

ОАО ГАЗ

**Consolidated Financial Statements for the
year ended
31 December 2007**

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Independent Auditors' Report

To the Board of Directors

ОАО ГАЗ

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ОАО ГАЗ (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that the US dollar amounts in the accompanying consolidated financial statements, which are presented solely for the convenience of users as described in Note 2(e), do not form part of the consolidated financial statements and are unaudited.

KPMG Limited

KPMG Limited

22 May 2008

	Note	Restated		2007	2006
		'000 RUR	'000 RUR	'000 USD*	'000 USD*
Revenue	8	152,784,848	120,265,220	6,224,378	4,899,545
Cost of sales	9	(124,225,554)	(96,711,192)	(5,060,887)	(3,939,966)
Gross profit		28,559,294	23,554,028	1,163,491	959,579
Distribution expenses	10	(4,653,390)	(3,492,358)	(189,576)	(142,277)
Administrative expenses	11	(10,388,344)	(8,840,141)	(423,216)	(360,143)
Other income	12	866,162	768,917	35,287	31,326
Other expenses	12	(1,997,451)	(2,619,084)	(81,375)	(106,700)
Financial income	14	579,977	896,545	23,628	36,525
Financial expenses	14	(1,706,960)	(1,710,056)	(69,541)	(69,667)
Share of losses of equity accounted investees (net of income tax)		(28,254)	-	(1,151)	-
Profit before tax		11,231,034	8,557,851	457,547	348,643
Income tax expense	15	(4,031,531)	(2,598,924)	(164,243)	(105,879)
Profit for the year		7,199,503	5,958,927	293,304	242,764
Attributable to:					
Shareholders of the Company		6,541,309	5,079,453	266,490	206,935
Minority interest		658,194	879,474	26,814	35,829
		7,199,503	5,958,927	293,304	242,764
Basic and diluted earnings per share					
Ordinary shares	27	392 RUR	279 RUR	16 USD*	11 USD*
Preference shares	27	392 RUR	279 RUR	16 USD*	11 USD*

These consolidated financial statements were approved by management on 22 May 2008 and were signed on its behalf by:



Zanozin S.G.
*Chairman
of Management Committee
of LLC GAZ GROUP*



Luzhetskaya T.A.
*Acting Deputy Chairman of Management
Committee for Finance and Economics
of LLC GAZ GROUP*

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 97.

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

		Restated			
		31 December	31 December	31 December	31 December
		2007	2006	2007	2006
	Note	'000 RUR	'000 RUR	'000 USD*	'000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	16	33,507,966	28,778,155	1,365,098	1,172,408
Intangible assets	17	1,223,479	459,049	49,844	18,701
Investments in equity accounted investees	18	746	-	31	-
Other investments	19	50,081	49,510	2,040	2,017
Deferred tax assets	22	466,306	529,121	18,997	21,556
Other long-term assets	20	699,695	443,168	28,505	18,054
Loans issued	21	2,058,616	281,217	83,867	11,457
Total non-current assets		38,006,889	30,540,220	1,548,382	1,244,193
Current assets					
Inventories	23	13,064,031	10,805,280	532,222	440,202
Other investments	19	4,809	84,817	196	3,456
Loans issued	21	2,223,417	2,811,179	90,581	114,526
Trade and other receivables	24	11,716,483	10,075,707	477,324	410,479
Prepayments for inventories and services		1,858,311	1,248,653	75,706	50,870
Income tax receivable		394,503	282,216	16,072	11,497
Cash and cash equivalents	25	5,609,182	1,444,668	228,515	58,855
Total current assets		34,870,736	26,752,520	1,420,616	1,089,885
Total assets		72,877,625	57,292,740	2,968,998	2,334,078

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 97.

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

	Note	Restated		31 December 2007	31 December 2006
		31 December 2007	31 December 2006		
		'000 RUR	'000 RUR	'000 USD*	'000 USD*
EQUITY AND LIABILITIES					
Equity	26				
Share capital		2,311,772	2,311,280	94,180	94,160
Share premium		9,910,999	9,608,238	403,770	391,436
Treasury shares		(7,304,782)	(7,304,782)	(297,593)	(297,593)
Foreign currency translation reserve		(29,695)	-	(1,210)	-
Retained earnings		15,079,178	9,733,096	614,318	396,521
Total equity attributable to shareholders of the Company		19,967,472	14,347,832	813,465	584,524
Minority interest		2,474,212	2,121,286	100,798	86,420
Total equity		22,441,684	16,469,118	914,263	670,944
Non-current liabilities					
Loans and borrowings	28	4,856,226	7,230,604	197,840	294,571
Delayed taxes	29	93,030	133,377	3,789	5,433
Deferred tax liabilities	22	810,218	1,114,810	33,008	45,417
Other long-term payables	30	1,180,630	1,314,709	48,099	53,561
Total non-current liabilities		6,940,104	9,793,500	282,736	398,982
Current liabilities					
Bank overdrafts	28	275,186	13,993	11,211	570
Loans and borrowings	28	22,700,520	13,720,968	924,808	558,986
Trade and other payables	31	20,217,616	16,897,558	823,656	688,398
Income tax payable		302,515	397,603	12,324	16,198
Total current liabilities		43,495,837	31,030,122	1,771,999	1,264,152
Total liabilities		50,435,941	40,823,622	2,054,735	1,663,134
Total equity and liabilities		72,877,625	57,292,740	2,968,998	2,334,078

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 97.

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	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
OPERATING ACTIVITIES				
Profit for the year	7,199,503	5,958,927	293,304	242,764
<i>Adjustments for:</i>				
Depreciation	3,641,182	3,160,919	148,340	128,774
Amortisation	92,159	47,615	3,755	1,940
Recognition of negative goodwill	(403,950)	(608,894)	(16,457)	(24,806)
Impairment losses of property, plant, equipment and intangible assets	85,858	496,495	3,498	20,227
(Gain)/loss on disposal of property, plant and equipment and intangible assets	(286,867)	19,951	(11,687)	813
Gain on disposal of investments	(9,845)	(19,132)	(401)	(779)
Interest expense	1,706,960	1,710,056	69,541	69,667
Interest income	(382,221)	(745,399)	(15,572)	(30,368)
Share in losses of equity accounted investees (net of income tax)	28,254	-	1,151	-
Income tax expense	4,031,531	2,598,924	164,243	105,879
Operating profit before changes in working capital	15,702,564	12,619,462	639,715	514,111
Increase in inventories	(1,843,813)	(1,950,022)	(75,117)	(79,443)
Increase in trade and other receivables	(2,531,508)	30,147	(103,132)	1,228
Increase in prepayments	(609,658)	(250,979)	(24,836)	(10,225)
Increase in trade and other payables	4,313,707	1,590,373	175,738	64,791
Decrease in delayed taxes	(40,347)	(175,501)	(1,644)	(7,150)
Cash flows from operations before income taxes and interest paid	14,990,945	11,863,480	610,724	483,312
Income taxes paid	(4,480,683)	(3,556,985)	(182,541)	(144,910)
Interest paid	(1,862,819)	(1,594,649)	(75,890)	(64,965)
Cash flows from operating activities	8,647,443	6,711,846	352,293	273,437

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 97.

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	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant, equipment and intangible assets	281,696	331,495	11,476	13,505
Proceeds from disposal of other investments	-	117,154	-	4,773
Repayment of loans provided	8,621,258	10,971,705	351,226	446,982
Loans provided	(9,712,104)	(6,518,785)	(395,666)	(265,572)
Interest received	223,667	828,254	9,112	33,743
Acquisition of property, plant and equipment	(9,314,805)	(5,152,862)	(379,481)	(209,925)
Acquisition of intangible assets	(876,243)	(345,875)	(35,698)	(14,091)
Acquisition of minority interests	-	(48,834)	-	(1,989)
Acquisition of subsidiaries, net of cash acquired	-	(359,398)	-	(14,642)
Acquisition of equity accounted investees	(500)	-	(20)	-
Proceeds from sale of promissory notes	89,283	364,100	3,637	14,833
Cash flows (utilised by)/from investing activities	(10,687,748)	186,954	(435,414)	7,617
FINANCING ACTIVITIES				
Proceeds from the issue of share capital	857,722	-	34,943	-
Proceeds from borrowings	59,442,583	69,782,354	2,421,661	2,842,898
Repayment of borrowings	(52,812,601)	(67,021,320)	(2,151,559)	(2,730,415)
Distributions to shareholders	(801,000)	(923,000)	(32,632)	(37,603)
Dividends paid	(743,078)	(671,815)	(30,273)	(27,369)
Purchase of treasury shares	-	(7,304,782)	-	(297,593)
Cash flows from/(utilised by) financing activities	5,943,626	(6,138,563)	242,140	(250,082)
Net increase in cash and cash equivalents	3,903,321	760,237	159,019	30,972
Cash and cash equivalents at beginning of year	1,430,675	670,438	58,285	27,313
Cash and cash equivalents at end of year (note 25)	5,333,996	1,430,675	217,304	58,285

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 97.

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'000 RUR

Attributable to shareholders of the Company

	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2006 as previously reported	2,306,383	8,139,125	-	-	6,536,064	16,981,572	1,807,575	18,789,147
Effect of acquisitions under common control	-	310,468	-	-	(153,878)	156,590	-	156,590
Balance at 1 January 2006, as restated	2,306,383	8,449,593	-	-	6,382,186	17,138,162	1,807,575	18,945,737
Profit and total recognised income and expense for the year (restated)	-	-	-	-	5,079,453	5,079,453	879,474	5,958,927
Distributions to shareholders	-	-	-	-	(923,000)	(923,000)	-	(923,000)
Dividends	-	-	-	-	(805,543)	(805,543)	-	(805,543)
Shares issued	4,897	785,764	-	-	-	790,661	(279,775)	510,886
Transactions with minority interest	-	334,363	-	-	-	334,363	(285,988)	48,375
Contributions (restated)	-	38,518	-	-	-	38,518	-	38,518
Own shares acquired	-	-	(7,304,782)	-	-	(7,304,782)	-	(7,304,782)
Balance at 31 December 2006, as restated	2,311,280	9,608,238	(7,304,782)	-	9,733,096	14,347,832	2,121,286	16,469,118
Profit for the year	-	-	-	-	6,541,309	6,541,309	658,194	7,199,503
Foreign currency translation differences	-	-	-	(29,695)	-	(29,695)	-	(29,695)
Total recognised income and expense for the year	-	-	-	(29,695)	6,541,309	6,511,614	658,194	7,169,808
Distributions to shareholders	-	(348,851)	-	-	(452,149)	(801,000)	-	(801,000)
Dividends	-	-	-	-	(743,078)	(743,078)	-	(743,078)
Shares issued	492	651,612	-	-	-	652,104	(305,268)	346,836
Balance at 31 December 2007	2,311,772	9,910,999	(7,304,782)	(29,695)	15,079,178	19,967,472	2,474,212	22,441,684

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 97.

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'000 USD*

Attributable to shareholders of the Company

	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2006 as previously reported	93,961	331,584	-	-	266,276	691,821	73,640	765,461
Effect of acquisitions under common control	-	12,648	-	-	(6,269)	6,379	-	6,379
Balance at 1 January 2006 as restated	93,961	344,232	-	-	260,007	698,200	73,640	771,840
Profit and total recognised income and expense for the year (restated)	-	-	-	-	206,935	206,935	35,829	242,764
Distributions to shareholders	-	-	-	-	(37,603)	(37,603)	-	(37,603)
Dividends	-	-	-	-	(32,818)	(32,818)	-	(32,818)
Shares issued	199	32,012	-	-	-	32,211	(11,398)	20,813
Transactions with minority interest	-	13,622	-	-	-	13,622	(11,651)	1,971
Contributions (restated)	-	1,570	-	-	-	1,570	-	1,570
Own shares acquired	-	-	(297,593)	-	-	(297,593)	-	(297,593)
Balance at 31 December 2006, as restated	94,160	391,436	(297,593)	-	396,521	584,524	86,420	670,944
Profit for the year	-	-	-	-	266,490	266,490	26,814	293,304
Foreign currency translation differences	-	-	-	(1,210)	-	(1,210)	-	(1,210)
Total recognised income and expense for the year	-	-	-	(1,210)	266,490	265,280	26,814	292,094
Distributions to shareholders	-	(14,212)	-	-	(18,420)	(32,632)	-	(32,632)
Dividends	-	-	-	-	(30,273)	(30,273)	-	(30,273)
Shares issued	20	26,546	-	-	-	26,566	(12,436)	14,130
Balance at 31 December 2007	94,180	403,770	(297,593)	(1,210)	614,318	813,465	100,798	914,263

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 97.

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1 Background

(a) Organisation and its 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 in accordance with the Civil Code of the Russian Federation, as well as companies established in accordance with the legislation of the United Kingdom. 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 over-the-counter in the Russian Trading System (“RTS”).

The business activities of the Group are managed by LLC GAZ GROUP (the “Manager”).

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

The Group’s principal activity is the production of:

- Light commercial vehicles;
- Trucks;
- Buses of different types;
- Road construction vehicles;
- Diesel engines and fuel injection equipment;
- Mid-size passenger cars;
- Special vehicles;
- Spare parts and various auto-components for produced cars.

These products are sold in the Russian Federation and abroad.

OAO Russkie Mashiny, a member of the Basic Element Limited Group (the “Basic Element Group”), owned 72.81% of Company’s shares as at 31 December 2007.

(b) Russian business environment

The Russian Federation has been experiencing political and economic changes that have 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. These consolidated financial statements reflect management’s assessment of the possible impact of the Russian economic 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Russian companies maintain accounting records and prepare financial statements in Russian Rubles in accordance with the requirements of Russian legislation on taxation and accounting.

Companies which carry out activities in Great Britain maintain accounting records and prepare financial statements in UK Pounds in accordance with the requirements of UK legislation.

These consolidated financial statements differ from Russian financial statements and UK financial statements because adjustments are required in order to present financial condition, financial performance and cash flows in accordance with IFRS. These adjustments are not recorded in accounting records of the Group’s companies.

(b) Group restructuring

In 2006 OAO Russkie Mashiny commenced the second phase of a restructuring process whereby controlling ownership interests in OAO Avtomobilny Zavod Ural, OAO Tverskoy Excavator, OAO Bryansky Arsenal and ZAO Chelyabinskije Stroitelno-dorozhnye Mashiny were transferred to the Company in exchange for additional shares issued by the Company.

The process of additional share placement was completed on 1 February 2007. The results of the placement are disclosed in note 26.

As a result, 5,388,424 additionally issued ordinary shares (or 86.91% out of 6,200,000 ordinary shares announced to be placed) were actually placed.

Also as part of the restructuring process in December 2007 the Group purchased all of the shares in OAO “Ulyanovsky Motorny Zavod” and subsidiaries.

The restructuring involved a series of business combinations of entities 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).

For a detailed description of the impact of transactions with minority interests on the effective ownership of the Group’s subsidiaries, see note 7(c).

(c) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value; certain items of property, plant and equipment were revalued at 1 January 2002 to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of non-monetary 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 functional currency of all the Group's Russian entities is the Russian Rouble ("RUR"). The functional currency of the Group's UK entities is the UK Pound ("UKP").

Management has decided to use RUR as the presentation currency for the purposes of these consolidated financial statements because a substantial majority of the Group's operations are based in the Russian Federation. All financial information presented in RUR has been rounded to the nearest thousand.

(e) Convenience translation

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

All amounts of the consolidated financial statements are translated from RUR to USD at the closing exchange rate at 31 December 2007 published by the Central Bank of the Russian Federation of RUR 24.5462 to USD 1.

(f) Use of judgments, estimates and assumptions

Management has made a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in note 35 – Contingencies.

3 Significant accounting policies

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

(a) Basis of consolidation**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls 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 the carrying amounts recognised previously in the entities' own financial statements. 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 share premium. Any cash paid/ to be paid for the acquisition is recognised directly in equity.

(iii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Acquisitions and disposals 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.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Group's interest in the subsidiary, including attributable goodwill, is recognised directly in equity.

(v) Disposal of subsidiaries

Disposals of subsidiaries are accounted for by recognizing the difference between the consideration received and the carrying amount of the net assets of the subsidiary, including minority interests and attributable goodwill, in the income statement.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUR at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUR at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in the foreign currency translation reserve (FCTR) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

(c) Property, plant and equipment**(i) Owned assets**

Items of property, plant and equipment, except for land, are measured at cost or deemed cost less accumulated depreciation and impairment losses. The cost of certain property, plant and equipment at 1 January 2002, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is an integral part of the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognized net in "other income" in profit or loss.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership at the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequently, goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of intangible assets for the current and comparative periods are between 2-12 years.

(e) Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset.

Other investments are classified as available-for-sale and are measured at fair value and any changes therein, other than impairment losses, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

The fair value of investments available-for-sale is their quoted bid price at the reporting 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 measured at cost less impairment losses.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in 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.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(g) 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.

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

(ii) Reversal of impairment

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(iii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

(i) 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.

(iii) Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(j) Employee benefits

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are recognised in profit or loss when they are due.

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

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

(l) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is calculated 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; the initial recognition of assets or liabilities in a transaction that is not a business combination that affects neither accounting nor taxable profit; and differences

relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax provided is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) 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 meet all the requirements associated with the Grant. 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 recognised. Grants that compensate the Group for the cost of an asset are recognised in the profit or loss on a systematic basis over the useful life of the asset.

(n) Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, the recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(i) Revenue on commission services

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

(ii) Revenue on sale and buy back vehicles

When the Group has retained the risks and rewards of ownership under sale and repurchase agreements under which it agrees to repurchase the same goods at a later date, revenue is recognized when the risks and rewards are transferred to the buyer. The difference between the initial sale price and the repurchase price is recognized as operating income on a straight-line basis over the term of agreement which usually is 2-3 years.

(o) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings and loans, 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 borrowing costs are recognised in profit or loss using the effective interest method except for the borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Interest income is recognized as it accrues in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(q) Social expenditure

The Group's contributions to social programs benefit the Group's employees and their family members. They are recognised in profit and loss as incurred.

(r) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary and preference shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary and preference shareholders and the weighted average number of ordinary and preference shares outstanding for the effects of all dilutive potential ordinary and preference shares.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is 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 investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(t) Financial guarantee contracts

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within a commonly controlled group of companies, the Group considers these to be insurance arrangements, and accounts for them as 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.

(u) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements*, which is effective for annual periods beginning on or after 1 January 2008. The Interpretation addresses how service concession operators should account for the obligations they undertake and rights they receive in service concession arrangements. It is not expected to have any impact on the consolidated financial statements.
- Revised IAS 23 *Borrowing Costs*, removes the option to expense borrowing costs and requires the entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset beginning on 1 January 2009. This Standard is not expected to have any impact on the consolidated financial statements as the Group already capitalises interest cost on qualifying assets.
- IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*, which requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any material effect on the consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* clarifies accounting rules of discounts and rebates given to customers, e.g. liability to grant a certain amount of free or discounted goods (services) to customers who would use their right for these bonuses. It is mandatory for annual periods beginning on or after 1 July 2008. IFRIC 13 will not have any impact on the Group's consolidated financial statements.
- IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IAS 19 Employee Benefits)*. It states how to evaluate the surplus recognised as an asset according to IAS 19. It clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements on benefit assets or liabilities. Implementation of this IFRIC is mandatory for annual periods beginning on or after 1 January 2008. It is not expected to have any impact on the Group's consolidated financial statements.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit and Finance Committee of the Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit and Finance Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Finance Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

More than 80% of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's retail customers (dealers).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss

component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Investments

The Group's entities do not invest in publicly traded securities and do not accept securities in connection with transactions with customers.

(iii) Guarantees

The Group's policy is to provide financial guarantees mostly to the parent company and wholly-owned subsidiaries. An exception to this is where guarantees are provided in connection with the acquisition of equipment under lease. The amount of guarantees provided to third parties is insignificant, refer to note 35(d).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Group's policy in liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To manage this risk the Group combines the cash flows of the Group's entities through a joint settlements centre allowing cash shortages to be predicted and prevented by temporarily using the liquidity of other Group entities.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. At 31 December 2007 the Group maintained several lines of credit in the total amount of RUR 3,880,683 thousand/USD* 158,097 thousand.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily Russian Rouble (RUR), but also Sterling (GBP). The currencies in which these transactions primarily are denominated are Euro and USD.

Obligations denominated in foreign currencies comprise a small part of the Group's consolidated liabilities. The Group aims at keeping an economic balance of assets and liabilities denominated in foreign currencies.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level.

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

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. At 31 December 2007 80% of interest-bearing financial liabilities are on a fixed rate basis.

(iii) Other market price risk

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

From time to time the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board of Directors.

There were no changes in the Group's approach to capital management during the year.

6 Segment reporting

Below segment information is presented in respect of the Group's business and geographical segments.

(a) Business segments

The Group comprises the following main business segments:

Vehicles. The manufacture and sale of a wide range of light commercial vehicles, light duty trucks and passenger cars, as well as auto-components.

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 injection equipment.

Trucks. The manufacture and sale of a wide range of supersize trucks.

Road construction vehicles. The manufacture and sale of a wide range of road construction vehicles.

(b) Geographical segments

Three main geographical segments are domestic sales (within Russia), exports to other CIS countries and sales in Great Britain.

Segment revenue is presented by geographical segment and is determined based on the location of the Group's customers.

The majority of the Group's assets are located in Russia.

Acquisitions of property, plant and equipment, and intangible assets were made mostly in Russia.

(i) Business segments

2007							
'000 RUR	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Revenue from external customers	82,955,980	20,280,582	19,510,043	20,154,259	9,883,984	-	152,784,848
Inter-segment revenue	17,552,391	178,308	6,509,600	104,618	3,740	(24,348,657)	-
Total revenue	100,508,371	20,458,890	26,019,643	20,258,877	9,887,724	(24,348,657)	152,784,848
Segment result	4,354,300	1,862,790	3,516,193	2,387,801	1,811,080	-	13,932,164
Non-allocated administrative expenses							(1,545,893)
Financial income							579,977
Financial expenses							(1,706,960)
Share of profit of equity accounted investees							(28,254)
Income tax expense							(4,031,531)
Profit for the year							7,199,503

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

31 December 2007			Diesel engines and fuel injection equipment		Road construction vehicles		Consolidated
'000 RUR	Vehicles	Buses		Trucks		Eliminations	
Segment assets	39,051,490	9,352,817	11,575,617	5,161,257	4,323,738	(1,785,774)	67,679,145
Investments in equity accounted investees							746
Unallocated assets							5,197,734
Total assets							72,877,625
Segment liabilities	16,988,585	2,246,253	2,040,881	1,298,341	1,091,717	(2,124,454)	21,541,323
Unallocated liabilities							28,894,618
Total liabilities							50,435,941
2007			Diesel engines and fuel injection equipment		Road construction vehicles		Consolidated
'000 RUR	Vehicles	Buses		Trucks		Eliminations	
Depreciation/amortisation	2,619,343	266,776	396,643	272,601	177,978	-	3,733,341
Capital expenditure	4,988,480	692,594	3,678,913	170,339	834,550	-	10,364,876
(Reversal of) /impairment losses	91,309	483	(43,202)	38,352	(1,084)	-	85,858

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

Restated 2006 '000 RUR	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Revenue from external customers	70,148,140	16,075,425	16,085,307	11,364,578	6,591,770	-	120,265,220
Inter-segment revenue	10,217,865	155,955	2,031,046	109,015	11,994	(12,525,875)	-
Total revenue	80,366,005	16,231,380	18,116,353	11,473,593	6,603,764	(12,525,875)	120,265,220
Segment result	4,235,424	2,450,418	2,215,484	744,872	1,018,401	(18,886)	10,645,713
Non-allocated administrative expenses							(1,274,351)
Financial income							896,545
Financial expenses							(1,710,056)
Share of profit of equity accounted investees							-
Income tax expense							(2,598,924)
Profit for the year							5,958,927

Restated 31 December 2006 '000 RUR	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Segment assets	32,812,772	7,361,191	6,303,275	4,352,078	3,311,019	(885,655)	53,254,680
Investments in equity accounted investees							-
Unallocated assets							4,038,060
Total assets							57,292,740
Segment liabilities	13,675,975	1,443,640	1,952,982	1,240,061	852,144	(850,934)	18,313,868
Unallocated liabilities							22,509,754
Total liabilities							40,823,622
Restated 2006 '000 RUR	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Depreciation/amortisation	2,277,060	183,939	328,513	298,248	120,944	-	3,208,704
Capital expenditure	3,553,897	383,045	1,096,181	227,320	396,895	-	5,657,338
(Reversal of)/impairment losses	309,342	19,423	90,223	81,953	(4,446)	-	496,495

2007 '000 USD*	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Revenue from external customers	3,379,585	826,221	794,829	821,074	402,669	-	6,224,378
Inter-segment revenue	715,076	7,264	265,198	4,262	152	(991,952)	-
Total revenue	4,094,661	833,485	1,060,027	825,336	402,821	(991,952)	6,224,378
Segment result	177,392	75,889	143,248	97,278	73,783	-	567,590
Non-allocated administrative expenses							(62,979)
Financial income							23,628
Financial expenses							(69,541)
Share of profit of equity accounted investees							(1,151)
Income tax expense							(164,243)
Profit for the year							293,304

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

31 December 2007 '000 USD*	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Segment assets	1,590,938	381,029	471,585	210,267	176,147	(72,752)	2,757,214
Investments in equity accounted investees							31
Unallocated assets							211,753
Total assets							2,968,998
Segment liabilities	692,107	91,511	83,144	52,894	44,476	(86,549)	877,583
Unallocated liabilities							1,177,152
Total liabilities							2,054,735
2007 '000 USD*	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Depreciation/amortisation	106,711	10,868	16,159	11,106	7,251	-	152,095
Capital expenditure	203,228	28,216	149,877	6,940	33,999	-	422,260
(Reversal of)/impairment losses	3,720	20	(1,760)	1,562	(44)	-	3,498

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

2006 '000 USD*	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Revenue from external customers	2,857,801	654,905	655,307	462,987	268,545	-	4,899,545
Inter-segment revenue	416,271	6,354	82,744	4,441	489	(510,299)	-
Total revenue	<u>3,274,072</u>	<u>661,259</u>	<u>738,051</u>	<u>467,428</u>	<u>269,034</u>	<u>(510,299)</u>	<u>4,899,545</u>
Segment result	<u>172,549</u>	<u>99,829</u>	<u>90,258</u>	<u>30,346</u>	<u>41,489</u>	<u>(770)</u>	433,701
							(51,916)
Unallocated administrative expenses							36,525
Financial income							(69,667)
Financial expenses							-
Income tax expense							(105,879)
Profit for the year							<u>242,764</u>

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

31 December 2006							
'000 USD*	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Segment assets	1,336,776	299,891	256,792	177,302	134,889	(36,081)	2,169,569
Investments in equity accounted investees							-
Unallocated assets							164,509
Total assets							2,334,078
Segment liabilities	557,152	58,813	79,564	50,519	34,716	(34,667)	746,097
Unallocated liabilities							917,037
Total liabilities							1,663,134
2006							
'000 USD*	Vehicles	Buses	Diesel engines and fuel injection equipment	Trucks	Road construction vehicles	Eliminations	Consolidated
Depreciation/amortisation	92,766	7,494	13,383	12,150	4,927	-	130,720
Capital expenditure	144,784	15,605	44,658	9,261	16,169	-	230,477
(Reversal of)/impairment losses	12,602	791	3,676	3,339	(181)	-	20,227

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

(ii) Geographical segments

	Russia		CIS		Great Britain		Other regions		Consolidated	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
*000 RUR										
Revenue from external customers	<u>119,579,048</u>	<u>96,950,349</u>	<u>24,126,058</u>	<u>18,619,297</u>	<u>6,329,448</u>	<u>2,122,784</u>	<u>2,750,294</u>	<u>2,572,790</u>	<u>152,784,848</u>	<u>120,265,220</u>
000 USD										
Revenue from external customers	<u>4,871,590</u>	<u>3,949,709</u>	<u>982,884</u>	<u>758,541</u>	<u>257,858</u>	<u>86,481</u>	<u>112,046</u>	<u>104,814</u>	<u>6,224,378</u>	<u>4,899,545</u>

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

	Russia		Great Britain		Consolidated	
	31 December	Restated	31 December	Restated	31 December	31 December
	2007	31 December	2007	31 December	2007	2006
		2006		2006		
'000 RUR.						
Segment assets	58,242,847	43,621,731	9,436,298	9,632,949	67,679,145	53,254,680
'000 USD*						
Segment assets	2,372,784	1,777,127	384,430	392,442	2,757,214	2,169,569

	Russia		Great Britain		Consolidated	
	2007	Restated	2007	Restated	2007	Restated
		2006		2006		2006
'000 RUR						
Capital expenditure	8,621,167	4,845,557	1,743,709	811,781	10,364,876	5,657,338
'000 USD*						
Capital expenditure	351,222	197,406	71,038	33,071	422,260	230,477

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

7 Acquisitions and disposals

(a) Acquisition of entities under common control

In December 2007 the Group purchased all of the shares in OAO “Ulyanovsky Motorny Zavod” and subsidiaries for RUR 801,000 thousand/USD* 32,632 thousand, settled in cash. The carrying value of net assets was of RUR 296,389 thousand / USD* 12,075 thousand as at the date of purchase.

In accordance with its accounting policy the Group has accounted for the acquisition of entities under common control as if the acquisitions had occurred at 1 January 2006, refer to note 3(a)(ii). As a result the comparative data for the year ended 31 December 2006 were restated.

The carrying values of the net assets of the entities acquired were as follows at 1 January 2006:

	<u>'000 RUR</u>	<u>'000 USD*</u>
Non-current assets		
Property, plant and equipment	84,204	3,430
Deferred tax assets	31,883	1,299
Current assets		
Inventories	258	10
Trade and other receivables	50,672	2,064
Income tax receivable	281	11
Cash and cash equivalents	463	19
Non-current liabilities		
Deferred tax liabilities	(1,425)	(58)
Current liabilities		
Income tax payable	(133)	(5)
Trade and other payables	(9,613)	(391)
Net identifiable assets and liabilities	<u>156,590</u>	<u>6,379</u>

The acquired entities contributed losses of RUR 43,152 thousand / USD* 1,758 thousand to the profit for the year ended 31 December 2006 and profit of RUR 144,257 thousand /USD* 5,877 thousand to the profit for the year ended 31 December 2007.

(b) Acquisition of subsidiaries

On 28 July 2006 the Group acquired all of the shares in LDV Holdings Limited and subsidiaries, Birmingham, UK, (“LDV Group”) for RUR 991,000 thousand/USD* 40,373 thousand payable in cash. LDV Group’s main activity is the production and domestic sale (in the UK) of light commercial vehicles ‘Maxus’.

The fair value of the net assets of the acquired LDV Group at the date of purchase was RUR 1,599,894 thousand / USD* 65,179 thousand. The negative goodwill that arose on this

transaction resulted from the unsatisfactory financial performance of LDV Group. The negative goodwill of RUR 608,894 thousand / USD* 24,806 thousand was recognised as other income.

The fair values of the net assets of the acquired LDV Group as at the date of acquisition were as follows:

	<u>'000 RUR</u>	<u>'000 USD*</u>
Non-current assets		
Property, plant and equipment	6,500,484	264,826
Intangible assets	131,908	5,374
Deferred tax assets	30,445	1,240
Current assets		
Inventories	1,186,451	48,336
Trade and other receivables	1,382,848	56,337
Cash and cash equivalents	163,973	6,680
Non-current liabilities		
Loans and borrowings	(1,126,708)	(45,901)
Deferred tax liabilities	(276,958)	(11,284)
Other long-term payables	(668,166)	(27,221)
Current liabilities		
Loans and borrowings	(2,175,412)	(88,625)
Trade and other payables	(3,548,971)	(144,583)
Net identifiable assets and liabilities	<u>1,599,894</u>	<u>65,179</u>
Negative goodwill	(608,894)	(24,806)
Consideration, including deferred consideration of RUR 467,629 thousand/USD* 19,051 thousand	<u>991,000</u>	<u>40,373</u>

Summary of net cash outflow on consideration:

	<u>'000 RUR</u>	<u>'000 USD*</u>
Consideration settled by cash	(523,371)	(21,322)
Cash acquired	163,973	6,680
Net cash outflow	<u>(359,398)</u>	<u>(14,642)</u>

At 31 December 2007 the cost of the contingent consideration for the shares of LDV Holdings and subsidiaries was reduced by RUR 403,950 thousand / USD* 16,457 thousand. This change resulted in an adjustment of negative goodwill which arose on the acquisition of these companies, and is disclosed as other income in the reporting period (refer to note 12). The cost of the consideration was adjusted because the terms of the agreement of acquisition, contingent on future events, were not observed.

Profit for the year ended 31 December 2007 includes losses of LDV Group companies in the amount of RUR 2,211,717 thousand /USD* 90,104 thousand (for the period from 28 July 2006 to 31 December 2006 RUR 626,449 thousand /USD* 25,521 thousand). It is impossible for the Group to determine what LDV Group's revenue and profit for the year ended 31 December 2006 would have been had the acquisition of LDV Group occurred on 1 January 2006.

(c) Acquisition of minority interests

The Group's acquisition for shares and cash of additional interests in several subsidiaries led to changes in minority interests during the year ended 31 December 2007. As a result, the Group acquired an additional 1% of OAO Autodiesel, 5% of OAO Pavlovsky Avtobus, 2% of OAO YaZDA, 1% of OAO YaZTA, 6% of OAO Tverskoy Excavator and 19% of OAO Bryansky Arsenal. The acquisitions resulted in a decrease in minority interests of RUR 305,268 thousand / USD* 12,436 thousand and have been accounted for in accordance with the Group's accounting policy described in note 3(a)(iv).

8 Revenue

	Restated		2007	2006
	2007	2006		
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Light commercial vehicles and minivans	47,289,344	39,918,093	1,926,544	1,626,243
Medium and heavy commercial vehicles	25,981,917	17,106,671	1,058,490	696,917
Buses	19,161,117	15,274,503	780,614	622,276
Diesel engines and fuel injection equipment	13,394,085	10,720,866	545,668	436,763
Spare parts	15,290,825	12,206,389	622,941	497,282
Passenger cars	8,850,530	9,752,464	360,566	397,311
Road construction vehicles	8,448,610	5,640,429	344,192	229,788
Services	2,223,512	1,815,037	90,585	73,944
Other revenues	12,144,908	7,830,768	494,778	319,021
	152,784,848	120,265,220	6,224,378	4,899,545

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9 Cost of sales

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Materials	(91,324,255)	(70,600,388)	(3,720,505)	(2,876,225)
Wages and salaries	(14,720,939)	(11,128,852)	(599,724)	(453,384)
Electrical and heating energy	(4,637,847)	(3,645,081)	(188,944)	(148,499)
Repairs and maintenance and services for production activity	(3,879,708)	(3,097,886)	(158,057)	(126,206)
Salary based taxes	(3,679,524)	(2,851,785)	(149,902)	(116,180)
Depreciation and amortisation	(3,225,037)	(2,831,818)	(131,386)	(115,367)
Other	(2,758,244)	(2,555,382)	(112,369)	(104,105)
	<u>(124,225,554)</u>	<u>(96,711,192)</u>	<u>(5,060,887)</u>	<u>(3,939,966)</u>

10 Distribution expenses

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Transportation costs	(1,947,208)	(1,635,798)	(79,328)	(66,642)
Wages and salaries	(1,058,459)	(654,058)	(43,121)	(26,646)
Advertising	(434,528)	(479,085)	(17,702)	(19,518)
Salary based taxes	(196,591)	(130,604)	(8,009)	(5,321)
Materials	(120,650)	(127,989)	(4,915)	(5,214)
Repairs	(185,217)	(130,577)	(7,546)	(5,320)
Electrical and heating energy	(74,369)	(75,430)	(3,030)	(3,073)
Depreciation and amortisation	(90,505)	(40,827)	(3,688)	(1,663)
Insurance	(30,068)	(20,592)	(1,225)	(839)
Rent	(15,333)	(16,998)	(625)	(692)
Other	(500,462)	(180,400)	(20,387)	(7,349)
	<u>(4,653,390)</u>	<u>(3,492,358)</u>	<u>(189,576)</u>	<u>(142,277)</u>

11 Administrative expenses

	Restated		2007	2006
	2007	2006		
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Wages and salaries	(5,022,223)	(4,421,643)	(204,603)	(180,136)
Taxes other than on profit	(773,807)	(944,128)	(31,525)	(38,463)
Salary based taxes	(1,010,229)	(852,379)	(41,156)	(34,726)
Information and consulting services	(964,137)	(720,749)	(39,278)	(29,363)
Depreciation and amortisation	(417,799)	(335,889)	(17,021)	(13,684)
Rent	(240,940)	(214,439)	(9,816)	(8,736)
Security services	(249,864)	(217,657)	(10,179)	(8,867)
Materials	(214,925)	(175,594)	(8,756)	(7,154)
Insurance	(159,422)	(84,049)	(6,495)	(3,424)
Utility expenses	(128,993)	(123,659)	(5,255)	(5,038)
Repairs and maintenance	(248,456)	(103,108)	(10,122)	(4,200)
Other administrative expenses	(957,549)	(646,847)	(39,010)	(26,352)
	<u>(10,388,344)</u>	<u>(8,840,141)</u>	<u>(423,216)</u>	<u>(360,143)</u>

Wages and salaries include contributions to defined contribution pension plans of RUR 42,600 thousand/ USD* 1,736 thousand (2006: 42,600 thousand/ USD* 1,736 thousand). These amounts are expensed as incurred.

12 Other income and expenses

	Restated		2007	2006
	2007	2006		
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Income				
Negative goodwill	403,950	608,894	16,457	24,806
Release of fines and penalties	138,848	-	5,656	-
Gain on disposal of property, plant and equipment and intangible assets	286,867	-	11,687	-
Other income	36,497	160,023	1,487	6,520
	<u>866,162</u>	<u>768,917</u>	<u>35,287</u>	<u>31,326</u>

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Expenses				
Social expenses and charity	(735,486)	(525,101)	(29,963)	(21,392)
Research and development costs	(479,483)	(657,683)	(19,534)	(26,794)
Fines and penalties	-	(244,280)	-	(9,952)
Impairment losses of property, plant and equipment	(85,858)	(310,214)	(3,498)	(12,638)
Change in bad debts provision and write-offs	(211,251)	(233,540)	(8,606)	(9,514)
Impairment losses of intangible assets	-	(186,281)	-	(7,589)
Loss on disposal of property, plant and equipment and intangible assets	-	(19,951)	-	(813)
Other expenses	(485,373)	(442,034)	(19,774)	(18,008)
	<u>(1,997,451)</u>	<u>(2,619,084)</u>	<u>(81,375)</u>	<u>(106,700)</u>

13 Total personnel costs

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Wages and salaries	21,146,813	16,458,408	861,511	670,507
Salary-based taxes	4,944,721	3,893,932	201,445	158,637
	<u>26,091,534</u>	<u>20,352,340</u>	<u>1,062,956</u>	<u>829,144</u>

The average number of employees during the year ended 31 December 2007 was 114,816 (31 December 2006: 115,047).

14 Financial income and expenses

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Financial incomes				
Interest income on loans issued	259,532	561,356	10,573	22,869
Interest income on letter of credit	51,468	1,546	2,097	63
Foreign exchange gain	187,911	122,825	7,655	5,004
Interest income on bank deposits	62,038	125,761	2,527	5,124
Income on available-for-sale financial assets	9,845	52,745	401	2,149
Income on discounting of long-term receivables	9,183	32,312	375	1,316
	<u>579,977</u>	<u>896,545</u>	<u>23,628</u>	<u>36,525</u>
Financial expenses				
Interest expense on financial liabilities measured at amortised cost	(1,706,960)	(1,710,056)	(69,541)	(69,667)
	<u>(1,706,960)</u>	<u>(1,710,056)</u>	<u>(69,541)</u>	<u>(69,667)</u>

15 Income tax expense

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Current tax expense				
Current year	(4,188,410)	(3,341,344)	(170,634)	(136,125)
Underprovided in prior years	(84,898)	(162,708)	(3,459)	(6,629)
	<u>(4,273,308)</u>	<u>(3,504,052)</u>	<u>(174,093)</u>	<u>(142,754)</u>
Deferred tax expense				
Origination and reversal of temporary differences	823,225	1,007,529	33,538	41,047
Change in unrecognized deferred tax assets	(581,448)	(102,401)	(23,688)	(4,172)
	<u>241,777</u>	<u>905,128</u>	<u>9,850</u>	<u>36,875</u>
	<u>(4,031,531)</u>	<u>(2,598,924)</u>	<u>(164,243)</u>	<u>(105,879)</u>

The applicable tax rate for the Company and subsidiaries located in Russia is 24% (31 December 2006: 24%). The same rates were used for measuring deferred taxes.

For entities in UK, the applicable tax rate is the corporation tax rate of 30% (31 December 2006: 30%). The tax rate of 28% was used for measuring deferred taxes (31 December 2006: 30%).

Reconciliation of effective tax rate:

	2007		Restated 2006	
	'000 RUR	%	'000 RUR	%
Profit before tax	11,231,034	100	8,557,851	100
Income tax at applicable tax rate	(2,695,448)	(24)	(2,053,884)	(24)
Income tax at lower/(higher) rates, net	135,695	1	43,037	1
Change in unrecognised deferred tax assets	(581,448)	(5)	(102,401)	(1)
Change in tax rate	(46,544)	0	-	0
Underprovided in prior years	(84,898)	(1)	(162,708)	(2)
Non-deductible items, net	(758,888)	(7)	(322,968)	(4)
	(4,031,531)	(36)	(2,598,924)	(30)

	2007		2006	
	'000 USD*	%	'000 USD*	%
Profit before tax	457,547	100	348,643	100
Income tax at applicable tax rate	(109,811)	(24)	(83,674)	(24)
Income tax at lower/(higher) rates, net	5,528	1	1,753	1
Change in unrecognised deferred tax assets	(23,688)	(5)	(4,172)	(1)
Change in tax rate	(1,896)	0	-	0
Underprovided in prior years	(3,459)	(1)	(6,629)	(2)
Non-deductible items, net	(30,917)	(7)	(13,157)	(4)
	(164,243)	(36)	(105,879)	(30)

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

16 Property, plant and equipment

'000 RUR	Land and buildings	Plant and equipment	Tools and other	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2006, restated	47,925,508	94,849,302	11,308,601	3,665,828	157,749,239
Acquisitions through business combinations	1,922,027	1,216,052	4,103,515	-	7,241,594
Additions, restated	-	-	-	5,311,463	5,311,463
Disposals, restated	(768,627)	(2,591,295)	(610,459)	(361,234)	(4,331,615)
Transfers, restated	551,750	1,400,106	947,652	(3,169,733)	(270,225)
At 31 December 2006, restated	49,630,658	94,874,165	15,749,309	5,446,324	165,700,456
Additions	-	-	-	9,488,633	9,488,633
Disposals	(348,564)	(2,315,122)	(414,607)	(255,780)	(3,334,073)
Foreign currency translation	(125,091)	(86,101)	(291,652)	-	(502,844)
Transfers	649,718	2,505,769	1,298,268	(5,244,862)	(791,107)
At 31 December 2007	49,806,721	94,978,711	16,341,318	9,434,315	170,561,065
Depreciation and impairment losses					
At 1 January 2006, restated	(39,225,814)	(84,613,327)	(10,381,038)	(2,343,114)	(136,563,293)
Acquisitions through business combinations	(61,613)	(83,065)	(596,432)	-	(741,110)
Depreciation charge, restated	(897,093)	(2,049,015)	(359,381)	-	(3,305,489)
Impairment losses, restated	(82,974)	(176,566)	(46,462)	(4,212)	(310,214)
Disposals, restated	701,223	2,431,139	585,712	279,731	3,997,805
Transfers, restated	(281,158)	(7,226)	30,592	257,792	-
At 31 December 2006, restated	(39,847,429)	(84,498,060)	(10,767,009)	(1,809,803)	(136,922,301)
Depreciation charge	(915,369)	(1,905,806)	(805,987)	-	(3,627,162)
Impairment losses	(84,884)	25,882	10,819	(37,675)	(85,858)
Disposals	261,249	2,224,168	413,921	221,921	3,121,259
Foreign currency translation	16,110	16,662	67,319	-	100,091
Transfers	(119,802)	157,722	340,751	(17,799)	360,872
At 31 December 2007	(40,690,125)	(83,979,432)	(10,740,186)	(1,643,356)	(137,053,099)
Net book value					
At 1 January 2006, restated	8,699,694	10,235,975	927,563	1,322,714	21,185,946
At 31 December 2006, restated	9,783,229	10,376,105	4,982,300	3,636,521	28,778,155
At 31 December 2007	9,116,596	10,999,279	5,601,132	7,790,959	33,507,966

'000 USD*	Land and buildings	Plant and equipment	Tools and other	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2006, restated	1,952,461	3,864,113	460,707	149,344	6,426,625
Acquisitions through business combinations	78,302	49,541	167,175	-	295,018
Additions, restated	-	-	-	216,386	216,386
Disposals, restated	(31,313)	(105,568)	(24,870)	(14,716)	(176,467)
Transfers, restated	22,478	57,040	38,607	(129,133)	(11,008)
At 31 December 2006, restated	2,021,928	3,865,126	641,619	221,881	6,750,554
Additions	-	-	-	386,562	386,562
Disposals	(14,200)	(94,317)	(16,891)	(10,420)	(135,828)
Foreign currency translation	(5,096)	(3,508)	(11,882)	-	(20,486)
Transfers	26,469	102,084	52,891	(213,673)	(32,229)
At 31 December 2007	2,029,101	3,869,385	665,737	384,350	6,948,573
Depreciation and impairment losses					
At 1 January 2006, restated	(1,598,040)	(3,447,105)	(422,918)	(95,457)	(5,563,520)
Acquisitions through business combinations	(2,510)	(3,384)	(24,298)	-	(30,192)
Depreciation charge, restated	(36,547)	(83,476)	(14,641)	-	(134,664)
Impairment losses, restated	(3,380)	(7,193)	(1,893)	(172)	(12,638)
Disposals, restated	28,567	99,043	23,862	11,396	162,868
Transfers, restated	(11,454)	(294)	1,246	10,502	-
At 31 December 2006, restated	(1,623,364)	(3,442,409)	(438,642)	(73,731)	(5,578,146)
Depreciation charge	(37,292)	(77,641)	(32,836)	-	(147,769)
Impairment losses	(3,458)	1,054	441	(1,535)	(3,498)
Disposals	10,643	90,611	16,863	9,041	127,158
Foreign currency translation	656	679	2,743	-	4,078
Transfers	(4,880)	6,426	13,881	(725)	14,702
At 31 December 2007	(1,657,695)	(3,421,280)	(437,550)	(66,950)	(5,583,475)
Net book value					
At 1 January 2006, restated	354,421	417,008	37,789	53,887	863,105
At 31 December 2006, restated	398,564	422,717	202,977	148,150	1,172,408
At 31 December 2007	371,406	448,105	228,187	317,400	1,365,098

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

(a) Acquisition of property, plant and equipment

During the year ended 31 December 2007 the Group acquired property, plant and equipment of RUR 9,488,633 thousand / USD* 386,562 thousand (31 December 2006: RUR 5,311,463 thousand / USD* 216,386 thousand) including capital expenditure for arranging production of four-door cars of RUR 1,494,684 thousand / USD* 60,893 thousand (31 December 2006: 1,008,963 thousand / USD* 41,105 thousand), Renault Trucks assembly line for producing engines under the EURO III standard of RUR 484,081 thousand / USD* 19,721 thousand (2006: RUR 44,498 thousand / USD* 1,813 thousand), equipment for production of engines under the EURO III, EURO IV standards of RUR 1,872,331 thousand / USD* 76,278 thousand and renovation of equipment for excavator assembly of RUR 480,522 thousand / USD* 19,576 thousand. Acquisitions for the reporting period include capitalized interest cost of RUR 170,323 thousand / USD* 6,939 thousand (2006: RUR 52,159 thousand / USD* 2,125 thousand).

(b) Impairment loss

Based on an assessment of the recoverable amount of property, plant and equipment, the carrying value of certain items was written down by RUR 85,858 thousand / USD* 3,498 thousand at 31 December 2007 (2006: RUR 310,214 thousand / USD* 12,638 thousand). The impairment loss is included in "Other expenses" (refer to note 12). The impairment loss relates to certain items of property, plant and equipment that are neither being used by the Group currently, nor are there plans for their utilization in the future. These items of property, plant and equipment are of a specialized nature and, therefore, their value in use and fair value less costs to sell are both considered to be nil.

(c) Security

Properties with a net book value of RUR 2,218,073 thousand / USD* 90,363 thousand (2006: RUR 4,160,866 thousand / USD* 169,512 thousand) are subject to a registered debenture to secure bank loans, refer note 28.

(d) Leased plant and equipment

The Group leased production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2007 the net book value of leased plant and equipment was RUR 2,350,974 thousand / USD* 95,778 thousand (31 December 2006: RUR 1,987,401 thousand / USD* 80,966 thousand). The leased plant and equipment secure lease obligations, refer to note 28.

(e) Ownership rights

According to Federal Law on registration of titles for immovable property, the Group is required to register the titles of its immovable property with regional Departments of Justice acquired before the date of putting the Law in force, i.e., before 28 January 1998, in order to sell or transfer those items. The immovable property acquired before this date is registered by the Group when it sells or transfers those items to other parties in accordance with the Law. All immovable property acquired after this date is registered in the usual way, established by Law.

(f) Depreciation

As at 31 December 2007, the depreciation charge directly attributable to the cost of inventory of RUR 282,493 thousand / USD* 11,509 thousand is included in the cost of work in progress and finished goods (31 December 2006: RUR 296,513 thousand / USD* 12,080 thousand).

During the year ended 31 December 2007 depreciation expense of RUR 3,162,747 thousand / USD* 128,848 thousand has been charged to cost of sales (2006: RUR 2,799,297 thousand / USD* 114,042 thousand), RUR 89,340 thousand / USD* 3,640 thousand to distribution expenses (2006:

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RUR 40,827 thousand / USD* 1,663 thousand) and RUR 389,095 thousand/ USD* 15,852 thousand to administrative expenses (2006: RUR 320,795 thousand / USD* 13,069 thousand).

17 Intangible assets

'000 RUR	Licenses	Software	Development costs	Total
Cost				
At 1 January 2006, restated	250,759	187,067	-	437,826
Acquisition through business combination	139,349	-	-	139,349
Additions, restated	301,468	44,407	-	345,875
Disposals, restated	(316)	(18,535)	-	(18,851)
At 31 December 2006, restated	691,260	212,939	-	904,199
Additions	23,633	191,658	660,952	876,243
Disposals	(3,645)	(8,609)	-	(12,254)
Foreign currency translation	-	(12,005)	(1,127)	(13,132)
At 31 December 2007	711,248	383,983	659,825	1,755,056
Amortisation and impairment losses				
At 1 January 2006, restated	(28,234)	(176,794)	-	(205,028)
Acquisitions through business combinations	(7,441)	-	-	(7,441)
Amortisation charge , restated	(33,750)	(13,865)	-	(47,615)
Impairment losses , restated	(186,281)	-	-	(186,281)
Disposals , restated	29	1,186	-	1,215
At 31 December 2006, restated	(255,677)	(189,473)	-	(445,150)
Amortisation charge	(55,243)	(29,570)	(7,346)	(92,159)
Impairment losses	-	-	-	-
Disposals	1,096	2,983	-	4,079
Foreign currency translation	-	1,541	112	1,653
At 31 December 2007	(309,824)	(214,519)	(7,234)	(531,577)
Net book value				
At 1 January 2006, restated	222,525	10,273	-	232,798
At 31 December 2006, restated	435,583	23,466	-	459,049
At 31 December 2007	401,424	169,464	652,591	1,223,479

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'000 USD*	Licenses	Software	Development costs	Total
Cost				
At 1 January 2006, restated	10,215	7,621	-	17,836
Acquisition through business combination	5,677	-	-	5,677
Additions, restated	12,282	1,809	-	14,091
Disposals, restated	(13)	(755)	-	(768)
At 31 December 2006, restated	28,161	8,675	-	36,836
Additions	963	7,808	26,927	35,698
Disposals	(148)	(351)	-	(499)
Foreign currency translation	-	(489)	(46)	(535)
At 31 December 2007	28,976	15,643	26,881	71,500
Amortisation and impairment losses				
At 1 January 2006, restated	(1,150)	(7,202)	-	(8,352)
Acquisitions through business combinations	(303)	-	-	(303)
Amortisation charge, restated	(1,375)	(565)	-	(1,940)
Impairment losses, restated	(7,589)	-	-	(7,589)
Disposals, restated	1	48	-	49
At 31 December 2006, restated	(10,416)	(7,719)	-	(18,135)
Amortisation charge	(2,251)	(1,205)	(299)	(3,755)
Impairment losses	-	-	-	-
Disposals	45	122	-	167
Foreign currency translation	-	63	4	67
At 31 December 2007	(12,622)	(8,739)	(295)	(21,656)
Net book value				
At 1 January 2006, restated	9,065	419	-	9,484
At 31 December 2006, restated	17,745	956	-	18,701
At 31 December 2007	16,354	6,904	26,586	49,844

(a) Acquisition of intangible assets

The sum of acquisition of intangible assets includes capitalized costs of development of a new line of engines under EURO III, EURO IV standards in the amount of RUR 634,377 thousand / USD* 25,844 thousand (2006: nil).

All developing costs capitalized in 2007 are Group's internally generated costs.

(b) Amortisation charge

During the year ended 31 December 2007 amortisation expense of RUR 62,290 thousand / USD* 2,538 thousand has been charged to cost of sales (2006: RUR 32,521 thousand / USD*1,325 thousand), RUR 1,165 thousand / USD* 48 thousand to distribution expenses (2006: nil) and RUR 28,704 thousand / USD*1,169 thousand to administrative expenses (2006: RUR 15,094 thousand / USD* 615 thousand).

18 Equity accounted investees

The Group has the following investments in equity accounted investees:

	Country	Ownership/Voting
MAGNA-GAZ joint supplying organization Ltd	Russia	50%
LLC RUSSIAN BUSES MARCO	Russia	50%

The following is summarised financial information, in aggregate, in respect of equity accounted investees:

	2007	Restated 2006
	'000 RUR	'000 RUR
Total assets	774,003	-
Total liabilities	794,516	-
Revenue	397,092	-
Loss for the year	(78,547)	-

	2007	2006
	'000 USD*	'000 USD*
Total assets	31,533	-
Total liabilities	32,368	-
Revenue	16,177	-
Loss for the year	(3,200)	-

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19 Other investments

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
<i>Non-current</i>				
Available-for-sale investments stated at cost	50,081	49,510	2,040	2,017
<i>Current</i>				
Available-for-sale investments stated at cost	4,809	84,817	196	3,456

Available-for-sale investments stated at cost comprise unquoted equity securities for which fair value cannot be reliably determined. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows.

Promissory notes include non-interest bearing bank promissory notes of RUR 2,600 thousand/ USD* 106 thousand (2006: RUR 79,406 thousand/ USD* 3,235 thousand).

20 Other long-term assets

	31 December 2007	Restated 31 December 2006	31 December 2007	31 December 2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Letter of credit	405,722	385,061	16,529	15,687
Employees' accounts receivable for apartments	51,632	52,711	2,103	2,147
Other	242,341	5,396	9,873	220
	699,695	443,168	28,505	18,054

Other long-term assets have been discounted at a market rate as at the date of initial recognition. The discount rate effective as at 31 December 2007 was 10% (31 December 2006: 11%).

21 Loans issued

All loans issued bear fixed interest.

The following table shows the period in which interest-bearing financial assets mature:

2007 '000 RUR	Contractual interest rate	Less than 1 year	Long-term			Total
			1 – 2 years	2 – 3 years	More than 5 years	
Loans to companies						
RUR	0-1%	97,576	-	-	-	97,576
RUR	7-12%	1,232,141	-	-	-	1,232,141
USD	7-9%	26,022	779,268	-	-	805,290
Other currency	10%	20	-	-	-	20
Loans to banks						
RUR	3-7%	1,116	-	-	-	1,116
USD	8-9%	18,587	1,279,348	-	-	1,297,935
RUR	10%	847,955	-	-	-	847,955
		<u>2,223,417</u>	<u>2,058,616</u>	<u>-</u>	<u>-</u>	<u>4,282,033</u>

Restated 2006 '000 RUR	Contractual interest rate	Less than 1 year	Long-term			Total
			1 – 2 years	2 – 3 years	More than 5 years	
Loans to companies						
RUR	0%-1%	94,596	-	-	-	94,596
RUR	7%-12%	2,331,323	260,506	-	-	2,591,829
USD	8%	245,986	-	-	-	245,986
Other currency	10%	12	20,711	-	-	20,723
Loans to banks						
RUR	3%	100,014	-	-	-	100,014
RUR	6-10%	39,248	-	-	-	39,248
		<u>2,811,179</u>	<u>281,217</u>	<u>-</u>	<u>-</u>	<u>3,092,396</u>

2007 '000 USD*	Contractual interest rate	Less than 1 year	Long-term			Total
			1 – 2 years	2 – 3 years	More than 5 years	
Loans to companies						
RUR	0-1%	3,975	-	-	-	3,975
RUR	7-12%	50,197	-	-	-	50,197
USD	7-9%	1,060	31,747	-	-	32,807
Other currency	10%	1	-	-	-	1
Loans to banks						
RUR	3-7%	46	-	-	-	46
USD	8-9%	757	52,120	-	-	52,877
RUR	10%	34,545	-	-	-	34,545
		<u>90,581</u>	<u>83,867</u>	<u>-</u>	<u>-</u>	<u>174,448</u>
2006 '000 USD*	Contractual interest rate	Less than 1 year	Long-term			Total
			1 – 2 years	2 – 3 years	More than 5 years	
Loans to companies						
RUR	0%-1%	3,854	-	-	-	3,854
RUR	7%-12%	94,977	10,613	-	-	105,590
USD	8%	10,021	-	-	-	10,021
Other currency	10%	-	844	-	-	844
Loans to banks						
RUR	3%	4,075	-	-	-	4,075
RUR	6-10%	1,599	-	-	-	1,599
		<u>114,526</u>	<u>11,457</u>	<u>-</u>	<u>-</u>	<u>125,983</u>

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22 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUR	Assets		Liabilities		Net	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
	Property, plant and equipment	105,998	137,187	(1,545,494)	(1,729,492)	(1,439,496)
Investments	29,307	29,638	(14,515)	(7,299)	14,792	22,339
Inventories	224,509	151,116	(46,502)	(27,612)	178,007	123,504
Trade and other receivables	326,772	317,028	(252,567)	(103,729)	74,205	213,299
Trade and other payables	861,031	647,474	(32,451)	-	828,580	647,474
Tax assets/ (liabilities)	1,547,617	1,282,443	(1,891,529)	(1,868,132)	(343,912)	(585,689)
Set off of taxes	(1,081,311)	(753,322)	1,081,311	753,322	-	-
Net tax assets/ (liabilities)	466,306	529,121	(810,218)	(1,114,810)	(343,912)	(585,689)

'000 USD*	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
	Property, plant and equipment	4,318	5,589	(62,963)	(70,459)	(58,645)
Investments	1,194	1,207	(591)	(297)	603	910
Inventories	9,146	6,156	(1,894)	(1,125)	7,252	5,031
Trade and other receivables	13,313	12,916	(10,290)	(4,226)	3,023	8,690
Trade and other payables	35,078	26,378	(1,322)	-	33,756	26,378
Tax assets/ (liabilities)	63,049	52,246	(77,060)	(76,107)	(14,011)	(23,861)
Set off of taxes	(44,052)	(30,690)	44,052	30,690	-	-
Net tax assets/ (liabilities)	18,997	21,556	(33,008)	(45,417)	(14,011)	(23,861)

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(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Restated		2007	2006
	2007	2006		
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Deductible temporary differences	153,128	115,292	6,238	4,697
Tax loss carry-forwards	705,339	161,727	28,736	6,589
	<u>858,467</u>	<u>277,019</u>	<u>34,974</u>	<u>11,286</u>

The tax losses expire in 2012-2017. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that such future taxable profits will be available against which the Group can utilise the benefits therefrom.

A temporary difference in the amount of RUR 8,834,735 thousand/USD* 359,923 thousand (2006: RUR 9,011,214 thousand /USD* 367,112 thousand) relating to investments in subsidiaries has not been recognized as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

(c) Movement in temporary differences during the year

Restated	1 January	Recognised in	Acquired/	31 December
'000 RUR	2006	income	disposed of	2006
Property, plant and equipment	(1,932,773)	617,426	(276,958)	(1,592,305)
Investments	26,161	(3,822)	-	22,339
Inventories	69,032	54,472	-	123,504
Trade and other receivables	164,066	18,788	30,445	213,299
Trade and other payables	429,210	218,264	-	647,474
	<u>(1,244,304)</u>	<u>905,128</u>	<u>(246,513)</u>	<u>(585,689)</u>

'000 RUR	1 January	Recognised in	Acquired/	31 December
'000 RUR	2007	income	disposed of	2007
Property, plant and equipment	(1,592,305)	152,809	-	(1,439,496)
Investments	22,339	(7,547)	-	14,792
Inventories	123,504	54,503	-	178,007
Trade and other receivables	213,299	(139,094)	-	74,205
Trade and other payables	647,474	181,106	-	828,580
	<u>(585,689)</u>	<u>241,777</u>	<u>-</u>	<u>(343,912)</u>

'000 USD*	1 January 2006	Recognised in income	Acquired/ disposed of	31 December 2006
Property, plant and equipment	(78,740)	25,154	(11,284)	(64,870)
Investments	1,066	(156)	-	910
Inventories	2,812	2,219	-	5,031
Trade and other receivables	6,684	766	1,240	8,690
Trade and other payables	17,486	8,892	-	26,378
	<u>(50,692)</u>	<u>36,875</u>	<u>(10,044)</u>	<u>(23,861)</u>

'000 USD*	1 January 2007	Recognised in income	Acquired/ disposed of	31 December 2007
Property, plant and equipment	(64,870)	6,225	-	(58,645)
Investments	910	(307)	-	603
Inventories	5,031	2,221	-	7,252
Trade and other receivables	8,690	(5,667)	-	3,023
Trade and other payables	26,378	7,378	-	33,756
	<u>(23,861)</u>	<u>9,850</u>	<u>-</u>	<u>(14,011)</u>

23 Inventories

	31 December 2007	Restated 31 December 2006	31 December 2007	31 December 2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Raw materials and consumables	6,771,050	5,266,787	275,849	214,566
Work in progress	2,627,249	1,886,000	107,033	76,835
Finished goods and goods for resale	4,888,059	4,400,288	199,137	179,266
	<u>14,286,358</u>	<u>11,553,075</u>	<u>582,019</u>	<u>470,667</u>
Provision for inventory obsolescence	(1,222,327)	(747,795)	(49,797)	(30,465)
	<u>13,064,031</u>	<u>10,805,280</u>	<u>532,222</u>	<u>440,202</u>
Write-down of inventories in the current year	(372,948)	(355,976)	(15,194)	(14,502)
Reversal of previous write-down of inventories in the current year	263,655	190,883	10,741	7,776

Inventory with a carrying amount of RUR 456,307 /USD* 18,590 thousand has been pledged as security for bank loans received (2006: RUR 1,963,806 thousand / USD* 80,004 thousand), refer to note 28.

24 Trade and other receivables

	31 December 2007	Restated 31 December 2006	31 December 2007	31 December 2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Accounts receivable – trade	7,992,481	6,014,544	325,610	245,030
VAT receivable	3,442,921	2,886,752	140,263	117,605
Other taxes receivable	58,773	48,331	2,394	1,969
Other receivables	1,065,548	1,916,961	43,410	78,095
	12,559,723	10,866,588	511,677	442,699
Cumulative impairment losses	(843,240)	(790,881)	(34,353)	(32,220)
	<u>11,716,483</u>	<u>10,075,707</u>	<u>477,324</u>	<u>410,479</u>

25 Cash and cash equivalents

	31 December 2007	Restated 31 December 2006	31 December 2007	31 December 2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Petty cash	6,573	9,998	268	407
Current accounts	893,956	1,053,816	36,419	42,932
Deposits	4,463,434	120,758	181,838	4,920
Cash equivalents	245,219	260,096	9,990	10,596
Cash and cash equivalents in the balance sheet	5,609,182	1,444,668	228,515	58,855
Bank overdrafts	(275,186)	(13,993)	(11,211)	(570)
Cash and cash equivalents in the statement of cash flows	<u>5,333,996</u>	<u>1,430,675</u>	<u>217,304</u>	<u>58,285</u>

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

26 Equity

(a) Share capital

Number of shares unless otherwise stated

	Ordinary shares		Preference shares	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Authorized shares	20,004,511,693	20,004,511,693	1,453,500	1,453,500
Par value	<u>1 RUR</u>	<u>1 RUR</u>	<u>1 RUR</u>	<u>1 RUR</u>
On issue at the beginning of the year	14,947,355	13,131,836	1,308,750	1,453,500
Shares issued	491,813	4,896,611	-	-
Shares acquired	-	(3,081,092)	-	(144,750)
On issue at the end of the year, fully paid	<u>15,439,168</u>	<u>14,947,355</u>	<u>1,308,750</u>	<u>1,308,750</u>

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. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

In December 2006, OAO GAZ placed 4,896,611 ordinary shares of the new issue with a par value of 1 RUR and at a price of RUR 2,315 per share. 4,345,257 shares were purchased by OAO Russkie Machiny (parent company of OAO GAZ), and 551,354 shares were purchased by third parties. 330,669 of these shares were exchanged for shares in the Group's subsidiaries listed in note 37. The remaining 220,685 shares were issued for RUR 510,886 thousands / USD* 20,813 thousands.

In January 2007, OAO GAZ placed 491,813 ordinary shares with a par value of 1 RUR and at a price of RUR 2,315 per share. 39,108 shares were purchased by related parties and 452,705 shares by third parties. 341,990 of these shares were exchanged for shares in the Group's subsidiaries, the remaining 149,823 shares were issued for RUR 346,836 thousand/USD* 14,130 thousand.

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

As a result of additional share issue, the Company's ownership interests in the following subsidiaries were increased as follows:

	Country of incorporation	Change of voting ownership subsequent to 31 December 2006
OAo Autodiesel	Russia	1%
OAo YaZDA	Russia	2%
OAo YaZTA	Russia	1%
OAo Tverskoy Excavator	Russia	6%
OAo Bryansky Arsenal	Russia	19%
OAo Pavlovsky Avtobus	Russia	5%

(i) Purchase of treasury shares

On 26 July 2006, the Company repurchased 1,311,953 the Company's ordinary shares and 144,750 preference shares, representing 10% of share capital at the date of purchase and 7.48% of share capital as at 31 December 2006. In July 2007 these treasury shares were contributed into the share capital of a new subsidiary GazReserve.

(ii) Purchase of the Company's shares by a subsidiary

During the second half of 2006, one of the Company's subsidiaries, OAo Avtomobilny zavod Ural, acquired from OAo Russkie Mashiny and certain related parties 1,769,139 ordinary shares of the Company.

(b) Share premium

Any difference between the consideration paid to acquire minority interests and the carrying amount of those minority interests, and any difference between consideration received upon disposal of a minority interest and the carrying amount of that portion of the Group's interest in the subsidiary are debited or credited to share premium.

(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 31 December 2007, the Company had cumulative retained earnings, including the profit for the current period, of RUR 5,222,532 thousand/ USD* 212,763 thousand (2006: RUR 1,919,919 thousand / USD* 78,217 thousand).

On 21 June 2007 the Company's annual shareholders' meeting approved the payment of dividends of RUR 783,272 thousand/ USD* 31,910 thousand to ordinary and preference shareholders or RUR 42.3 / USD* 1.72 per ordinary and preference share (2006: RUR 560,077 thousand/ USD* 22,817 thousand to ordinary and preference shareholders or RUR 38.40 / USD* 1.56 per ordinary and preference share). The dividends paid to AZ Ural amounted to RUR 74,835 thousand/ USD* 3,049 thousand.

(d) Pledged shares

As at 31 December 2007 598,641 of Company's ordinary shares were pledged as the security for bank loans received (2006: 422,821), refer to note 28.

27 Earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary and preference shareholders of RUR 6,541,309 thousand/ USD* 266,490 thousand (31 December 2006: RUR 5,079,453 thousand / USD* 206,935 thousand) by the weighted average number of ordinary and preference shares outstanding during the year, calculated as shown below.

<i>In thousands of shares</i>	2007	2006
Issued shares at 1 January	16,256,105	18,930,593
Effect of shares issue in January	450,829	-
Effect of treasury shares purchased	-	(717,111)
Weighted average number of shares for the year ended 31 December	<u>16,706,934</u>	<u>18,213,482</u>

For the purpose of calculation of the weighted average number of shares, shares issued in connection with the acquisition of entities under common control were deemed to have been issued on 1 January 2006.

The Company has no potential dilutive ordinary shares.

28 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk see note 32.

	Restated		2007	2006
	2007	2006		
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
<i>Non-current</i>				
Secured bank loans	503,567	996,404	20,515	40,593
Unsecured bank loans	3,265,000	-	133,014	-
Unsecured bond issues	-	5,000,000	-	203,698
Finance lease liability	1,087,659	1,234,200	44,311	50,280
	<u>4,856,226</u>	<u>7,230,604</u>	<u>197,840</u>	<u>294,571</u>

In February 2006, the Group issued long-term interest-bearing non-convertible bonds of RUR 5,000,000 thousand / USD* 203,698 thousand with a maturity date of February 2011. The interest on the bonds is repayable in August and February each year starting from August 2006. As at 31 December 2007 the unsecured bonds are classified as current liabilities because public irrevocable offer gives the owner the right to demand redemption of the bonds after determining

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

the interest rate on the fifth interest period. Until August 2009 the interest will be accrued based on an interest rate of 9.3%. Subsequently, interest rates will be agreed.

	2007	Restated 2006	2007	2006
	RUR '000	RUR'000	USD**'000	USD**'000
<i>Current</i>				
Current portion of secured bank loans	4,913,311	5,685,719	200,166	231,635
Unsecured bank loans	12,254,898	6,858,112	499,258	279,395
Unsecured borrowings	40,450	805,531	1,648	32,817
Bank overdrafts	275,186	13,993	11,211	570
Unsecured bonds issued	5,167,529	166,329	210,523	6,776
Finance lease liability	324,332	205,277	13,213	8,363
	<u>22,975,706</u>	<u>13,734,961</u>	<u>936,019</u>	<u>559,556</u>

During 2007, the Group capitalized RUR 170,323 thousand/ USD*6,939 thousand (2006: RUR 52,159 thousand / USD* 2,125 thousand) of bank interest within the cost of property, plant and equipment in accordance with note 16(a). The effective rate of capitalisation in 2007 was 7.26% (2006: 6.89%).

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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

31 December 2007	Contractual interest rate	Effective average interest rate	Less than 1 year	Long-term					Total
				1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
'000 RUR									
Liabilities									
Secured bank loans:									
RUR	6%-8%	6%-8%	1,309,014	-	-	-	-	-	1,309,014
RUR	9%-11%	9%-11%	1,957,238	-	-	-	-	-	1,957,238
USD	8%	8%	797,472	-	-	-	-	-	797,472
	EURIBOR+ 1.1%-1.55 %	5.4%-5.5%	-	138,253	36,313	-	-	-	174,566
EUROs	EURIBOR+ 3.2%	7%	3,339	-	-	-	320,375	-	323,714
EUROs	7%	7%	838,896	-	-	-	-	-	838,896
Other currencies	Bank of England rate+2.5%	8%	7,352	8,626	-	-	-	-	15,978
Unsecured bank loans:									
RUR	7%-8.8%	7%-8.8%	3,193,439	3,265,000	-	-	-	-	6,458,439
	MOSPRIM E + 2.0%- 2.5%	9%-9.4%	2,315,630	-	-	-	-	-	2,315,630
RUR	9%-11%	9%-11%	3,781,306	-	-	-	-	-	3,781,306
Other currencies	8%	8%	46,043	-	-	-	-	-	46,043
USD	1%	1%	457,110	-	-	-	-	-	457,110
	LIBOR + 1.5% + compulsory costs	7%	2,461,370	-	-	-	-	-	2,461,370

31 December 2007	Contractual interest rate	Effective average interest rate	Less than 1 year	Long-term					Total
				1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
'000 RUR									
Overdrafts:									
RUR	7%-9%	7%-9%	112,519	-	-	-	-	-	112,519
Other currencies	7%	7%	162,667	-	-	-	-	-	162,667
Unsecured borrowings:									
RUR	0%-1%	0%-1%	3,290	-	-	-	-	-	3,290
RUR	6%-7%	6%-7%	33,389	-	-	-	-	-	33,389
RUR	10%	10%	3,749	-	-	-	-	-	3,749
Other currencies	0%	0%	22	-	-	-	-	-	22
USD									
Unsecured bonds issued:									
RUR	8%	8%	5,167,529	-	-	-	-	-	5,167,529
Finance lease liabilities:									
RUR	2%-36%	2%-36%	203,792	143,410	26,955	2,231	-	-	376,388
EUROs	10%-26%	10%-26%	89,794	975	-	-	-	-	90,769
Other currencies	10%	10%	30,746	30,746	30,746	30,746	30,745	791,105	944,834
			<u>22,975,706</u>	<u>3,587,010</u>	<u>94,014</u>	<u>32,977</u>	<u>351,120</u>	<u>791,105</u>	<u>27,831,932</u>

Restated 31 December 2006	Contractual interest rate	Effective average interest rate	Less than 1 year	Long-term					Total
				1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
'000 RUR									
Liabilities									
Secured bank loans:									
RUR	1% - 2%	1% - 2%	384,556	-	-	-	-	-	384,556
	MOSPRIME +								
RUR	2.3%	8%	450,000	-	-	-	-	-	450,000
RUR	6%-8%	6%-8%	1,492,595	-	-	-	-	-	1,492,595
RUR	9% - 11%	9% - 11%	2,251,973	-	-	-	-	-	2,251,973
USD	2% - 8%	2% - 8%	976,471	948,714	-	-	-	-	1,925,185
USD	10%	10%	14,102	-	-	-	-	-	14,102
	Bank of								
Other	England								
currencies	rate+2.5%	5%	24,594	-	-	-	-	-	24,594
	Other								
currencies	9%	9%	91,428	47,690	-	-	-	-	139,118
Unsecured bank loans:									
RUR	5%-8%	5%-8%	637,402	-	-	-	-	-	637,402
RUR	8.5%-11%	8.5%-11%	1,280,969	-	-	-	-	-	1,280,969
EUROs	1%-2%	1%-2%	206,633	-	-	-	-	-	206,633
EUROs	8%	8%	1,606,206	-	-	-	-	-	1,606,206
	LIBOR+								
USD	1.25%	7%	2,633,110	-	-	-	-	-	2,633,110
USD	1%	1%	487,033	-	-	-	-	-	487,033
USD	1%	1%	6,759	-	-	-	-	-	6,759
Overdraft:									
RUR	8%-10%	8%-10%	13,993	-	-	-	-	-	13,993

Restated
31 December
2006

'000 RUR	Contractual interest rate	Effective average interest rate	Less than 1 year	Long-term					Total
				1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
Unsecured borrowings:									
RUR	1%-9%	1%-9%	435,833	-	-	-	-	-	435,833
USD	9%	9%	369,698	-	-	-	-	-	369,698
Unsecured bonds issued:									
RUR	8%	8%	166,329	5,000,000	-	-	-	-	5,166,329
Finance lease liabilities:									
RUR	0%-27%	0%-27%	106,577	45,793	9,223	2,319	-	-	163,912
EUROs	5%-26%	5%-26%	66,219	178,707	-	-	-	-	244,926
Other currencies	10%	10%	32,481	32,481	32,481	32,481	32,481	868,234	1,030,639
			<u>13,734,961</u>	<u>6,253,385</u>	<u>41,704</u>	<u>34,800</u>	<u>32,481</u>	<u>868,234</u>	<u>20,965,565</u>

31 December 2007	Contractual interest rate	Effective average interest rate	Less than 1 year	Long-term					Total
				1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
'000 USD*									
Liabilities									
Secured bank loans:									
RUR	6%-8%	6%-8%	53,328	-	-	-	-	-	53,328
RUR	9%-11%	9%-11%	79,737	-	-	-	-	-	79,737
USD	8%	8%	32,489	-	-	-	-	-	32,489
EUROs	EURIBOR+1.1%- 1.55 %	5.4%-5.5%	-	5,632	1,479	-	-	-	7,111
EUROs	EURIBOR+3.2%	7%	136	-	-	-	13,052	-	13,188
EUROs	7%	7%	34,176	-	-	-	-	-	34,176
Other currencies	Bank of England rate+2.5%	8%	300	352	-	-	-	-	652
Unsecured bank loans:									
RUR	7%-8.8%	7%-8.8%	130,099	133,014	-	-	-	-	263,113
RUR	MOSPRIME + 2.0%-2.5%	9%-9.4%	94,338	-	-	-	-	-	94,338
RUR	9%-11%	9%-11%	154,048	-	-	-	-	-	154,048
Other currencies	8%	8%	1,876	-	-	-	-	-	1,876
USD	1%	1%	18,622	-	-	-	-	-	18,622
USD	LIBOR + 1.5% + compulsory costs	7%	100,275	-	-	-	-	-	100,275
Overdraft:									
RUR	7%-9%	7%-9%	4,584	-	-	-	-	-	4,584
Other currencies	7%	7%	6,627	-	-	-	-	-	6,627

31 December 2007	Contractual interest rate	Effective average interest rate	Less than 1 year	Long-term					Total
				1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
'000 USD*									
Unsecured borrowings:									
RUR	0%-1%	0%-1%	134	-	-	-	-	-	134
RUR	6%-7%	6%-7%	1,360	-	-	-	-	-	1,360
RUR	10%	10%	153	-	-	-	-	-	153
Other currencies	0%	0%	1	-	-	-	-	-	1
Unsecured bonds issued:									
RUR	8%	8%	210,523	-	-	-	-	-	210,523
Finance lease liabilities:									
RUR	2%-36%	2%-36%	8,302	5,842	1,098	91	-	-	15,333
EUROs	10%-26%	10%-26%	3,658	40	-	-	-	-	3,698
Other currencies	10%	10%	1,253	1,253	1,253	1,253	1,252	32,229	38,493
			<u>936,019</u>	<u>146,133</u>	<u>3,830</u>	<u>1,344</u>	<u>14,304</u>	<u>32,229</u>	<u>1,133,859</u>

31 December 2006		Effective average interest rate	Less than 1 year	1 – 2 years	2 – 3 years	Long-term		more than 5 years	Total
'000 USD*	Contractual interest rate					3 – 4 years	4 – 5 years		
Liabilities									
Secured bank loans:									
RUR	1% - 2%	1% - 2%	15,667	-	-	-	-	-	15,667
	MOSPRIME								
RUR	+ 2.3%	8%	18,333	-	-	-	-	-	18,333
RUR	6%-8%	6%-8%	60,808	-	-	-	-	-	60,808
RUR	9% - 11%	9% - 11%	91,744	-	-	-	-	-	91,744
USD	2% - 8%	2%- 8%	39,781	38,650	-	-	-	-	78,431
USD	10%	10%	575	-	-	-	-	-	575
	Bank of England rate								
Other currencies	+2.5%	5%	1,002	-	-	-	-	-	1,002
Other currencies	9%	9%	3,725	1,943	-	-	-	-	5,668
Unsecured bank loans:									
RUR	5%-8%	5%-8%	25,967	-	-	-	-	-	25,967
RUR	8.5%-11%	8.5%-11%	52,186	-	-	-	-	-	52,186
EUROs	1%-2%	1%-2%	8,418	-	-	-	-	-	8,418
EUROs	8%	8%	65,436	-	-	-	-	-	65,436
	LIBOR+								
USD	1.25%	7%	107,272	-	-	-	-	-	107,272
USD	1%	1%	19,841	-	-	-	-	-	19,841
USD	1%	1%	275	-	-	-	-	-	275

31 December 2006			Long-term						
'000 USD*	Contractual interest rate	Effective average interest rate	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	Total
Overdraft:									
RUR	8%-10%	8%-10%	570	-	-	-	-	-	570
Unsecured borrowings:									
RUR	1%-9%	1%-9%	17,756	-	-	-	-	-	17,756
USD	9%	9%	15,061	-	-	-	-	-	15,061
Unsecured bonds issued:									
RUR	8%	8%	6,776	203,698	-	-	-	-	210,474
Finance lease liabilities:									
RUR	0%-27%	0%-27%	4,342	1,866	376	94	-	-	6,678
EUROs	5%-26%	5%-26%	2,698	7,280	-	-	-	-	9,978
Other currencies	10%	10%	1,323	1,323	1,323	1,323	1,324	35,371	41,987
			<u>559,556</u>	<u>254,760</u>	<u>1,699</u>	<u>1,417</u>	<u>1,324</u>	<u>35,371</u>	<u>854,127</u>

Unsecured bank loans include the following loans with variable interest rates as at 31 December 2007:

Bank's name	Date of loans' principal amount repayment according to the contract	Loans' principal amount as at 31 December 2007, '000 RUR	Loans' principal amount as at 31 December 2007, '000 USD*	Contractual interest rate	Effective interest rate as at 31 December 2007	Frequency of interest rate review
Commerzbank (Eurasia) ZAO	21.01.2008	1,000,000	40,740	MOSPRIME + 2%	9.1%	Monthly
Barclays Bank PLS	17.06.2008	2,454,620	100,000	LIBOR + 1.5% + compulsory costs	6.6%	Monthly
Guaranti Bank – Moscow ZAO	31.10.2008	310,000	12,629	MOSPRIME + 2%	9%	Monthly
Raiffeisenbank Austria ZAO	16.11.2008	550,000	22,407	MOSPRIME + 2.5%	9.6%	Monthly
Commerzbank (Eurasia) ZAO	28.01.2008	450,000	18,333	MOSPRIME + 2.5%	9.2%	Monthly
Vnesheconombank	20.12.2012	320,375	13,052	EURIBOR+3.2%	7.4%	Six-monthly
Alfa-Bank	27.12.2009	138,253	5,632	EURIBOR+1.55%	5.5%	Quarterly
VTB	22.03.2010	36,313	1,479	EURIBOR +1.1%	5.4%	Quarterly
HSBC	15.03.2010	15,978	652	Bank of England rate +2.5%	7.5%	Quarterly

The principal financial covenants relating to the Barclays Bank PLC loan are as follows:

1. the ratio of consolidated total net debt at any time to consolidated EBITDA (the total consolidated operating profit) according to the consolidated IFRS financial statements of OAO GAZ in respect of any period of 12 months ended 31 December 2007 or 30 June 2008 shall not at any time exceed 3 : 1;
2. the ratio of consolidated EBITDA to consolidated net interest expense according to the consolidated IFRS financial statements of OAO GAZ in respect of any period of 12 months ended 31 December 2007 or 30 June 2008 shall not at any time be less than 4 : 1;
3. the minimum consolidated tangible net worth according to the consolidated IFRS financial statements of OAO GAZ must not be less than USD 440,000 thousand (or equivalent in any other currency) at any time.

In addition, the Group must receive in advance the written permission of Barclays Bank PLC for the pledging of any of their assets or providing their assets as a pledge.

Finance lease liabilities are payable as follows:

	2007			Restated 2006		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
'000 RUR						
Less than one year	446,843	122,511	324,332	363,125	157,848	205,277
Between one and five years	557,583	261,029	296,554	658,052	292,086	365,966
More than five years	3,439,515	2,648,410	791,105	3,733,822	2,865,588	868,234
	<u>4,443,941</u>	<u>3,031,950</u>	<u>1,411,991</u>	<u>4,754,999</u>	<u>3,315,522</u>	<u>1,439,477</u>

	2007			2006		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
'000 USD*						
Less than one year	18,204	4,991	13,213	14,793	6,430	8,363
Between one and five years	22,716	10,634	12,082	26,809	11,900	14,909
More than five years	140,124	107,895	32,229	152,114	116,743	35,371
	<u>181,044</u>	<u>123,520</u>	<u>57,524</u>	<u>193,716</u>	<u>135,073</u>	<u>58,643</u>

Current finance lease liabilities include RUR 4,572 / USD*186 thousand (2006: RUR 31,785 thousand / USD* 1,295 thousand payable to related parties, refer to note 36(c).

Non-current finance lease liabilities include RUR 1,579 thousand / USD* 64 thousand payable to related parties due in 2009 (2006: RUR 6,419 thousand / USD* 261 thousand), refer to note 36(c)

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUR 2,218,073 thousand / USD* 90,363 thousand (2006: RUR 4,160,866 thousand / USD* 169,512 thousand) – refer to note 16(c).
- Inventory with a carrying amount of RUR 456,307 thousand / USD* 18,590 thousand (2006: RUR 1,963,806 thousand / USD* 80,004 thousand) – refer to note 23.
- 598,641 of Company's ordinary shares (2006: 422,821) – refer to note 26(d).
- Finance lease liabilities are secured by the leased assets, refer to note 16(d).

29 Delayed taxes

Terms and debt repayment schedule

The deferral of income and other long term tax liabilities is in accordance with agreements between the Group and the government of Russian Federation. The amount payable is stated at its nominal value and was not discounted to present value upon restructuring.

The fair value of the delayed taxes as of 31 December 2007, discounted at 10%, was RUR 73,528 thousand / USD* 2,995 thousand (2006: discounted at 11% was RUR 94,880 thousand / USD* 3,865 thousand).

	Restated		2007 '000 USD*	2006 '000 USD*
	2007 '000 RUR	2006 '000 RUR		
Over 1 year to 5 years	93,030	133,377	3,789	5,433

30 Other long-term payables

	Restated		2007 '000 USD*	2006 '000 USD*
	2007 '000 RUR	2006 '000 RUR		
Government grants	99,082	111,480	4,036	4,542
Other	1,081,548	1,203,229	44,063	49,019
	1,180,630	1,314,709	48,099	53,561

Other long-term payables include RUR 952,144 thousand / USD* 38,790 thousand of re-purchase liabilities for vehicles on operating leases, refer to note 3(n)(ii) (2006: RUR 893,167 thousand / USD* 36,387 thousand).

31 Trade and other payables

	Restated		2007 '000 USD*	2006 '000 USD*
	2007 '000 RUR	2006 '000 RUR		
Accounts payable – trade	9,769,474	7,097,530	398,004	289,150
Other taxes payable	1,448,308	1,705,867	59,003	69,496
Advances received	2,678,986	1,895,821	109,140	77,235
Payables to employees	2,549,248	2,173,351	103,855	88,541
Warranty provision	697,104	720,416	28,400	29,349
Accounts payable for property, plant and equipment	114,335	293,912	4,658	11,974
Other payables and accrued expenses	2,960,161	3,010,661	120,596	122,653
	20,217,616	16,897,558	823,656	688,398

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 32.

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

32 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2007	Restated 31 December 2006	31 December 2007	31 December 2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Available-for-sale investments stated at cost	54,890	134,327	2,236	5,473
Loans issued	4,282,033	3,092,396	174,448	125,983
Accounts receivable - trade	7,992,481	6,014,544	325,610	245,030
Cash and cash equivalents	5,609,182	1,444,668	228,515	58,855
	<u>17,938,586</u>	<u>10,685,935</u>	<u>730,809</u>	<u>435,341</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	31 December 2007	Restated 31 December 2006	31 December 2007	31 December 2006
'000 RUR	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Russia	7,210,662	5,713,647	293,759	232,771
Countries of Eurozone	55,481	-	2,260	-
CIS	133,814	209,457	5,452	8,533
Other European countries	112,943	57,657	4,601	2,349
Other regions	479,581	33,783	19,538	1,377
	<u>7,992,481</u>	<u>6,014,544</u>	<u>325,610</u>	<u>245,030</u>

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

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Retail customers	3,566,953	2,715,335	145,316	110,622
End-user customers	4,425,528	3,299,209	180,294	134,408
	<u>7,992,481</u>	<u>6,014,544</u>	<u>325,610</u>	<u>245,030</u>

Impairment losses

The aging of trade receivables at the reporting date was:

'000 RUR	Gross	Impairment	Gross	Impairment
	2007	2007	Restated 2006	Restated 2006
Not past due	7,078,937	5,750	5,154,821	-
Past due 0- 90 days	476,761	-	479,614	-
Past due 90-180 days	160,487	93,906	67,473	32,279
Past due 180-360 days	32,091	24,065	20,346	14,903
More than one year	244,205	244,205	292,290	292,290
	<u>7,992,481</u>	<u>367,926</u>	<u>6,014,544</u>	<u>339,472</u>

'000 USD*	Gross	Impairment	Gross	Impairment
	2007	2007	2006	2006
Not past due	288,393	234	210,005	-
Past due 0- 90 days	19,423	-	19,539	-
Past due 90-180 days	6,538	3,826	2,749	1,315
Past due 180-360 days	1,307	980	829	607
More than one year	9,949	9,949	11,908	11,908
	<u>325,610</u>	<u>14,989</u>	<u>245,030</u>	<u>13,830</u>

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

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Balance at 1 January	339,472	297,770	13,830	12,131
Impairment loss recognised	28,454	41,702	1,159	1,699
Balance at 31 December	367,926	339,472	14,989	13,830

The impairment loss at 31 December 2007 of RUR 116,997 thousand/ USD* 4,766 thousand relates mostly to customers who have debts due over one year, the most significant of which are as follows:

Name of customer	Reserve	
	'000 RUR	'000 USD*
OAO Velozavod	36,437	1,484
OOO UIK	28,674	1,168
Heiden Ink	26,068	1,062
OOO Zavod Pruzhin	14,379	586
OAO Yaroslavsky zavod RTI	11,439	466
	<u>116,997</u>	<u>4,766</u>

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days. More than 80% of the balance relates to customers that have a good track record with the Group.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

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

2007 '000 RUR	Average interest rate		Less than 1 year	Long term					Total
	Contractual	Effective		1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
Liabilities									
Secured bank loans:									
RUR	6%-8%	6%-8%	1,326,769	-	-	-	-	-	1,326,769
RUR	9%-11%	9%-11%	2,013,700	-	-	-	-	-	2,013,700
USD	8%	8%	807,046	-	-	-	-	-	807,046
EUROs	EURIBOR+1.1%-1.5 %	5%-6%	9,575	148,152	36,313	-	-	-	194,040
EUROs	EURIBOR+3.2%	7%	26,922	23,583	23,583	23,583	343,247	-	440,918
EUROs	7%	7%	861,371	-	-	-	-	-	861,371
Other currencies	Bank of England rate +2.5%	8%	8,550	9,402	-	-	-	-	17,952
Unsecured bank loans:									
RUR	7%-8.8%	7%-8.8%	3,606,697	3,403,513	-	-	-	-	7,010,210
RUR	MOSPRIME + 2.0-2.5%	9%-9.4%	2,392,275	-	-	-	-	-	2,392,275
RUR	9%-11%	9%-11%	3,867,137	-	-	-	-	-	3,867,137
Other currencies	8%	8%	47,735	-	-	-	-	-	47,735
USD	1%	1%	461,081	-	-	-	-	-	461,081
USD	LIBOR + 1.5% + compulsory costs	7%	2,534,399	-	-	-	-	-	2,534,399
Overdraft:									
RUR	7%-9%	7%-9%	119,133	-	-	-	-	-	119,133
Other currencies	7%	7%	162,667	-	-	-	-	-	162,667

2007 '000 RUR	Average interest rate		Long term					Total	
	Contractual	Effective	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years		more than 5 years
Unsecured borrowings:									
RUR	0%-1%	0%-1%	3,290	-	-	-	-	-	3,290
RUR	6%-7%	6%-7%	33,814	-	-	-	-	-	33,814
RUR	10%	10%	4,106	-	-	-	-	-	4,106
Other currencies	0%	0%	22	-	-	-	-	-	22
Unsecured bonds issued									
RUR	8%	8%	5,592,029	424,500	424,500	44,074	-	-	6,485,103
Finance lease liabilities:									
RUR	2%-36%	2%-36%	256,584	159,844	28,568	2,404	-	-	447,400
EUROs	10%-26%	10%-26%	104,342	1,078	-	-	-	-	105,420
Other currencies	10%	10%	85,917	88,064	90,266	92,523	94,836	3,439,515	3,891,121
Trade and other payables			<u>19,479,524</u>	<u>425,321</u>	<u>444,043</u>	<u>84,545</u>	<u>76,720</u>	<u>-</u>	<u>20,510,153</u>
			<u>43,804,685</u>	<u>4,683,457</u>	<u>1,047,273</u>	<u>247,129</u>	<u>514,803</u>	<u>3,439,515</u>	<u>53,736,862</u>

Restated 2006 '000 RUR <i>Liabilities</i>	Average interest rate		Less than 1 year	Long term					Total
	Contractual	Effective		1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
Secured bank loans:									
RUR	1% - 2%	1% - 2%	384,783	-	-	-	-	-	384,783
RUR	MOSPRIME + 2.3%	8%	462,529	-	-	-	-	-	462,529
RUR	6%-8%	6%-8%	1,515,513	-	-	-	-	-	1,515,513
RUR	9% - 11%	9% - 11%	2,325,029	-	-	-	-	-	2,325,029
USD	2% - 8%	2% - 8%	1,124,637	960,149	-	-	-	-	2,084,786
USD	10%	10%	14,102	-	-	-	-	-	14,102
Other currencies	Bank of England rate+2.5%	5%	28,336	-	-	-	-	-	28,336
Other currencies	9%	9%	103,949	49,713	-	-	-	-	153,662
Unsecured bank loans:									
RUR	5%-8%	5%-8%	643,655	-	-	-	-	-	643,655
RUR	8.5%-11%	8.5%-11%	1,374,793	-	-	-	-	-	1,374,793
EUROs	1%-2%	1%-2%	208,558	-	-	-	-	-	208,558
EUROs	8%	8%	1,682,034	-	-	-	-	-	1,682,034
USD	LIBOR+ 1.25%	7%	2,799,878	-	-	-	-	-	2,799,878
USD	1%	1%	491,276	-	-	-	-	-	491,276
USD	1%	1%	6,759	-	-	-	-	-	6,759
Overdraft:									
RUR	8-10%	8-10%	14,084	-	-	-	-	-	14,084

Restated 2006 '000 RUR	Average interest rate		Long term						Total
	Contractual	Effective	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
Unsecured borrowings:									
RUR	1%-9%	1%-9%	474,242	-	-	-	-	-	474,242
USD	9%	9%	385,287	-	-	-	-	-	385,287
Bonds issued:									
RUR	8%	8%	590,829	5,424,500	424,500	424,500	44,074	-	6,908,403
Finance lease liabilities:									
RUR	0%-27%	0%-27%	124,496	69,330	11,128	3,133	172	-	208,259
EUROs	5%-26%	5%-26%	150,077	197,376	8				347,461
Other currencies	10%	10%	88,552	94,227	94,226	94,226	94,226	3,733,822	4,199,279
Trade and other payables			<u>16,111,926</u>	<u>279,274</u>	<u>458,888</u>	<u>230,099</u>	<u>89,316</u>	<u>-</u>	<u>17,169,503</u>
			<u>31,105,324</u>	<u>7,074,569</u>	<u>988,750</u>	<u>751,958</u>	<u>227,788</u>	<u>3,733,822</u>	<u>43,882,211</u>

2007 '000 USD*	Average interest rate		Less than 1 year	Long term					Total
	Contractual	Effective		1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
Liabilities									
Secured bank loans:									
RUR	6%-8%	6%-8%	54,052	-	-	-	-	-	54,052
RUR	9%-11%	9%-11%	82,037	-	-	-	-	-	82,037
USD	8%	8%	32,879	-	-	-	-	-	32,879
EUROs	EURIBOR+1.1%-1.55 %	5%-6%	390	6,036	1,479	-	-	-	7,905
EUROs	EURIBOR+3.2%	7%	1,097	961	961	961	13,983	-	17,963
EUROs	7%	7%	35,092	-	-	-	-	-	35,092
Other currencies	Bank of England rate +2.5%	8%	348	383	-	-	-	-	731
Unsecured bank loans:									
RUR	7%-8.8%	7%-8.8%	146,935	138,657	-	-	-	-	285,592
RUR	MOSPRIME + 2.0%-2.5%	9%-9.4%	97,460	-	-	-	-	-	97,460
RUR	9%-11%	9%-11%	157,545	-	-	-	-	-	157,545
Other currencies	8%	8%	1,945	-	-	-	-	-	1,945
USD	1%	1%	18,784	-	-	-	-	-	18,784
USD	LIBOR + 1.5% + compulsory costs	7%	103,250	-	-	-	-	-	103,250
Overdraft:									
RUR	7%-9%	7%-9%	4,853	-	-	-	-	-	4,853
Other currencies	7%	7%	6,627	-	-	-	-	-	6,627
Unsecured borrowings:									

2007 '000 USD*	Average interest rate		Long term						Total
	Contractual	Effective	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
RUR	0%-1%	0%-1%	134	-	-	-	-	-	134
RUR	6%-7%	6%-7%	1,378	-	-	-	-	-	1,378
RUR	10%	10%	167	-	-	-	-	-	167
Other currencies	0%	0%	1	-	-	-	-	-	1
Unsecured bonds issued:									
RUR	8%	8%	227,817	17,294	17,294	1,796	-	-	264,201
Finance lease liabilities:									
RUR	2%-36%	2%-36%	10,453	6,512	1,164	98	-	-	18,227
EUROs	10%-26%	10%-26%	4,251	44	-	-	-	-	4,295
Other currencies	10%	10%	3,500	3,588	3,677	3,769	3,864	140,124	158,522
Trade and other payables			<u>793,586</u>	<u>17,327</u>	<u>18,090</u>	<u>3,444</u>	<u>3,126</u>	<u>-</u>	<u>835,573</u>
			<u>1,784,581</u>	<u>190,802</u>	<u>42,665</u>	<u>10,068</u>	<u>20,973</u>	<u>140,124</u>	<u>2,189,213</u>

2006 '000 USD*	Average interest rate		Less than 1 year	Long term					Total
	Contractual	Effective		1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
Liabilities									
Secured bank loans:									
RUR	1% - 2%	1%- 2%	15,676	-	-	-	-	-	15,676
RUR	MOSPRIME + 2.3%	8%	18,843	-	-	-	-	-	18,843
RUR	6%-8%	6%-8%	61,741	-	-	-	-	-	61,741
RUR	9% - 11%	9% - 11%	94,721	-	-	-	-	-	94,721
USD	2% - 8%	2% - 8%	45,817	39,116	-	-	-	-	84,933
USD	10%	10%	575	-	-	-	-	-	575
Other currencies	Bank of England rate+2.5%	5%	1,154	-	-	-	-	-	1,154
Other currencies	9%	9%	4,235	2,025	-	-	-	-	6,260
Unsecured bank loans:									
RUR	5%-8%	5%-8%	26,222	-	-	-	-	-	26,222
RUR	8.5%-11%	8.5%-11%	56,008	-	-	-	-	-	56,008
EUROs	1%-2%	1%-2%	8,497	-	-	-	-	-	8,497
EUROs	8%	8%	68,525	-	-	-	-	-	68,525
USD	LIBOR+ 1.25%	7%	114,066	-	-	-	-	-	114,066
USD	1%	1%	20,014	-	-	-	-	-	20,014
USD	1%	1%	275	-	-	-	-	-	275
Overdraft:									
RUR	8%-10%	8%-10%	574	-	-	-	-	-	574
Unsecured borrowings:									
RUR	1%-9%	1%-9%	19,321	-	-	-	-	-	19,321
USD	9%	9%	15,697	-	-	-	-	-	15,697

2006 '000 USD*	Average interest rate		Less than 1 year	Long term					Total
	Contractual	Effective		1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	
Bonds issued:									
RUR	8%	8%	24,070	220,991	17,294	17,294	1,796	-	281,445
Finance lease liabilities:									
RUR	0%-27%	0%-27%	5,071	2,825	453	127	7	-	8,483
EUROs	5%-26%	5%-26%	6,114	8,041	-	-	-	-	14,155
Other currencies	10%	10%	3,608	3,839	3,839	3,839	3,839	152,114	171,078
Trade and other payables									
			656,392	11,377	18,695	9,374	3,639	-	699,477
			1,267,216	288,214	40,281	30,634	9,281	152,114	1,787,740

(c) Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily Russian Rouble (RUR), but also Sterling (GBP). The currencies in which these transactions primarily are denominated are Euro and USD.

The Group has the following foreign-currency denominated financial assets and liabilities:

'000 RUR	USD- denominated 2007	EURO- denominated 2007	USD- denominated 2006	EURO- denominated 2006
<i>Non-current assets</i>				
Loans issued	2,058,616	-	-	-
Other non-current assets	405,722	-	385,061	-
<i>Current assets</i>				
Loans issued	44,609	-	245,986	-
Trade and other receivables	323,646	172,694	144,973	63,742
Other receivables	43,266	45,521	3,599	11,923
<i>Current liabilities</i>				
Trade payables	(53,587)	(27,007)	(87,983)	(283)
Other payables	(168,746)	(100,671)	(194,788)	(172,084)
Loans and borrowings	(3,715,952)	(842,235)	(4,487,173)	(1,812,839)
<i>Non-current liabilities</i>				
Loans and borrowings	-	(494,941)	(948,714)	-
Other long-term payables	-	(975)	-	(178,707)
	<u>(1,062,426)</u>	<u>(1,247,614)</u>	<u>(4,939,039)</u>	<u>(2,088,248)</u>

'000 USD*	USD- denominated 2007	EURO- denominated 2007	USD- denominated 2006	EURO- denominated 2006
<i>Non-current assets</i>				
Loans issued	83,867	-	-	-
Other non-current assets	16,529	-	15,687	-
<i>Current assets</i>				
Loans issued	1,817	-	10,021	-
Trade and other receivables	13,185	7,035	5,906	2,597
Other receivables	1,763	1,854	147	486
<i>Current liabilities</i>				
Trade payables	(2,183)	(1,100)	(3,584)	(12)
Other payables	(6,875)	(4,101)	(7,936)	(7,011)
Loans and borrowings	(151,386)	(34,312)	(182,805)	(73,854)
<i>Non-current liabilities</i>				
Loans and borrowings	-	(20,163)	(38,650)	-
Other long-term payables	-	(40)	-	(7,280)
	<u>(43,283)</u>	<u>(50,827)</u>	<u>(201,214)</u>	<u>(85,074)</u>

The following exchange rates applied at 31 December:

	31 December 2007	31 December 2006
	RUR	RUR
1 US Dollar	24.5462	26.3311
1 EURO	35.9332	34.6965
1 GBP	49.0114	51.7775

Sensitivity analysis

A 10% strengthening of the RUR against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	US Dollar	Euro
RUR rate with 10% strengthening	22.0916	32.3399

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

	Equity	Profit or loss
	'000 RUR	'000 RUR
2007		
USD	106,243	106,243
EURO	124,762	124,762
2006		
USD	493,904	493,904
EURO	208,825	208,825

A 10% weakening of the RUR against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUR	Carrying amount	
	2007	2006
Fixed rate instruments		
Financial assets	4,282,033	3,092,396
Financial liabilities	(22,339,322)	(17,679,795)
	<u>(18,057,289)</u>	<u>(14,587,399)</u>
Variable rate instruments		
Financial liabilities	(5,275,539)	(3,083,110)
'000 USD*		
Fixed rate instruments		
Financial assets	174,448	125,983
Financial liabilities	(910,093)	(720,266)
	<u>(735,645)</u>	<u>(594,283)</u>
Variable rate instruments		
Financial liabilities	(214,923)	(125,604)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased equity and profit or loss by RUR 24,359 thousand / USD* 992 thousand (2006: RUR 26,881 thousand / USD*1,095 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

(e) Fair values

The fair value of unquoted equity investments is discussed in note 19. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the delayed taxes as described in note 29.

For receivables and payables with a maturity of less than one year fair value is not materially different from the carrying amount because the effect of the time value of money is not material. For other receivables and payables, expected future principal and interest cash flows were discounted at an effective rate of 10%.

33 Operating leases

Non-cancellable operating leases relate to the rent of land plots from local authorities. The expected schedule of future payments for the lease of land plots is as follows:

	Restated			
	2007	2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Less than one year	263,447	251,406	10,733	10,242
Between one and five years	979,920	807,494	39,921	32,897
More than five years	5,781,522	5,474,419	235,536	223,025
	<u>7,024,889</u>	<u>6,533,319</u>	<u>286,190</u>	<u>266,164</u>

The Group has numerous leases of land plots with local authorities. The schedule of future lease payments is disclosed above. The calculation of payments was made based on lease terms in effect at the reporting date. Lease payments increase annually in accordance with a formula based on a correction coefficient established by local authorities. Future increases in lease payments have not been reflected in the amounts above. The leases are typically for a term of 45 years, with an option to renew at the end of the lease term.

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In addition, the Group has termless agreements for the use of land for which it pays land tax. The substance of the land tax payment is a lease payment. These land tax payments are expected to be payable as follows (based on the amount of expenses incurred during the current year):

	Restated		2007	2006
	2007	2006		
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Less than one year	27,512	38,730	1,121	1,578
Between one and five years	110,048	154,920	4,483	6,311
More than five years	1,100,483	1,549,203	44,833	63,114
	<u>1,238,043</u>	<u>1,742,853</u>	<u>50,437</u>	<u>71,003</u>

During the current year RUR 339,156 thousand / USD* 13,817 thousand was recognised as an expense in the income statement in respect of operating leases and land tax (2006: RUR 349,958 thousand / USD* 14,257 thousand).

34 Commitments

(a) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the Group's employees. The Group has transferred certain social operations and assets to local authorities. Management expects that the Group will continue to fund these social programs for the foreseeable future. Such costs are expensed as incurred.

(b) Capital commitments

At 31 December 2007 the Group entered into a contract to use JR-41 technology according to which the Group is obliged to pay to Chrysler company RUR 4,909/USD*200 per each vehicle produced by this technology until 250,000 vehicles have been manufactured.

Also, the Group entered into a contract to purchase equipment for production EURO III and EURO IV engines with Grob-Werke GmbH&Co.KG, Germany, RIKO d.o.o. Ljubljana, Slovenia, ThyssenKrupp Krause GmbH, Germany, OOO Trans-engineering, Izhevsk Russia, for RUR 6,736,691 thousand / USD* 274,449 thousand and also for production and assembly of EURO III and EURO IV engines with AVL List GmbH, Austria for RUR 947,450 thousand / USD*38,599 thousand. Part of this equipment is recognized as an asset as at 31 December 2007. The remaining amount to be paid under the contract at 31 December 2007 is RUR 6,088,215 thousand / USD* 248,031 thousand.

Also the Group entered into a contract with Renault Trucks to purchase a license for the production of EURO III engines. According to the contract the Group will be obliged to pay to Renault Trucks EURO 5,000 thousand (or RUR 179,666 thousand / USD* 7,320 thousand at 31 December 2007 EURO exchange rate) during 5 years after the start of production. The initial cost of the license is included into the Group's assets at 31 December 2007.

Additionally the Group has entered into 70 contracts of capital commitments for RUR 1,847,340 thousand /USD* 75,260 thousand, under which the remaining amounts to be paid at 31 December 2007 amount to RUR 1,143,386 thousand / USD* 46,581 thousand.

35 Contingencies

(a) Insurance

The insurance market in the Russian Federation is in the process of formation, and many aspects of insurance, which are widely spread in other countries, are not available in Russia. The Group has full coverage for its plant facilities, business interruption, or third party liability in respect of property or arising from accidents on Group property or relating to the Group operations, except for environmental damage.

(b) Litigation

Certain legal proceedings initiated by subsidiaries of the Group relating to tax authorities' assessments and matters arising in the ordinary course of business are pending at the balance sheet date. Management is of the opinion that no losses that are material in relation to the Group's financial position are likely to arise in respect of these matters.

(c) 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 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 suggest 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. However, the interpretations of the relevant Russian tax authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2006, as a result of a tax audit at one Group entity additional profits tax, penalties and late payment interest amounting to RUR 273,992 thousand/USD* 11,162 thousand were assessed. Management has successfully challenged such assessment in court and believes that the Group will be successful in challenging any further appeals. Accordingly, no provision has been recognized in these consolidated financial statements, because management believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

(d) Guarantees issued for third parties

As at 31 December 2007 the Group issued guarantees for third parties amounting to RUR 427,926 thousand / USD* 17,433 thousand.

36 Related party transactions

(a) Control relationships

The immediate parent company of OAO GAZ is OAO Russkie Mashiny, a member of the Basic Element Limited Group (the 'Basic Element Group'). The ultimate parent company is Basic Element Limited. Activities of the Group are closely linked with the activities of the Basic Element Group and determination of the pricing of the Group's services to the Basic Element Group is undertaken in conjunction with other Basic Element Group companies.

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

Related parties comprise the Basic Element Group and all other companies in which the Basic Element Group has a controlling interest or significant influence. In addition, the Group has a controlling relationship with all its subsidiaries (refer to note 37 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 13):

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Salaries and bonuses	590,961	480,946	24,076	19,594
Contributions to State pension fund	22,663	10,582	923	431
	<u>613,624</u>	<u>491,528</u>	<u>24,999</u>	<u>20,025</u>

(c) Transactions with other related parties

(i) Revenue

Sales to related parties for the year ended 31 December 2007 were as follows:

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Sale of goods				
Fellow subsidiaries	2,860,299	3,362,953	116,527	137,005
Equity accounted investees	152,800	-	6,225	-
Services provided				
Fellow subsidiaries	74,587	70,887	3,039	2,888
	<u>3,087,686</u>	<u>3,433,840</u>	<u>125,791</u>	<u>139,893</u>

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(ii) Purchases of raw materials and services

Purchases of raw materials and services from related parties for the year ended 31 December 2007 were as follows:

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Purchase of raw materials				
Fellow subsidiaries	3,904,897	3,451,435	159,084	140,610
Equity accounted investees	164,789	-	6,713	-
Purchase of services				
Fellow subsidiaries	705,950	406,957	28,760	16,579
Equity accounted investees	232,300	-	9,464	-
Total	<u>5,007,936</u>	<u>3,858,392</u>	<u>204,021</u>	<u>157,189</u>

(iii) Trade and other receivables

Trade and other receivables owed by related parties as at 31 December 2007 were as follows:

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Receivables				
Fellow subsidiaries	524,559	437,184	21,370	17,811
Equity accounted investees	173,879	-	7,084	-
Advances issued				
Fellow subsidiaries	15,465	14,855	630	605
Other receivables				
Fellow subsidiaries	25,943	740,102	1,057	30,151
	<u>739,846</u>	<u>1,192,141</u>	<u>30,141</u>	<u>48,567</u>

(iv) Loans issued and other current investments

Loans issued to related parties as at 31 December 2007 were as follows:

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Non-current				
Companies controlled by ultimate controlling party				
In RUR with the fixed interest rate of 12%	-	260,026	-	10,593
Other related parties				
In USD with fixed interest rate of 9%	638,201	-	26,000	-
	<u>638,201</u>	<u>260,026</u>	<u>26,000</u>	<u>10,593</u>
Current				

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	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Companies controlled by ultimate controlling party				
In RUR with the fixed interest rate of 0% - 1%	48,346	91,920	1,970	3,745
In RUR with the fixed interest rate of 9% - 12%	645,000	594,000	26,277	24,199
Companies controlled by Basic Element group				
In USD with the fixed interest rate of 8.2%	-	239,293	-	9,749
In RUR at fixed interest rate of 9%-12%	363,874	882,220	14,824	35,941
Equity accounted investees				
In RUR with the fixed interest rate of 7%	21,000	-	855	-
In RUR with the fixed interest rate of 9%	71,450	-	2,911	-
AKB Soyuz controlled by ultimate controlling party				
In RUR with the fixed interest rate of 3%	-	100,000	-	4,074
In RUR with the fixed interest rate of 6% - 11%	846,291	27,500	34,477	1,120
Other related parties				
In RUR with the fixed interest rate of 9% - 12%	-	800,000	-	32,592
	1,995,961	2,734,933	81,314	111,420

All loans provided by the Group are unsecured.

During the year ended 31 December 2007 the Group issued RUR 661,248 thousand / USD*26,939 thousand of long-term loans in USD at a fixed interest rate of 9% to other related parties.

During the year ended 31 December 2007 the Group issued RUR 355,000 thousand / USD* 14,463 thousand of short-term loans at a fixed interest rate of 6%-15% to OAO Russkie Mashiny (2006: RUR 1,223,942 thousand / USD*49,863 thousand), which were repaid during 2007

During the year ended 31 December 2007 the Group issued RUR 54,997 thousand / USD* 2,241 thousand of short-term loans at a fixed interest rate of 0%-1% to the companies controlled by Russkie Mashiny Group (2006: RUR 42,056 thousand / USD* 1,713 thousand).

During the year ended 31 December 2007 the Group issued RUR 979,921 thousand / USD* 39,921 thousand of short-term loans at a fixed interest rate of 8-12% to companies controlled by Russkie Mashiny Group (2006: RUR 1,052,100 thousand / USD* 42,862 thousand at a fixed interest rate of 9%-12%).

During the year ended 31 December 2007 the Group issued RUR 3,359,655 thousand / USD* 136,871 thousand of short-term loans at a fixed interest rate of 3%-7% repayable in 2007-2008 to the AKB Soyuz controlled by the Company's ultimate controlling party (2006: RUR 27,500 thousand/ USD* 1,120 thousand), and short-term loans at a fixed interest rate of 10-11% in the amount of RUR 846,291 thousand / USD* 34,477 thousand.

During the year ended 31 December 2007 the Group issued RUR 92,450 thousand / USD* 3,766 thousand of short-term loans to equity accounted investees (2006: nil).

During the year ended 31 December 2006 the Group issued RUR 1,660,000 thousand/USD*67,628 thousand of short-term loan in RUR at a fixed interest rate of 3-12% to other related parties.

During the year ended 31 December 2007 the Group has received RUR 113,135 thousand/ USD* 4,609 thousand (2006: RUR 472,702 thousand/ USD* 19,258 thousand) of interest income on loans issued to related parties.

(v) **Trade and other payables**

Trade and other payables owing to related parties as at 31 December 2007 were as follows:

	2007	Restated 2006	2007	2006
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Trade payables				
Fellow subsidiaries	283,402	259,883	11,546	10,587
Equity accounted investees	340,218	-	13,860	-
Advances received				
Fellow subsidiaries	7,675	2,775	313	113
Other payables				
Fellow subsidiaries	131,643	283,398	5,363	11,546
	<u>762,938</u>	<u>546,056</u>	<u>31,082</u>	<u>22,246</u>

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(vi) **Loans received**

Loans and borrowings owing to related parties as at 31 December 2007 were as follows:

	2007 '000 RUR	Restated 2006 '000 RUR	2007 '000 USD*	2006 '000 USD*
Non-current				
AKB Soyuz controlled by ultimate controlling party				
Loan in kind of bonds issued in RUR with the fixed interest rate of 8%	-	99,898	-	4,070
Finance lease liability to the companies of Basic Element group	1,579	6,419	64	261
	<u>1,579</u>	<u>106,317</u>	<u>64</u>	<u>4,331</u>
Current				
Companies controlled by Basic Element group				
In RUR with the fixed interest rate of 7% - 14%	26,304	435,114	1,072	17,726
In USD with the fixed interest rate of 8.3%	-	368,636	-	15,018
AKB Soyuz controlled by ultimate controlling party				
In RUR with the fixed interest rate of 1% - 3%	-	195,554	-	7,967
In RUR with the fixed interest rate of 7% - 12%	-	800,000	-	32,592
Interests accrued to the loan in kind of bonds issued	37	-	1	-
Finance lease liability to the companies of Basic Element group	4,572	31,785	186	1,295
	<u>30,913</u>	<u>1,831,089</u>	<u>1,259</u>	<u>74,598</u>

As at 31 December 2007 all of the loans received from related parties (both long-term and short-term) are unsecured (2006: RUR 195,642 thousand / USD* 7,970 thousand were secured).

During the year ended 31 December 2007 the Group accrued RUR 12,092 thousand / USD* 493 thousand of interest expense on loans received from OAO AKB Soyuz (2006: RUR 28,065 thousand / USD* 1,143 thousand).

During the year ended 31 December 2007 the Group accrued RUR 25,556 thousand / USD* 1,041 thousand (2006: RUR 38,424 thousand / USD* 1,565 thousand) of interest expense on loans received from other related parties.

(d) **Pricing policies**

The pricing policy between related parties is determined mainly on an arm's length basis.

37 Significant subsidiaries

	Country of incorporation	Voting ownership 2007	Effective ownership 2007	Voting ownership 2006	Effective ownership 2006
OOO UK GAZ Group	Russia	100%	100%	100%	100%
OAO Kanashsky autoagregatny zavod	Russia	93%	93%	93%	93%
OOO KAVZ	Russia	100%	100%	100%	100%
OOO PAZ	Russia	100%	97%	100%	92%
OOO Likinsky avtobus	Russia	100%	100%	100%	100%
OAO Golitsinsky avtobusny zavod	Russia	100%	100%	100%	100%
OOO CTD Russkie avtobusy	Russia	100%	100%	100%	100%
OOO Likinsky avtobusny zavod	Russia	100%	100%	100%	100%
OAO Pavlovsky avtobus	Russia	97%	97%	92%	92%
OAO Avtomobilny zavod Ural	Russia	100%	100%	100%	100%
OOO Gruzovye Avtomobily GAZ Group	Russia	100%	100%	100%	100%
OOO TZK GAZ	Russia	100%	100%	100%	100%
OOO Zavod Shtampov i Press-form	Russia	100%	100%	100%	100%
OAO Saransky zavod autosamosvalov	Russia	62%	62%	62%	62%
OOO Avtomobilny zavod GAZ	Russia	100%	100%	100%	100%
OOO TD Russkie mashiny	Russia	100%	100%	100%	100%
LDV Group Limited	Great Britain	100%	100%	100%	100%
Birmingham Pressing Limited	Great Britain	100%	100%	100%	100%
OOO Nizhegorodskie motory	Russia	100%	100%	-	-
OOO GAZ-Finance	Russia	100%	100%	100%	100%
OOO «GAZ-Reserve»	Russia	100%	100%	100%	100%
ZAO Chelyabinskije stroitelno- dorozhnye mashiny	Russia	100%	100%	100%	100%
OAO Tverskoy excavator	Russia	93%	93%	86%	86%
OAO Bryansky arsenal	Russia	78%	78%	59%	59%
OOO Excavatorny zavod Kovrovets	Russia	50%	46%	50%	43%
OAO YAZDA	Russia	90%	90%	88%	88%
OAO YAZTA	Russia	90%	90%	89%	89%
OAO Autodiesel	Russia	62%	62%	61%	61%
OAO Ulyanovsky motorny zavod	Russia	100%	100%	100%	100%

In addition to the above mentioned, there are approximately 40 insignificant subsidiaries incorporated in Russia.

38 Events subsequent to the balance sheet date

In February 2008 the Group entered into an arrangement involving a financial instrument that was in substance a financial guarantee for a related party's bank borrowings amounting to RUR 3,927,392 thousand / USD* 160,000 thousand until December 2008.

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