# OAO GAZ

**Consolidated Interim Condensed Financial Information for the six-month period ended 30 June 2006**

## Contents

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# Independent Accountants' Review Report

To the Board of Directors
OAO GAZ

We have reviewed the accompanying consolidated interim condensed balance sheet of OAO GAZ (the "Company") and its subsidiaries (the "Group") as at 30 June 2006, and the related consolidated interim condensed statements of income, changes in equity and cash flows for the six-month period then ended. This consolidated interim condensed financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this consolidated interim condensed financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company 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.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information is not prepared, in all material respects in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Without qualifying our review conclusion, we draw attention to the fact that the US dollar amounts in the accompanying consolidated interim condensed financial information, which are presented solely for the convenience of users as described in note 2(e) and do not form part of the consolidated interim condensed financial information, are not reviewed.

KPMG Limited

KPMG Limited
18 December 2006

| | | Six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | **Note** | **'000 RUR** | **'000 RUR** | **'000 USD*** | **'000 USD*** |
| **Revenues** | 7 | 45,125,524 | 38,157,581 | 1,666,446 | 1,409,126 |
| Cost of sales | | (35,960,913) | (31,728,597) | (1,328,006) | (1,171,709) |
| **Gross profit** | | 9,164,611 | 6,428,984 | 338,440 | 237,417 |
| Distribution expenses | | (1,201,792) | (927,635) | (44,381) | (34,257) |
| Administrative expenses | | (2,819,003) | (1,869,166) | (104,103) | (69,027) |
| Other expenses, net | 8 | (849,477) | (1,335,852) | (31,370) | (49,332) |
| Financial income | 10 | 268,168 | 163,084 | 9,903 | 6,023 |
| Financial expenses | 10 | (452,482) | (551,031) | (16,710) | (20,350) |
| **Profit before tax** | | 4,110,025 | 1,908,384 | 151,779 | 70,474 |
| Income tax expense | 11 | (1,271,230) | (704,038) | (46,945) | (25,999) |
| **Net profit for the period** | | 2,838,795 | 1,204,346 | 104,834 | 44,475 |
| | | | | | |
| Attributable to: | | | | | |
| Shareholders of the Company | | 2,460,801 | 984,932 | 90,875 | 36,372 |
| Minority interest | | 377,994 | 219,414 | 13,959 | 8,103 |
| | | 2,838,795 | 1,204,346 | 104,834 | 44,475 |
| | | | | | |
| **Basic and diluted earnings per share** | | | | | |
| Ordinary shares | 17 | 169 RUR | 68 RUR | 6.2 USD* | 2.5 USD* |
| Preference shares | 17 | 169 RUR | 68 RUR | 6.2 USD* | 2.5 USD* |

The consolidated interim condensed financial information were approved on 18 December 2006:

Erik Eberhardson
*Chairman of Management*
*Committee*
*of LLC «GAZ Group»*

Russkyh K.M.
*Deputy Chairmen of Management*
*Committee for Finance and Economics*
*of LLC «GAZ Group»*



The consolidated interim condensed income statement is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 11 to 36.

* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

| | Note | 30 June 2006 '000 RUR | Restated 31 December 2005 '000 RUR | 30 June 2006 '000 USD* | 31 December 2005 '000 USD* |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | 18,032,320 | 17,488,656 | 665,918 | 645,841 |
| Intangible assets | | 200,757 | 208,317 | 7,413 | 7,693 |
| Other investments | 13 | 61,338 | 52,453 | 2,265 | 1,937 |
| Deferred tax assets | | 332,915 | 247,242 | 12,294 | 9,130 |
| Other long-term assets | 14 | 600,528 | 53,103 | 22,177 | 1,961 |
| Loans advanced | | 282,986 | 282,246 | 10,451 | 10,423 |
| | | 19,510,844 | 18,332,017 | 720,518 | 676,985 |
| **Current assets** | | | | | |
| Other investments | 13 | 102,919 | 238,315 | 3,801 | 8,801 |
| Inventories | | 8,547,299 | 6,138,550 | 315,644 | 226,691 |
| Loans advanced | | 709,855 | 3,000,154 | 26,214 | 110,793 |
| Trade and other receivables | | 7,507,432 | 7,650,675 | 277,243 | 282,533 |
| Cash and cash equivalents | 15 | 4,079,459 | 509,261 | 150,651 | 18,807 |
| | | 20,946,964 | 17,536,955 | 773,553 | 647,625 |
| **Total assets** | | 40,457,808 | 35,868,972 | 1,494,071 | 1,324,610 |



The consolidated interim condensed balance sheet is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 11 to 36.

* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

| | Note | 30 June 2006 '000 RUR | Restated 31 December 2005 '000 RUR | 30 June 2006 '000 USD* | 31 December 2005 '000 USD* |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | 16 | | | | |
| Share capital | | 2,306,383 | 2,306,383 | 85,173 | 85,173 |
| Share premium | | 7,002,799 | 7,032,359 | 258,607 | 259,699 |
| Retained earnings | | 5,192,931 | 3,292,206 | 191,770 | 121,578 |
| **Total equity attributable to shareholders of the Company** | | 14,502,113 | 12,630,948 | 535,550 | 466,450 |
| Minority interest | | 1,776,173 | 1,445,954 | 65,593 | 53,398 |
| **Total equity** | | 16,278,286 | 14,076,902 | 601,143 | 519,848 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | | 6,056,607 | 804,777 | 223,665 | 29,720 |
| Delayed taxes | | 195,161 | 296,720 | 7,208 | 10,958 |
| Deferred tax liabilities | | 1,021,700 | 991,747 | 37,730 | 36,624 |
| Other long-term payables | | 151,193 | 162,029 | 5,583 | 5,983 |
| | | 7,424,661 | 2,255,273 | 274,186 | 83,285 |
| **Current liabilities** | | | | | |
| Loans and borrowings | | 4,339,808 | 8,536,696 | 160,265 | 315,253 |
| Trade and other payables | | 12,415,053 | 11,000,101 | 458,477 | 406,224 |
| | | 16,754,861 | 19,536,797 | 618,742 | 721,477 |
| **Total equity and liabilities** | | 40,457,808 | 35,868,972 | 1,494,071 | 1,324,610 |



The consolidated interim condensed balance sheet is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 11 to 36.

* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

| | Note | six-month period ended 30 June 2006 '000 RUR | six-month period ended 30 June Restated 2005 '000 RUR | Six-month period ended 30 June 2006 '000 USD* | Six-month period ended 30 June 2005 '000 USD* |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| **Profit before tax** | | 4,110,025 | 1,908,384 | 151,779 | 70,474 |
| Adjustments for: | | | | | |
| Depreciation of fixed assets | | 1,278,774 | 1,628,153 | 47,224 | 60,126 |
| Amortization of intangible assets | | 11,013 | 3,873 | 407 | 143 |
| Impairment of property, plant, equipment and intangible assets | | 26,384 | 175,236 | 974 | 6,471 |
| Impairment of financial assets | | - | 22,648 | - | 836 |
| (Profit)/loss on disposal of property, plant and equipment and intangible assets | | (107,025) | 151,466 | (3,952) | 5,594 |
| Gain on disposal of investments | | (13,537) | (22,038) | (500) | (814) |
| Interest expense | | 452,482 | 539,815 | 16,710 | 19,935 |
| Interest income | | (240,456) | (141,046) | (8,880) | (5,209) |
| **Operating profit before changes in working capital** | | 5,517,660 | 4,266,491 | 203,762 | 157,556 |
| Increase in inventories | | (2,405,255) | (1,279,203) | (88,823) | (47,239) |
| Increase in trade and other receivables | | (380,983) | (3,253,191) | (14,069) | (120,137) |
| Increase in trade and other payables | | 754,775 | 3,425,452 | 27,873 | 126,499 |
| Decrease in delayed taxes | | (101,559) | (234,895) | (3,750) | (8,674) |
| **Cash flows from operations before income taxes and interest paid** | | 3,384,638 | 2,924,654 | 124,993 | 108,005 |
| Income taxes paid | | (1,260,886) | (728,285) | (46,563) | (26,895) |
| Interest paid | | (308,624) | (494,316) | (11,397) | (18,255) |
| **Cash flows from operating activities** | | 1,815,128 | 1,702,053 | 67,033 | 62,855 |



The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 11 to 36.

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| | Note | six-month period ended 30 June 2006 '000 RUR | six-month period ended 30 June Restated 2005 '000 RUR | six-month period ended 30 June 2006 '000 USD* | six-month period ended 30 June 2005 '000 USD* |
|---|---|---|---|---|---|
| **INVESTING ACTIVITIES** | | | | | |
| Proceeds from disposal of property, plant and equipment | | 169,655 | 135,977 | 6,265 | 5,022 |
| Proceeds from sale of other investments | | 18,695 | 205,828 | 690 | 7,601 |
| Repayment of loans | | 6,988,767 | 6,049,618 | 258,089 | 223,407 |
| Loans made | | ( 4,749,443) | ( 2,882,767) | ( 175,393) | ( 106,458) |
| Interest received | | 290,692 | 148,514 | 10,735 | 5,484 |
| Acquisition of property, plant and equipment | | (1,914,918) | (894,076) | (70,716) | (33,017) |
| Acquisition of intangible assets | | (3,480) | (142,956) | (129) | (5,279) |
| Acquisition of minority interest | | (77,335) | - | (2,856) | - |
| Proceeds from sale of promissory notes | | 121,353 | - | 4,480 | - |
| **Cash flows from investing activities** | | 843,986 | 2,620,138 | 31,165 | 96,760 |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from borrowings | | 23,160,464 | 21,296,003 | 855,296 | 786,443 |
| Repayment of borrowings | | ( 22,200,447) | (24,952,001) | ( 819,843) | (921,455) |
| Distributions to shareholders | | - | (457,588) | - | (16,898) |
| **Cash flows from/(utilized by) financing activities** | | 960,017 | (4,113,586) | 35,453 | (151,910) |
| **Net increase in cash and cash equivalents** | | 3,619,131 | 208,605 | 133,651 | 7,705 |
| Cash and cash equivalents at beginning of period | | 460,328 | 252,736 | 17,000 | 9,333 |
| **Cash and cash equivalents at end of period** | 15 | 4,079,459 | 461,341 | 150,651 | 17,038 |



The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 11 to 36.

* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

| '000 RUR | Attributable to shareholders of the Company | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Total | | |
| **Balance at 1 January 2005** | 2,300,301 | 6,526,868 | 1,272,529 | 10,099,698 | 1,319,101 | 11,418,799 |
| Net profit for the six-month period ended 30 June 2005 | - | - | 984,932 | 984,932 | 219,414 | 1,204,346 |
| Distributions to shareholders during the six-month period ended 30 June 2005 | - | - | (457,588) | (457,588) | - | (457,588) |
| **Balance at 30 June 2005** | 2,300,301 | 6,526,868 | 1,799,873 | 10,627,042 | 1,538,515 | 12,165,557 |
| **Balance at 1 January 2006 (as previously reported)** | 2,306,383 | 7,032,359 | 3,068,206 | 12,406,948 | 1,445,954 | 13,852,902 |
| Restatement (note 4) | - | - | 224,000 | 224,000 | - | 224,000 |
| **Balance at 1 January 2006 as restated** | 2,306,383 | 7,032,359 | 3,292,206 | 12,630,948 | 1,445,954 | 14,076,902 |
| Net profit for the six-month period ended 30 June 2006 | - | - | 2,460,801 | 2,460,801 | 377,994 | 2,838,795 |
| Dividends to shareholders during the six-month period ended 30 June 2006 | - | - | (560,076) | (560,076) | - | (560,076) |
| Acquisition of minority interest during the six-month period ended 30 June 2006 | - | (29,560) | - | (29,560) | (47,775) | (77,335) |
| **Balance at 30 June 2006** | 2,306,383 | 7,002,799 | 5,192,931 | 14,502,113 | 1,776,173 | 16,278,286 |



The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 11 to 36.

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| '000 USD* | Attributable to shareholders of the Company | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Total | | |
| **Balance at 1 January 2005** | 84,948 | 241,032 | 46,993 | 372,973 | 48,713 | 421,686 |
| Net profit for the six-month period ended 30 June 2005 | - | - | 36,372 | 36,372 | 8,103 | 44,475 |
| Distributions to shareholders during the six-month period ended 30 June 2005 | - | - | (16,898) | (16,898) | - | (16,898) |
| **Balance at 30 June 2005** | 84,948 | 241,032 | 66,467 | 392,447 | 56,816 | 449,263 |
| **Balance at 1 January 2006 (as previously reported)** | 85,173 | 259,699 | 113,306 | 458,178 | 53,398 | 511,576 |
| Restatement (note 4) | - | - | 8,272 | 8,272 | - | 8,272 |
| **Balance at 1 January 2006 as restated** | 85,173 | 259,699 | 121,578 | 466,450 | 53,398 | 519,848 |
| Net profit for the six-month period ended 30 June 2006 | - | - | 90,875 | 90,875 | 13,959 | 104,834 |
| Dividends to shareholders during the six-month period ended 30 June 2006 | - | - | (20,683) | (20,683) | - | (20,683) |
| Acquisition of minority interest during the six-month period ended 30 June 2006 | - | (1,092) | - | (1,092) | (1,764) | (2,856) |
| **Balance at 30 June 2006** | 85,173 | 258,607 | 191,770 | 535,550 | 65,593 | 601,143 |



The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 11 to 36.

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# 1 Background

## (a) Organisation and operations

OAO GAZ ("GAZ" or the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian Federation open joint stock (public) companies, closed joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation. The Company was established as a state-owned enterprise in July 1932. It was privatised as an open joint stock company in December 1992, as part of the Russian Federation privatisation program. The Company's shares are traded on the Russian Trading System ("RTS").

The business activities of the Group are managed by OOO «Managing Company Group GAZ» (the "Manager").

The Company's registered office is located at 88, Lenina prospect, Nizhny Novgorod, 603004, Russian Federation.

The Group's principal activity is the production of a wide range of vehicles, buses and spare parts at production sites located in the Russian Federation. These products are sold in the Russian Federation and abroad.

OAO Russkie Mashiny, the subsidiary of Basic Element Limited, owned 71.85% of Company's shares as at 30 June 2006.

## (b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The accompanying consolidated interim condensed financial information reflects management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

# 2 Basis of preparation

## (a) Statement of compliance

The consolidated interim condensed financial information has been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

It does not include all of the information required for full annual financial statements, and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2005.

## (b) Group restructuring

In 2005, OAO Russkie Mashiny commenced a restructuring process whereby controlling ownership interests in a number of subsidiaries (refer note 22 for the list of subsidiaries) were transferred to the Company in exchange for additional shares issued by the Company. Those subsidiaries comprise Buses and Diesel Engines lines of business.

The restructuring of the Group comprised a series of business combinations under common control which have been accounted for at book values in accordance with the Group's accounting policy described in note 3(a)(ii).

**(c) Basis of measurement**

The consolidated interim condensed financial information is prepared on the historical cost basis except that investments available-for-sale are stated at fair value; certain property, plant and equipment was revalued at 1 January 2002 to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

**(d) Functional and presentation currency**

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's functional currency and the currency in which this consolidated interim condensed financial information is presented. All financial information presented in RUR has been rounded to the nearest thousand.

**(e) Convenience translation**

In addition to presenting the consolidated interim condensed financial information in RUR, supplementary information in USD has been prepared for the convenience of users of the financial information.

All amounts in the consolidated interim condensed financial information are translated from RUR to USD at the closing exchange rate at 30 June 2006 of RUR 27.0789 to USD 1.

**(f) Use of estimates and judgments**

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare this consolidated interim condensed financial information. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in note 20 – contingencies.

# 3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated interim condensed financial information. These accounting policies have been consistently applied.

## (a) Basis of interim condensed consolidation

### *(i) Subsidiaries*

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated interim condensed financial statements from the date that control effectively commences until the date that control effectively ceases.

### *(ii) Acquisitions from entities under common control*

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid in capital. Any cash paid for the acquisition is debited directly to equity.

### *(iii) Acquisitions of minority interests*

Any difference between the consideration paid to acquire a minority interest and the carrying amount of that minority interest is recognised directly in equity.

### *(iv) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated interim condensed financial information.

## (b) Foreign currencies

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.



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**(c) Property, plant and equipment**

***(i) Owned assets***

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of certain property, plant and equipment at the date of adopting IFRSs, 1 January 2002, was determined by reference to its fair value at that date ("deemed cost").

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

***(ii) Leased assets***

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

***(iii) Subsequent expenditure***

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

***(iv) Depreciation***

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

- Buildings and constructions 23 to 47 years
- Plant and equipment 18 to 37 years
- Tools and other 4 to 17 years

**(d) Intangible assets**

***(i) Research and development***

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the



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product of process is technically and commercially feasible and the Group has sufficient resources to complete development. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

***(ii) Other intangible assets***

Other intangible assets, represented by licenses and software, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

***(iii) Amortisation***

Other intangible assets are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are between 5-7 years.

**(e) Investments**

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of investments is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

**(f) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

**(g) Trade and other receivables**

Trade and other receivables are stated at amortized cost less impairment losses.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## (i) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

### *(i) Calculation of recoverable amount*

The recoverable amount of the Group's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### *(ii) Reversals of impairment*

An impairment loss in respect of a loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## (j) Share capital

### *(i) Preference share capital*

Preference share capital, which is non-redeemable and non-cumulative, is classified as equity.

### *(ii) Dividends and distributions to shareholders*

Dividends are recognised as a liability in the period in which they are declared, and other distributions to shareholders in the period in which they are made.

## (k) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.



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### (l) Employee benefits

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

The Group also pays a fixed amount per annum to a non-state defined contribution pension fund for its workers. These amounts are expensed as incurred, and are classified as personnel expenses.

### (m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (n) Trade and other payables

Trade and other payables are stated at cost. Long term trade and other payables are stated at their discounted cost.

### (o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (p) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the Grants. Grants that compensate the Group for expenses incurred are recognised as income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate



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the Group for the cost of an asset are recognized in income on a systematic basis over the useful life of the asset.

**(q) Revenues**

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

**(r) Financial income and expenses**

Financial income and expenses comprise interest expense on borrowings, interest income on funds invested, foreign exchange gains and losses, impairment losses and gains and losses on the disposal of available-for-sale investments.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses except for those that are directly attributable to the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of such assets.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

**(s) Operating leases**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

**(t) Social expenditure**

The Group’s contributions to social programs benefit the Group’s employees and their family members. They are recognised in the income statement as incurred.

**(u) Segment reporting**

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments.

**(v) Changes in classifications**

During the current year, the Group modified the classification of transportation expenses related to the purchase of raw materials and wages and salaries of purchase department staff in the income statement. Comparatives were reclassified for consistency, which resulted in RUR 338,045 thousand/ USD* 12,484 thousand being reclassified from distribution expenses to cost of sales for the six-month period ended 30 June 2005.



* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

Also the Group has netted off revenue with cost of sales of gas sold under an agency agreement for RUR 709,957 thousand/ USD* 26,218 thousand in accordance with the accounting policy described in note 3 (q).

**(w) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2006, and have not been applied in preparing this consolidated interim condensed financial information. The Group plans to adopt these pronouncements when they become effective.

The new standards will not have any impact on the Group's financial position or performance.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when and economy first becomes hyperinflationary and in particular the accounting the deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRS 8 which becomes mandatory for the Group's 2007 financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statement.
- IFRIC9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (1 January 2002). The adoption of IFRIC 10 will not have any impact on the Group's financial position or performance due to the fact that Group had never reversed an impairment losses applying to the listed assets.



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## 4 Prior period adjustment

During 2006, management of the Group identified certain errors that were made in the accrual of wages and salaries as at 31 December 2005.

As a result payables to employees as at 31 December 2005 and administrative expenses for the year ended 31 December 2005 were understated by RUR 224,000 thousand/ USD* 8,272 thousand.

Opening balances as at 1 January 2006 have been restated to reflect the correction of this error.

## 5 Segment reporting

Segment information is presented in respect of the Group's business segments, based upon the Group's management and internal reporting structure.

Inter-segment pricing is not determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

The Group comprises the following main business segments:

*Vehicles*. The manufacture and sale of a wide range of vehicles.

*Buses*. The manufacture and sale of a wide range of buses.

*Diesel engines and fuel injection equipment*. The manufacture and sale of a wide range of engines and fuel equipment.



* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

### *(i) Business segments*

| | Vehicles | | Buses | | Diesel engines and fuel injection equipment | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | six-month period ended 30 June | | six-month period ended 30 June | | six-month period ended 30 June | | six-month period ended 30 June | | six-month period ended 30 June | |
| **'000 RUR** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Revenue from external customers | 30,126,498 | 25,750,782 | 7,691,465 | 5,664,273 | 7,307,561 | 6,742,526 | - | - | 45,125,524 | 38,157,581 |
| Inter-segment revenue | 2,948,557 | 1,688,041 | 61,279 | 61,255 | 220,012 | 36,344 | (3,229,848) | (1,785,640) | - | - |
| **Total revenue** | 33,075,055 | 27,438,823 | 7,752,744 | 5,725,528 | 7,527,573 | 6,778,870 | (3,229,848) | (1,785,640) | 45,125,524 | 38,157,581 |
| Segment result | 2,333,967 | 763,888 | 1,192,157 | 748,074 | 1,077,868 | 788,539 | (7,297) | - | 4,596,695 | 2,300,501 |
| Non-allocated administrative expenses | | | | | | | | | (302,356) | (4,170) |
| Financial expenses, net | | | | | | | | | (184,314) | (387,947) |
| Income tax expense | | | | | | | | | (1,271,230) | (704,038) |
| **Net profit for the Period** | | | | | | | | | 2,838,795 | 1,204,346 |
| Depreciation/ Amortization | 1,020,432 | 1,286,851 | 102,319 | 131,351 | 167,036 | 213,824 | - | - | 1,289,787 | 1,632,026 |
| Capital expenditure | 1,652,442 | 728,769 | 96,702 | 78,120 | 169,254 | 230,143 | - | - | 1,918,398 | 1,037,032 |
| Impairment losses | 16,931 | 150,095 | 2,100 | - | 7,353 | 25,141 | - | - | 26,384 | 175,236 |



∗ *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note2(e).*

| | Vehicles | | Buses | | Diesel engines and fuel injection equipment | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| **'000 RUR** | **30 June 2006** | **Restated 31 December 2005** | **30 June 2006** | **Restated 31 December 2005** | **30 June 2006** | **Restated 31 December 2005** | **30 June 2006** | **Restated 31 December 2005** | **30 June 2006** | **Restated 31 December 2005** |
| Segment assets | 25,071,576 | 21,079,143 | 7,220,907 | 5,876,359 | 7,098,829 | 5,494,941 | (557,945) | (563,828) | 38,833,367 | 31,886,615 |
| Unallocated assets | | | | | | | | | 1,624,441 | 3,982,357 |
| **Total assets** | | | | | | | | | 40,457,808 | 35,868,972 |
| Segment liabilities | 9,632,340 | 7,541,922 | 1,283,005 | 1,646,018 | 1,969,030 | 2,449,459 | (544,731) | (557,834) | 12,339,644 | 11,079,565 |
| Unallocated liabilities | | | | | | | | | 11,839,878 | 10,712,505 |
| **Total liabilities** | | | | | | | | | 24,179,522 | 21,792,070 |



∗ *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note2(e).*

| | **Vehicles** | | **Buses** | | **Diesel engines and fuel injection equipment** | | **Eliminations** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **six-month period ended 30 June** | | **six-month period ended 30 June** | | **six-month period ended 30 June** | | **six-month period ended 30 June** | | **six-month period ended 30 June** | |
| **'000 USD*** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Revenue from external customers | 1,112,545 | 950,954 | 284,039 | 209,177 | 269,862 | 248,995 | - | - | 1,666,446 | 1,409,126 |
| Inter-segment revenue | 108,888 | 62,338 | 2,263 | 2,262 | 8,124 | 1,342 | (119,275) | (65,942) | - | - |
| **Total revenue** | 1,221,433 | 1,013,292 | 286,302 | 211,439 | 277,986 | 250,337 | (119,275) | (65,942) | 1,666,446 | 1,409,126 |
| Segment result | 86,191 | 28,210 | 44,025 | 27,626 | 39,804 | 29,119 | (269) | - | 169,751 | 84,955 |
| Non-allocated administrative expenses | | | | | | | | | (11,165) | (154) |
| Financial expenses, net | | | | | | | | | (6,807) | (14,327) |
| Income tax expense | | | | | | | | | (46,945) | (25,999) |
| **Net profit for the Period** | | | | | | | | | 104,834 | 44,475 |
| Depreciation/amortization | 37,684 | 47,522 | 3,779 | 4,851 | 6,168 | 7,896 | - | - | 47,631 | 60,269 |
| Capital expenditure | 61,023 | 26,913 | 3,571 | 2,885 | 6,250 | 8,499 | - | - | 70,844 | 38,297 |
| Impairment losses | 625 | 5,543 | 78 | - | 271 | 928 | - | - | 974 | 6,471 |



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| | **Vehicles** | | **Buses** | | **Diesel engines and fuel injection equipment** | | **Eliminations** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **'000 USD*** | **30 June 2006** | **31 December 2005** | **30 June 2006** | **31 December 2005** | **30 June 2006** | **31 December 2005** | **30 June 2006** | **31 December 2005** | **30 June 2006** | **31 December 2005** |
| Segment assets | 925,871 | 778,434 | 266,662 | 217,009 | 262,154 | 202,923 | (20,604) | (20,822) | 1,434,083 | 1,177,544 |
| Unallocated assets | | | | | | | | | 59,988 | 147,066 |
| **Total assets** | | | | | | | | | 1,494,071 | 1,324,610 |
| Segment liabilities | 355,713 | 278,517 | 47,380 | 60,786 | 72,715 | 90,456 | (20,116) | (20,600) | 455,692 | 409,159 |
| Unallocated liabilities | | | | | | | | | 437,236 | 395,603 |
| **Total liabilities** | | | | | | | | | 892,928 | 804,762 |



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## 6 Acquisition of minority interest

During the six-month period ended 30 June 2006 the Group purchased an additional interest in ZAO Volna for consideration of RUR 77,335 thousand/ USD* 2,856 thousand paid in cash. As a result the Group acquired an additional 44% interest in the subsidiary. The acquisition resulted in a decrease of the minority interest by RUR 47,775 thousand/ USD* 1,764 thousand and has been accounted for in accordance with the Group's accounting policy described in note 3(a)(iii).

## 7 Revenues

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **'000 RUR** | **'000 RUR** | **'000 USD*** | **'000 USD*** |
| Light commercial vehicles and minivans | 15,538,381 | 12,283,070 | 573,819 | 453,603 |
| Buses | 7,348,949 | 5,550,922 | 271,390 | 204,991 |
| Diesel engines and fuel injection equipment | 4,987,126 | 4,675,834 | 184,170 | 172,674 |
| Passenger cars | 4,534,610 | 4,280,544 | 167,459 | 158,077 |
| Spare parts | 4,532,113 | 4,175,044 | 167,367 | 154,181 |
| Goods for resale | 3,378,014 | 3,493,002 | 124,747 | 128,993 |
| Middle commercial vehicles | 3,142,863 | 2,191,355 | 116,063 | 80,925 |
| Services | 888,038 | 734,749 | 32,794 | 27,134 |
| Other | 775,430 | 773,061 | 28,637 | 28,548 |
| | 45,125,524 | 38,157,581 | 1,666,446 | 1,409,126 |

## 8 Other expenses, net

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **'000 RUR** | **'000 RUR** | **'000 USD*** | **'000 USD*** |
| Taxes other than on profit | (437,738) | (305,790) | (16,165) | (11,293) |
| Research and development costs | (175,427) | (115,306) | (6,478) | (4,258) |
| Fines and penalties | (161,764) | (77,058) | (5,974) | (2,846) |
| Social expenses and charity | (145,263) | (145,591) | (5,364) | (5,377) |
| Impairment of property, plant and equipment | (26,384) | (175,236) | (974) | (6,471) |
| Change in bad debts provision and write-offs | 64,779 | (43,092) | 2,392 | (1,590) |
| Profit (loss) on disposal of property, plant and equipment and intangible assets | 107,025 | (151,466) | 3,952 | (5,594) |
| Other, net | (74,705) | (322,313) | (2,759) | (11,903) |
| | (849,477) | (1,335,852) | (31,370) | (49,332) |



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# 9 Total personnel costs

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | '000 RUR | '000 RUR | '000 USD* | '000 USD* |
| Wages and salaries | (5,640,145) | (4,500,189) | (208,285) | (166,188) |
| Salary based taxes | (1,443,563) | (1,180,799) | (53,310) | (43,606) |
| | (7,083,708) | (5,680,988) | (261,595) | (209,794) |

The average number of employees during the six-month period ended 30 June 2006 was 90,408 (30 June 2005: 95,750).

# 10 Financial income and expenses

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | '000 RUR | '000 RUR | '000 USD* | '000 USD* |
| **Expenses** | | | | |
| Interest expense | (452,482) | (539,815) | (16,710) | (19,935) |
| Other financial expenses | - | (11,216) | - | (415) |
| | (452,482) | (551,031) | (16,710) | (20,350) |
| **Income** | | | | |
| Interest income | 240,456 | 141,046 | 8,880 | 5,209 |
| Gain on disposal of other investments | 13,537 | 22,038 | 500 | 814 |
| Other finance income | 14,175 | - | 523 | - |
| | 268,168 | 163,084 | 9,903 | 6,023 |



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# 11 Income tax expense

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | '000 RUR | '000 RUR | '000 USD* | '000 USD* |
| ***Current tax expense*** | | | | |
| Current year | (1,326,949) | (910,401) | (49,003) | (33,620) |
| ***Deferred tax expense*** | | | | |
| Origination and reversal of temporary differences | 55,719 | 206,363 | 2,058 | 7,621 |
| | (1,271,230) | (704,038) | (46,945) | (25,999) |

The Group's applicable tax rate is the corporate income tax rate of 24% (30 June 2005: 24%).

**Reconciliation of effective tax rate:**

| | six-month period ended 30 June | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | '000 RUR | % | '000 RUR | % |
| Profit before tax | 4,110,025 | | 1,908,384 | |
| Income tax at applicable tax rate | (986,406) | (24) | (458,012) | (24) |
| (Non-deductible)/non-taxable items, net | (284,824) | (7) | (246,026) | (13) |
| | (1,271,230) | (31) | (704,038) | (37) |

| | six-month period ended 30 June | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | '000 USD* | % | '000 USD* | % |
| Profit before tax | 151,779 | | 70,474 | |
| Income tax at applicable tax rate | (36,427) | (24) | (16,914) | (24) |
| (Non-deductible)/non-taxable items, net | (10,518) | (7) | (9,085) | (13) |
| | (46,945) | (31) | (25,999) | (37) |

# 12 Property, plant and equipment

## (a) Acquisition of property, plant and equipment

During the six-month period ended 30 June 2006, the Group acquired property, plant and equipment of RUR 1,914,918 thousand/ USD* 70,716 thousand (30 June 2005: RUR 894,076 thousand/ USD* 33,017 thousand) including DaimlerChrysler's line of assembly equipment for the production of four-door Dodge Stratus and Chrysler Sebring vehicles of RUR 675,031 thousand/ USD* 24,928 thousand (30 June 2005: nil).



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**(b) Depreciation**

During 2005 management changed its estimate of the residual useful life of certain items of buildings and equipment. As a result the depreciation charge for the period ended 30 June 2006 decreased by RUR 258,437 thousand/ USD* 9,544 thousand compared with the corresponding period of 2005.

## 13 Other investments

| | 30 June 2006 '000 RUR | 31 December 2005 '000 RUR | 30 June 2006 '000 USD* | 31 December 2005 '000 USD* |
|---|---|---|---|---|
| ***Non-current*** | | | | |
| Available-for-sale investments stated at cost | 61,338 | 52,453 | 2,265 | 1,937 |
| ***Current*** | | | | |
| Available-for-sale bank promissory notes | 47,068 | 132,115 | 1,738 | 4,879 |
| Other available-for-sale promissory notes | 55,851 | 106,200 | 2,063 | 3,922 |
| | 102,919 | 238,315 | 3,801 | 8,801 |

Available-for-sale investments stated at cost comprise unquoted equity securities for which fair value cannot be reliably determined.

## 14 Other long-term assets

Other long-term assets include letter of credit for future payments for DaimlerChrysler's license for production of four-door Dodge Stratus and Chrysler Sebring vehicles of RUR 541,578 thousand/ USD* 20,000 thousand.

## 15 Cash and cash equivalents

| | 30 June 2006 '000 RUR | 31 December 2005 '000 RUR | 30 June 2006 '000 USD* | 31 December 2005 '000 USD* |
|---|---|---|---|---|
| Petty cash | 8,799 | 6,053 | 325 | 224 |
| Current accounts | 680,864 | 394,476 | 25,144 | 14,568 |
| Cash equivalents | 3,389,796 | 108,732 | 125,182 | 4,015 |
| Cash and cash equivalents in the balance sheet | 4,079,459 | 509,261 | 150,651 | 18,807 |
| Bank overdrafts | - | (48,933) | - | (1,807) |
| Cash and cash equivalents in the statement of cash flows | 4,079,459 | 460,328 | 150,651 | 17,000 |

Cash and cash equivalents as at 30 June 2006 include promissory notes from related parties of RUR 1,790,488 thousand/ USD* 66,121 thousand (2005: RUR 19,110 thousand/ USD* 706 thousand). These promissory notes bear 10% interest and are to be repaid in 2006 (refer note 21).



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# 16 Equity

## (a) Share capital

| *Number of thousand shares unless otherwise stated* | **Ordinary shares** | | **Preference shares** | |
|---|---|---|---|---|
| | **30 June 2006** | **31 December 2005** | **30 June 2006** | **31 December 2005** |
| Authorized shares | 20,004,512 | 20,004,512 | 1,454 | 1,454 |
| Par value | 1 RUR | 1 RUR | 1 RUR | 1 RUR |
| In issue and fully paid | 13,131 | 13,131 | 1,454 | 1,454 |

Preference shares have no right of conversion or compulsory redemption, but are entitled to an annual dividend per share equal to the greater of 10% of net statutory profit divided by number of preference shares (which are 25% of share capital) or the dividend per share attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders Meeting. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation.

In the event of liquidation, preference shareholders first receive any declared unpaid dividends and the par value of the preference shares ("liquidation value"). Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

In October 2005, OAO GAZ issued 6,082,318 ordinary shares with a par value of 1 RUR for RUR 1,887 per share. 5,234,870 shares were purchased by OAO Russkie Machiny (the Company's parent company), 116,588 shares were purchased by related parties and 730,860 shares were purchased by third parties. The shares were acquired in exchange for shares in the Group's subsidiaries listed in note 22. This share issue was a part of the Group restructuring, referred to in note 2(b), which was accounted for in accordance with the Group's accounting policies described in notes 3(a)(ii) and 3(a)(iii).

## (b) Share premium

Share premium represents the difference between the par value and net proceeds of shares issued, contributions made by the ultimate shareholders, other than in respect of share capital, and difference between the consideration paid to acquire minority interests and the carrying amount of those minority interests.

## (c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 30 June 2006, the Company had retained earnings, including the profit for the current period, of RUR 893,030 thousand/ USD* 32,979 thousand.

On 10 June 2006 the Company's annual shareholders meeting approved the payment of dividends of RUR 560,076 thousand/ USD* 20,683 thousand to ordinary and preference shareholders (or



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RUR 38.40/ USD* 1.42 per ordinary and preference share). The following dividends have been recognized in the six-month period ended 30 June:

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **'000 RUR** | **'000 RUR** | **'000 USD*** | **'000 USD*** |
| Dividends | (560,076) | (457,588) | (20,683) | (16,898) |

## 17 Earnings per share

Earnings per share is calculated by dividing the net profit attributable to ordinary and preference shareholders of RUR 2,460,801 thousand/ USD* 90,875 thousand (30 June 2005: RUR 984,932 thousand/ USD* 36,372 thousand) by the weighted average number of ordinary and preference shares outstanding respectively during the six-month period ended 30 June 2006 of 13,131 thousand ordinary shares and 1,454 thousand preference shares (30 June 2005: 13,131 thousand ordinary shares and 1,454 thousand preference shares). For the purpose of calculation of the weighted average number of shares, shares issued in connection with the Group restructuring (refer note 16(a)) were deemed to have been issued on 1 January 2005.

The Group has no potentially dilutive securities.

## 18 Bonds

During the six-month period ended 30 June 2006, the Group issued long-term interest-bearing non-convertible bonds of RUR 5,000,000 thousand/ USD*184,646 thousand with a maturity date of February 2011. Interest on the bonds is payable in August and February each year starting in August 2006. Until August 2008 interest will be accrued based on the coupon rate of 8.49%.

## 19 Capital commitments

At 30 June 2006 the Group had entered into a contract to purchase equipment from Chrysler for RUR 759,453 thousand/ USD* 28,046 thousand.

At the same time Group had entered into technology license agreement under which Group will pay an amount of RUR 5,415/ USD* 200 for each vehicle produced using JR-41 technology up to a total of 250,000 vehicles.

At 30 June 2006 the Group had entered into a contract to purchase equipment from Renault Trucks for production of Euro IV Engines for EUR 7,800 thousand (or RUR 265,012 thousand/ USD* 9,787 thousand at the 30 June 2006 exchange rate) and a license for the right to produce Euro IV Engines for EUR 13,000 thousand (or RUR 441,687 thousand/ USD* 16,311 thousand at the 30 June 2006 exchange rate).



* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

# 20 Contingencies

## (a) Litigation

Certain legal proceedings against the Group on matters arising in the ordinary course of business are pending at the balance sheet date. Management is of the opinion that no losses, material in relation to the Group’s financial position, are likely to arise in respect of these matters.

## (b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of regulating authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation demonstrate that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities in the consolidated interim condensed financial information of the Group based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

In 2005, the tax authorities performed a tax audit of the 2001 fiscal year and, as a result, have challenged certain transactions amounting to RUR 190 million/ USD* 6.6 million on the basis that they lack commercial substance and are aimed exclusively at a reduction of tax liabilities. Due to offset of tax losses previously reported in 2001 and the effect on the above transactions, the additional income tax claimed amounted to RUR 22 million/ USD* 0.8 million, excluding penalties and interest. Under the relevant legislation, the tax authorities can impose penalties equal to the total transaction amounts. Similar transactions in larger volumes were carried out by the Group in subsequent periods although such transactions were not challenged by the tax audit for 2003 and 2004.

Management has assessed the Group’s overall tax position with respect to the use of such arrangements based upon its understanding of the tax regulations and experience in working with tax authorities. Management has not provided any amounts in respect of such matters as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations. It is not practicable to estimate the potential effect, if any, of the contingent liabilities referred to above.

## (c) Guarantees

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other entities, the Group considers these to be insurance arrangements, and account for them such. In this respect the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.



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As at 30 June 2006 the Group has guaranteed bank loans totalling RUR 2,489,732 thousand/ USD* 91,944 thousand (2005: nil), including loans to related parties amounting to RUR 1,800,746 thousand/ USD* 66,500 thousand (refer note 21).

Subsequent to 30 June 2006, third parties' bank loans which the Group has guaranteed (totalling RUR 688,986 thousand/ USD* 25,444 thousand) have been repaid.

# 21 Related party transactions

## (a) Control relationships

The Company's immediate parent company is OAO Russkie Machiny, a subsidiary of Basic Element Limited. Activities of the Group are closely linked with the activities of the Group headed by Basic Element Limited ("Basic Element Group") and determination of the pricing of the Group's services to Basic Element Group is undertaken in conjunction with other fellow subsidiaries.

The party with ultimate control over the Company is Mr. Deripaska O.V.

Related parties comprise the Basic Element Group and other companies controlled by Mr. Deripaska O.V. In addition, the Group has a controlling relationship with all its subsidiaries (refer note 22 for a list of significant subsidiaries).

## (b) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 9):

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | '000 RUR | '000 RUR | '000 RUR | '000 RUR |
| Salaries and bonuses | 81,536 | 33,634 | 3,011 | 1,242 |
| Contributions to State pension fund | 4,631 | 2,004 | 171 | 74 |
| | 86,167 | 35,638 | 3,182 | 1,316 |

## (c) Transactions with other related parties

The Group's other related party transactions are disclosed below.

### *(i) Revenue*

Sales to fellow subsidiaries for the period were as follows:

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | '000 RUR | '000 RUR | '000 USD* | '000 USD* |
| Sales of goods | 2,630,484 | 3,224,303 | 97,141 | 119,071 |
| Services provided | 139,125 | 79,203 | 5,138 | 2,925 |
| | 2,769,609 | 3,303,506 | 102,279 | 121,996 |



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### *(ii) Purchases of raw materials and services*

Purchases of raw materials and services from fellow subsidiaries for the period were as follows:

| | six-month period ended 30 June | | six-month period ended 30 June | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **'000 RUR** | **'000 RUR** | **'000 USD*** | **'000 USD*** |
| Purchase of raw materials | 1,374,482 | 2,215,139 | 50,759 | 81,803 |
| Purchase of services | 49,914 | 64,237 | 1,843 | 2,372 |
| | 1,424,396 | 2,279,376 | 52,602 | 84,175 |

### *(iii) Cash and cash equivalent*

Cash and cash equivalents at the end of the period include promissory notes of RUR 1,790,488 thousand/ USD* 66,121 thousand (2005: RUR 19,110 thousand/ USD* 706 thousand) from AKB Soyuz controlled by ultimate controlling party.

### *(iv) Trade and other receivables and other current investments*

Trade and other receivables from fellow subsidiaries at the end of the period were as follows:

| | **30 June 2006** | **31 December 2005** | **30 June 2006** | **31 December 2005** |
|---|---|---|---|---|
| | **'000 RUR** | **'000 RUR** | **'000 USD*** | **'000 USD*** |
| Receivables | 428,915 | 492,191 | 15,839 | 18,176 |
| Advances paid | 18,544 | 4,341 | 685 | 160 |
| Bank promissory notes | 55,851 | | 2,063 | |
| Other receivables | 102,571 | 293,427 | 3,788 | 10,836 |
| | 605,881 | 789,959 | 22,375 | 29,172 |

### *(v) Loans advanced*

Loans advanced at the end of the period were as follows:

| | **30 June 2006** | **31 December 2005** | **30 June 2006** | **31 December 2005** |
|---|---|---|---|---|
| | **'000 RUR** | **'000 RUR** | **'000 USD*** | **'000 USD*** |
| ***Non-current*** | | | | |
| Companies controlled by ultimate controlling party | 282,246 | 282,246 | 10,423 | 10,423 |
| | 282,246 | 282,246 | 10,423 | 10,423 |



* *The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e).*

| | 30 June 2006 '000 RUR | 31 December 2005 '000 RUR | 30 June 2006 '000 USD* | 31 December 2005 '000 USD* |
|---|---|---|---|---|
| ***Current*** | | | | |
| AKB Soyuz controlled by ultimate controlling party | 27,500 | 1,450,514 | 1,015 | 53,566 |
| Parent company | - | 1,241,823 | - | 45,859 |
| Other companies controlled by ultimate controlling party | 574,122 | - | 21,202 | - |
| Companies controlled by Basic Element Limited | 83,293 | 278,226 | 3,076 | 10,275 |
| | 684,915 | 2,970,563 | 25,293 | 109,700 |

### *(vi) Trade and other payables*

Trade and other payables owing to fellow subsidiaries at the end of the period were as follows:

| | 30 June 2006 '000 RUR | 31 December 2005 '000 RUR | 30 June 2006 '000 USD* | 31 December 2005 '000 USD* |
|---|---|---|---|---|
| Trade payables | 239,570 | 334,441 | 8,847 | 12,351 |
| Advances received | 15,493 | 30,346 | 572 | 1,121 |
| Other payables | 471,918 | 236,081 | 17,428 | 8,718 |
| | 726,981 | 600,868 | 26,847 | 22,190 |

### *(vii) Loans received*

Loans and borrowings owing to fellow subsidiaries at the end of the period were as follows:

| | 30 June 2006 '000 RUR | 31 December 2005 '000 RUR | 30 June 2006 '000 USD* | 31 December 2005 '000 USD* |
|---|---|---|---|---|
| ***Non-current*** | | | | |
| AKB Soyuz controlled by ultimate controlling party | 250,000 | - | 9,232 | - |
| Finance lease liability to companies controlled by ultimate controlling party | 93,981 | 113,993 | 3,471 | 4,210 |
| | 343,981 | 113,993 | 12,703 | 4,210 |
| ***Current*** | | | | |
| Other companies controlled by ultimate controlling party | 380,107 | 719,562 | 14,037 | 26,573 |
| AKB Soyuz controlled by ultimate controlling party | 232,353 | 137,833 | 8,581 | 5,091 |
| Companies controlled by Basic Element Limited | 58,244 | 585,673 | 2,151 | 21,628 |
| Finance lease liability to the companies controlled by ultimate controlling party | 4,589 | 4,481 | 169 | 165 |
| | 675,293 | 1,447,549 | 24,938 | 53,457 |



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**(d) Guaranteed bank loans to related parties**

As at 30 June 2006 the Group has guaranteed bank loans to AKB Soyuz controlled by ultimate controlling party amounting to RUR 1,800,746 thousand/ USD* 66,500 thousand (refer note 20 (c)).

**(e) Pricing policies**

Prices for related party transactions are determined by the Group on an ongoing basis.

# 22 Significant subsidiaries

| | Country of incorporation | Effective ownership | |
|---|---|---|---|
| | | 30 June 2006 | 31 December 2005 |
| OOO Avtomobilny zavod GAZ | Russia | 100% | 100% |
| OOO Zavod shtampov I pressform | Russia | 100% | 100% |
| OOO TZK GAZ | Russia | 100% | 100% |
| OOO TD Russkie mashiny | Russia | 100% | 100% |
| OOO Avtozavodskie Energeticheskie Seti | Russia | 51% | 51% |
| OOO RPAS | Russia | 100% | 100% |
| OAO Golicinskiy Avtobusny zavod | Russia | 100% | 100% |
| OOO Likinsky avtobus | Russia | 100% | 100% |
| OOO LIAZ | Russia | 100% | 100% |
| OOO KAVZ | Russia | 100% | 100% |
| OAO KAAZ | Russia | 93% | 93% |
| OAO Saranskiy Zavod Avtosamosvalov | Russia | 62% | 62% |
| OOO TsTD Russkie avtobusy | Russia | 89% | 89% |
| OOO UK RusPromAvto | Russia | 100% | 100% |
| OAO Pavlovskiy avtobus | Russia | 89% | 89% |
| OOO Pavlovskiy avtobusny zavod | Russia | 89% | 89% |
| OAO YAZDA | Russia | 86% | 86% |
| OAO YAZTA | Russia | 88% | 88% |
| OOO TD TPS | Russia | 86% | 86% |
| OOO UPTK TPS | Russia | 86% | 86% |
| OAO Autodiesel | Russia | 57% | 57% |
| OOO TD Dizel MTS | Russia | 57% | 57% |
| OOO TK Yardizel | Russia | 57% | 57% |



* _The USD equivalent figures are provided for information purposes only and do not form part of the consolidated interim condensed financial information – refer note 2(e)._

# 23 Events subsequent to the balance sheet date

## (a) Acquisition of LDV Holdings Limited

Subsequent to 30 June 2006, the Company acquired ultimate ownership of 100% participation in LDV Holdings Limited, an independent producer of light commercial vehicles, located in Birmingham, UK, from Sun Capital. The total consideration in respect of the acquisition is not disclosed due to an obligation imposed by the vendor.

## (b) Issue of additional shares

On 3 August 2006, an Extraordinary General Meeting of the Company's Shareholders voted to increase share capital by issuing and placing via open subscription the Company's 6,200,000 ordinary shares, with a par value of RUR 1, at a price set by the Company's Board of Directors of RUR 2,315 per share. The newly issued shares will be paid for in cash and with minority interest in a number of the Company's subsidiaries as well as the following subsidiaries the controlling interests in which are held by Basic Element Limited:

- OAO Avtomobilny zavod URAL;
- OAO Tverskoy exkavator;
- OAO Bryansky arsenal;
- OAO Chelyabinskiye stroitelno-dorozhnye machiny.

## (c) Purchase of treasury shares

On 30 August 2006, the Company repurchased from OAO Russkie Mashiny, and certain other unrelated parties 1,311,953 ordinary and 144,750 preferred shares for a total consideration of RUR 3,044,236 thousand/ USD* 112,421 thousand for ordinary and RUR 241,733 thousand/ USD* 8,927 thousand for preferred shares, respectively.



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