16 Long-term borrowings

In January 2004 the Company issued rouble-denominated non-convertible bonds for RUB 1,500 payable in three 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.

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 2005 the outstanding long-term part of this loan amounted of RUB 207. The loan is repayable in nine equal semi-annual instalments starting from July 2005.

As at 30 June 2005 long-term loan balances included bills of exchange issued by OAO “ZMA” in the amount of RUB 70 and redeemable in November and December 2006.

As at 30 June 2005 and 31 December 2004 long-term loan balances included RUB 28 of bills of exchange issued by the Group to third parties with a redemption date in February 2007.

Long-term debt is repayable as follows:

	30 June 2005	31 December 2004
1 to 2 years	1,668	66
2 to 3 years	66	1,584
3 to 4 years	66	66
4 to 5 years	-	66
	1,800	**1,782**

As at 30 June 2005 and 31 December 2004 the carrying value of these liabilities approximates their fair value.

17 Taxes payable

Current taxes payable

Current taxes payable comprise the following:

	30 June 2005	31 December 2004
Current portion of taxes restructured to long-term	180	193
Value-added tax	93	64
Payments to the Pension Fund and other social taxes	76	57
Personal income tax	29	24
Income tax	19	1
Property tax	13	3
Tax penalties and interest	8	4
Other taxes	36	26
Total	**454**	**372**

The Group had no tax liabilities past due at 30 June 2005 and 31 December 2004.

(in millions of Russian Roubles)

17 Taxes payable (continued)

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 2005	31 December 2004
Current	180	193
1 to 2 years	141	133
2 to 3 years	74	131
3 to 4 years	28	21
4 to 5 years	9	1
Total restructured	**432**	**479**
Less: current portion of taxes payable	(180)	(193)
Long-term portion of restructured taxes	**252**	**286**

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 30 June 2005. Management is confident that these companies will continue to abide by the terms of the restructuring.

As at 30 June 2005 fair value of these liabilities was estimated to be RUB 305 (31 December 2004: RUB 340) using a current market interest rate of 9.1% (31 December 2004: 11.3%).

18 Post-retirement benefits

OAO "ZMZ" provides post retirement 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 2004, with measurement date 1 January 2004.

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

	30 June 2005	31 December 2004
Present value of unfunded obligations	125	146
Unrecognized net actuarial gain	15	-
Unrecognised past service cost	(117)	(128)
Liability in the balance sheet	**23**	**18**

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

	30 June 2005	31 December 2004
Recognised actuarial gain	-	9
Current service cost	6	6
Amortisation of past service cost	4	12
Interest cost	6	10
Total included in labour expenses (Note 28)	**16**	**37**

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

(in millions of Russian Roubles)

18 Post-retirement benefits (continued)

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

	30 June 2005	31 December 2004
At the beginning of the period	18	-
Total expense as above	16	37
Contributions paid	(11)	(19)
Net liability at the end of the period	**23**	**18**

The principal actuarial assumptions used were as follows:

	30 June 2005	31 December 2004
Withdraw rate	3%	3%
Interest rate	9%	9%
Salary growth	6%	6%

19 Deferred income on government grant

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 2005 the Group had received RUB 291 of this grant. RUB 149 was used for the purchase of new equipment required for research and development works and RUB 114 was spent on the development of the diesel engine and capitalised as development costs in the balance sheet as at 30 June 2005. 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. The grant will be recognised as revenue to match the depreciation costs of equipment purchased for development works and development expenditures capitalised in the balance sheet. Depreciation of the grant will commence when the Group meets all conditions attached to the grant. Management consider that the Group is in compliance with the terms of the grant and will not need to return cash received.

The Group acquired through business combination a government grant from Research and Development Fund of Tatarstan Republic of RUB 12. 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 2005	31 December 2004
Dividends payable	353	309
Advances from customers	266	225
Salaries payable	190	180
Vacation accrual	102	107
Bonus accrual	63	92
Payable for bills	44	66
Other	180	22
Total	**1,198**	**1,001**

Non-cash settlements

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 with suppliers. In the six months ended 30 June 2004 RUB 649 (approximately 2% 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 158 (approximately 0.5% of total purchases) by means of mutual settlements.

(in millions of Russian Roubles)

21 Warranty and other provisions

During 2005 and 2004 the following movements of the warranty provision took place:

	Warranty	Tax claims	Total
Balance at 31 December 2003	83	6	89
Additional provision	50	1	51
Utilised in the six months of 2004	(43)	-	(43)
Balance at 30 June 2004	**90**	**7**	**97**
Balance at 31 December 2004	92	7	99
Acquired through business combination (Note 7)	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**

The Group gives one-year warranty on ZMZ and UAZ product as well as two-years warranty on ZMA vehicles, and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RUB 126 (31 December 2004: RUB 92) was recognised at 30 June 2005 for expected warranty claims based on past experience of the level of repairs and replacements.

22 Short-term borrowings

As at 30 June 2005 and 31 December 2004 short-term borrowings consist of bank loans amounting to RUB 2,136 and RUB 830 respectively. That amount included short-term part of long-term loans of RUB 108 (31 December 2004: RUB 199); and interest accrued on loans amounting to RUB 81 (31 December 2004: RUB 78).

As at 30 June 2005 short-term debt comprises a total of rouble-denominated loans at effective fixed interest rates of 3-5% of RUB 139, 7-9% of RUB 1,439 and 10-13% of RUB 558. As at 31 December 2004 short-term debt comprises a total of rouble-denominated loans at effective fixed interest rates 8-11% during the year ended 31 December 2004. Included within short-term borrowings is a loan amounting to RUB 108 (31 December 2004: RUB 199) obtained to finance a letter of credit of OAO "UAZ".

As at 30 June 2005 and 31 December 2004 loans for RUB 2,374 and RUB 1,016 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 2005	Six months ended 30 June 2004
Vehicles	5,424	5,174
Engines	3,461	3,898
Automotive components	1,609	1,644
Assembly kits	37	97
Other sales	544	448
	11,075	**11,261**

24 Cost of sales

The components of cost of sales were as follows:

	Six months ended 30 June 2005	Six months ended 30 June 2004
Materials and components used	6,303	6,376
Labour costs	1,545	1,733
Other production costs	493	464
Depreciation	295	246
Change in finished goods and work in progress	(88)	(255)
	8,548	**8,564**

(in millions of Russian Roubles)

25 Distribution costs

Distribution costs comprise:

	Six months ended 30 June 2005	Six months ended 30 June 2004
Transportation	237	220
Materials	56	61
Advertising	41	26
Labour costs	24	28
Check and inspection performed by dealers	3	30
Other	14	18
	375	**383**

26 General and administrative expenses

General and administrative expenses comprise:

	Six months ended 30 June 2005	Six months ended 30 June 2004
Labour costs	630	595
Taxes other than income	83	60
Services provided by third parties	71	35
Depreciation	52	41
Fire brigade and security costs	47	22
Materials	37	39
Transportation	20	8
Insurance	17	48
Training costs	14	25
Repairs and maintenance	9	35
Provision for impairment of receivables	(4)	7
Other	107	66
	1,083	**981**

27 Other operating (income)/expenses - net

The components of other operating expenses were as follows:

	Six months ended 30 June 2005	Six months ended 30 June 2004
Charity	29	26
Social expenses	22	35
Research and development expenses	12	23
Fair value losses financial assets at fair value through profit or loss	-	10
Write-off of payables	(1)	(6)
Gain on disposal of materials	(2)	(23)
Provisions and settlements of claims and similar charges	(3)	1
(Gain)/loss on disposals of property, plant and equipment	(17)	13
Excess of acquired share over purchase consideration (Note 7)	(57)	(24)
Other	(15)	26
	(32)	**81**

(in millions of Russian Roubles)

28 Expenses by nature

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

	Six months ended 30 June 2005	Six months ended 30 June 2004
Cost of sales	1,545	1,733
Administrative expenses	630	595
Distribution costs	24	28
	2,199	**2,356**

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 2005	Six months ended 30 June 2004
Cost of sales	295	246
Administrative expenses	52	41
	347	**287**

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

	Six months ended 30 June 2005	Six months ended 30 June 2004
Cost of sales	6,303	6,376
Distribution costs	56	61
Administrative expenses	37	39
	6,396	**6,476**

29 Income tax expense

	Six months ended 30 June 2005	Six months ended 30 June 2004
Income tax expense – current	238	270
Deferred tax (credit)/expense – origination and reversal of temporary differences	(44)	49
Income tax expense	**194**	**319**

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 2005	Six months ended 30 June 2004
Income before taxation	**927**	**1,014**
Theoretical tax charge at the statutory rate of 24%	222	243
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	8	14
Gain on negative goodwill write-off	(20)	-
Other	(16)	62
Income tax expense	**194**	**319**

(in millions of Russian Roubles)

29 Income tax expense (continued)

In general, during the six months ended 30 June 2005 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 2005 and 31 December 2004.

	31 December 2003	Movement in the period	30 June 2004	31 December 2004	Acquired through business combination (Note 7)	Movement in the period	30 June 2005
Tax effects of deductible temporary differences:							
Accounts receivable	30	-	30	25	12	9	46
Inventories	36	(36)	-	(15)	2	1	(12)
Financial assets	-	-	-	1	45	(2)	44
Pension fund liabilities	-	-	-	4	-	2	6
Accounts payable and provisions	63	(8)	55	67	5	3	75
Other non-current assets	9	8	17	-	(8)	18	10
	138	**(36)**	**102**	**82**	**56**	**31**	**169**
Tax effects of taxable temporary differences:							
Property, plant and equipment	(1,253)	(13)	(1,266)	(1,244)	(193)	13	(1,424)
	(1,253)	**(13)**	**(1,266)**	**(1,244)**	**(193)**	**13**	**(1,424)**
Total net deferred tax (liability)/assets	**(1,115)**	**(49)**	**(1,164)**	**(1,162)**	**(137)**	**44**	**(1,255)**

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 273 (31 December 2004: RUB 249) 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 4,556 at 30 June 2005 (31 December 2004: RUB 4,144).

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 2005	Six months ended 30 June 2004
Weighted average number of ordinary shares in issue (thousands)	29,800	22,074
Income attributable to equity holders of the Company	646	547
Basic/diluted earnings per share (in roubles per share)	21.68	24.78

(in millions of Russian Roubles)

31 Segment information

Primary reporting format – business segments

At 30 June 2005 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 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 loss			17	17
Income tax expense			(194)	(194)
Income for the year				**733**
Segment assets	13,670	8,963	347	22,980
Segment liabilities	2,452	1,340	7,406	11,198
Capital expenditures	234	392	-	626
Depreciation	241	106	-	347
Non-cash gains other than depreciation	(67)	(18)	-	(86)

The segment results for the six months ended 30 June 2004 and balances at 31 December 2004 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	6,121	5,332	-	11,453
Inter-segmental sales	-	(192)	-	(192)
Net sales	**6,121**	**5,140**	**-**	**11,261**
Segment results / operating income	452	800	-	1,252
Interest expense			(227)	(227)
Net foreign exchange gain			(11)	(11)
Income tax expense			(319)	(319)
Income for the period				**695**
Segment assets	10,224	8,562	38	18,824
Segment liabilities	1,710	1,214	4,365	7,289
Capital expenditures	443	182	-	625
Depreciation	204	83	-	287
Non-cash expenses other than depreciation	37	48	-	85

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

(in millions of Russian Roubles)

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 2005**	**Six months ended 30 June 2004**
Domestic	9,631	9,603
Export to CIS	1,261	1,206
Export to other countries	183	452
Total	**11,075**	**11,261**

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

32 Contingencies, commitments and operating risks

32.1 Contractual commitments and guarantees

As at 30 June 2005 the Group had contractual commitments of RUB 191 for the purchase of property, plant and equipment from third parties (31 December 2004: RUB 34).

As at 30 June 2005 one subsidiary of the Group, OAO "UAZ", had contractual commitment of RUB 2,867 (equivalent of 100 million US dollars) to deliver assembly kits to a customer in the Ukraine.

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

As at 30 June 2005 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 interim 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.

The engine business segment sells 68% (2004: 61%) of its production to one customer – OAO "GAZ". Consequently, the segment performance, results of operation and prospects 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 is subject to political, legislative, tax and regulatory developments and risks, which are not covered by insurance. No provisions for self-insurance are included in the consolidated financial statements and the occurrence of significant losses and impairments associated with facilities could have a material effect on the Group's operations.

(in millions of Russian Roubles)

32 Contingencies, commitments and operating risks (continued)

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 2005 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:

			30 June 2005		**31 December 2004**	
Entity	Country of incorporation	Activity	% 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	72	88
OAO "Small Car Plant"	Russia	Manufacture and sale of passenger automobiles	100	100	-	-
OOO "UAZ-Metallurgia"	Russia	Manufacture and sale of metals products	66	-	-	-
OOO "UAZ-Autotrans"	Russia	Transport services	66	-	66	-
OOO "ZMZ-Podshipniky Skolzheniya"	Russia	Manufacture and sale of bearings	79	-	76	-
OOO "ZMZ-Transservice"	Russia	Transport services	75	-	72	-

OAO "Severstal-auto" owns 15% directly and 64% indirectly via its subsidiary OAO "ZMZ" in OOO "ZMZ – Podshipniky Skolzheniya". OOO "ZMZ - Transservice" is 100% owned by the Company's subsidiary OAO "ZMZ". OOO "UAZ – Autotrans" 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" and OOO "UAZ-Autotrans" represents stockholders' stakes, not number of shares held.

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 13% (for six months ended 30 June 2004: 13%) of total revenue, most of these sales are denominated in hard currency. Net foreign currency receivables amount to RUB 145 (31 December 2004: RUB 168). Hence, the Group is exposed to the related foreign exchange risk primarily with respect to U.S. Dollar. However, management believe that foreign exchange risk is not significant.

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 4.5% (see Note 14). The Group has mostly fixed rate interest bearing borrowings (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 2005 and 31 December 2004 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 2005 and 31 December 2004 the carrying value of financial assets and cash deposits approximates their fair value.

35 Post balance sheet events

As at 30 August 2005 the Federal Service for Financial Market approved the results of the issue of 4,470 thousand ordinary shares of OAO "Severstal-auto" at a nominal value of 12.5 roubles per share (Note 15). As of this date, the Company has received RUB 1,847 from the share issue. Transaction costs incurred (legal advisors' and valuation fees) were equal to RUB 31.