OAO GAZ

Consolidated Financial Statements for the year ended 31 December 2006

Contents

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Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors

OAO GAZ

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO GAZ (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, 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.

KPMG Limited, a company incorporated under the Guernsey Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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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 2006, 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

30 May 2007

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 80.

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

	Note	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Revenue	7	118,793,370	94,584,430	4,511,523	3,592,118
Cost of sales	8	(95,553,189)	(77,172,913)	(3,628,910)	(2,930,866)
Gross profit		23,240,181	17,411,517	882,613	661,252
Distribution expenses	9	(3,477,737)	(2,772,253)	(132,077)	(105,284)
Administrative expenses	10	(8,624,914)	(6,328,166)	(327,556)	(240,330)
Other income	11	770,123	145,518	29,248	5,526
Other expenses	11	(2,546,271)	(2,558,992)	(96,702)	(97,185)
Financial income	13	896,894	591,032	34,062	22,446
Financial expenses	13	(1,710,189)	(1,511,701)	(64,949)	(57,411)
Profit before tax		8,548,087	4,976,955	324,639	189,014
Income tax expense	14	(2,544,957)	(1,890,258)	(96,652)	(71,788)
Profit for the year		6,003,130	3,086,697	227,987	117,226
Attributable to:					
Shareholders of the Company		5,123,656	2,396,614	194,586	91,018
Minority interest		879,474	690,083	33,401	26,208
		6,003,130	3,086,697	227,987	117,226
Basic and diluted earnings per share	25				
Ordinary shares		281 RUR	127 RUR	10.7 USD*	4.8 USD*
Preference shares		281 RUR	127 RUR	10.7 USD*	4.8 USD*

These consolidated financial statements were approved by management on 30 May 2007 and were signed on its behalf by:

Erik Eberhardson
Chairman
of Management Committee
of LLC GAZ GROUP

Shmatov V.V.
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 79.

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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 80.

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			Restated		
		2006	**2005**	**2006**	**2005**
	Note	**’000 RUR**	**’000 RUR**	**’000 USD***	**’000 USD***
ASSETS					
Non-current assets					
Property, plant and equipment	15	28,630,251	21,101,743	1,087,317	801,400
Intangible assets	16	459,049	232,798	17,434	8,841
Investments	17	49,510	190,623	1,880	7,239
Deferred tax assets	20	529,121	247,242	20,095	9,390
Other long-term assets	18	443,168	50,443	16,831	1,916
Loans issued	19	281,217	3,737,010	10,680	141,924
		30,392,316	25,559,859	1,154,237	970,710
Current assets					
Inventories	21	11,180,486	7,906,535	424,611	300,274
Investments	17	108,818	405,825	4,132	15,413
Loans issued	19	2,787,179	3,891,161	105,851	147,778
Trade and other receivables	22	10,734,545	8,946,031	407,676	339,751
Income tax receivable		281,491	156,678	10,690	5,950
Cash and cash equivalents	23	1,444,092	718,910	54,844	27,303
		26,536,611	22,025,140	1,007,804	836,469
Total assets		56,928,927	47,584,999	2,162,041	1,807,179

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 80.

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	Note	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
EQUITY AND LIABILITIES					
Equity	24				
Share capital		2,311,280	2,306,383	87,778	87,592
Share premium		9,259,252	8,139,125	351,647	309,107
Treasury shares		(7,304,782)	-	(277,421)	-
Retained earnings		9,931,175	6,536,064	377,165	248,226
Total equity attributable to shareholders of the Company		14,196,925	16,981,572	539,169	644,925
Minority interest		2,121,286	1,807,575	80,562	68,648
Total equity		16,318,211	18,789,147	619,731	713,573
Non-current liabilities					
Loans and borrowings	26	7,230,604	4,258,635	274,603	161,734
Delayed taxes	27	133,377	308,878	5,065	11,731
Deferred tax liabilities	20	1,109,912	1,522,004	42,152	57,803
Other long-term payables	28	1,314,710	164,002	49,930	6,228
		9,788,603	6,253,519	371,750	237,496
Current liabilities					
Loans and borrowings	26	13,705,905	10,511,148	520,522	399,191
Trade and other payables	29	16,726,135	11,706,187	635,224	444,576
Income tax payable		390,073	324,998	14,814	12,343
		30,822,113	22,542,333	1,170,560	856,110
Total liabilities		40,610,716	28,795,852	1,542,310	1,093,606
Total equity and liabilities		56,928,927	47,584,999	2,162,041	1,807,179

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 80.

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	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
OPERATING ACTIVITIES				
Profit before tax	8,548,087	4,976,955	324,639	189,014
Adjustments for:				
Depreciation	3,154,458	3,107,281	119,799	118,008
Amortisation	47,613	37,297	1,809	1,417
Recognition of negative goodwill	(608,894)	-	(23,124)	-
Impairment losses of property, plant and equipment and intangible assets	496,495	963,621	18,856	36,596
(Gain)/ loss on disposal of property, plant and equipment and intangible assets	(1,212)	166,477	(46)	6,322
Gain on disposal of investments	(18,775)	(16,027)	(713)	(609)
Accruals of reserves on doubtful accounts receivable and inventory	367,783	186,554	13,968	7,084
Interest expense	1,710,189	1,500,709	64,949	56,993
Interest income	(746,143)	(575,005)	(28,337)	(21,837)
Operating profit before changes in working capital	12,949,601	10,347,862	491,800	392,988
Increase in inventories	(1,837,707)	(695,895)	(69,792)	(26,429)
Increase in trade and other receivables	(537,756)	(2,990,512)	(20,423)	(113,572)
Increase in trade and other payables	1,390,962	2,750,090	52,826	104,443
Decrease in delayed taxes	(175,501)	(531,886)	(6,666)	(20,200)
Cash flows from operations before income taxes and interest paid	11,789,599	8,879,659	447,745	337,230
Income taxes paid	(3,545,179)	(2,271,008)	(134,638)	(86,248)
Interest paid	(1,594,813)	(1,523,167)	(60,568)	(57,847)
Cash flows from operating activities	6,649,607	5,085,484	252,539	193,135

The consolidated 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 80.

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	2006	Restated 2005	2006	2005
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment and intangible assets	314,732	359,857	11,951	13,667
Proceeds from disposal of investments	117,154	10,992	4,449	417
Repayment of loans provided	17,637,056	3,775,363	669,818	143,380
Loans provided	(13,160,136)	(6,300,051)	(499,794)	(239,263)
Interest received	828,998	487,749	31,484	18,524
Acquisition of property, plant and equipment	(5,045,363)	(1,974,131)	(191,612)	(74,973)
Acquisition of intangible assets	(345,851)	(246,307)	(13,134)	(9,354)
Acquisition of minority interests	(48,834)	(6,016)	(1,855)	(229)
Acquisition of subsidiaries, net of cash acquired	(359,398)	-	(13,650)	-
Proceeds from sale of promissory notes	339,743	-	12,905	-
Purchase of promissory notes	-	(160,195)	-	(6,084)
Cash flows from/ (utilised by) investing activities	278,101	(4,052,739)	10,562	(153,915)
FINANCING ACTIVITIES				
Proceeds from borrowings	69,651,013	59,047,357	2,645,200	2,242,495
Repayment of borrowings	(66,880,535)	(59,440,362)	(2,539,983)	(2,257,420)
Distributions to shareholders	(923,000)	-	(35,054)	-
Dividends paid	(671,815)	(450,114)	(25,514)	(17,094)
Purchase of treasury shares	(7,304,782)	-	(277,421)	-
Cash flows utilised by financing activities	(6,129,119)	(843,119)	(232,772)	(32,019)
Net increase in cash and cash equivalents	798,589	189,626	30,329	7,201
Cash and cash equivalents at beginning of year	645,496	455,870	24,515	17,314
Cash and cash equivalents at end of year (note 23)	1,444,085	645,496	54,844	24,515

The consolidated 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 80.

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’000 RUR	**Attributable to shareholders of the Company**						
	Share capital	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2005, as previously reported	2,300,301	6,526,868	-	1,272,529	10,099,698	1,319,101	11,418,799
Effect of acquisitions under common control (note 6(a))	-	1,106,767	-	3,317,035	4,423,802	315,979	4,739,781
Balance at 1 January 2005, as restated	2,300,301	7,633,635	-	4,589,564	14,523,500	1,635,080	16,158,580
Profit and total recognized income and expense for the year (restated) (notes 4 and 6(a))	-	-	-	2,396,614	2,396,614	690,083	3,086,697
Dividends (restated) (note 24(c))	-	-	-	(450,114)	(450,114)	-	(450,114)
New shares issued (note 2(b))	6,082	(6,082)	-	-	-	-	-
Transactions with minority interests (note 2(b))	-	511,572	-	-	511,572	(517,588)	(6,016)
Balance at 31 December 2005, as restated (notes 4 and 6(a))	2,306,383	8,139,125	-	6,536,064	16,981,572	1,807,575	18,789,147
Profit and total recognised income and expense for the year	-	-	-	5,123,656	5,123,656	879,474	6,003,130
Dividends (note 24(c))	-	-	-	(805,545)	(805,545)	-	(805,545)
Distributions to shareholders (note 6(a))	-	-	-	(923,000)	(923,000)	-	(923,000)
New shares issued (note 2(b))	4,897	785,764	-	-	790,661	(279,775)	510,886
Transactions with minority interests (note 6(c))	-	334,363	-	-	334,363	(285,988)	48,375
Purchase of treasury shares (note 24(a))	-	-	(7,304,782)	-	(7,304,782)	-	(7,304,782)
Balance at 31 December 2006	2,311,280	9,259,252	(7,304,782)	9,931,175	14,196,925	2,121,286	16,318,211

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 80.

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’000 USD*	**Attributable to shareholders of the Company**						
	Share capital	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2005, as previously reported	87,361	247,877	-	48,328	383,566	50,097	433,663
Effect of acquisitions under common control (note 6(a))	-	42,033	-	125,974	168,007	12,000	180,007
Balance at 1 January 2005, as restated	87,361	289,910	-	174,302	551,573	62,097	613,670
Profit and total recognised income and expense for the year (notes 4 and 6(a))	-	-	-	91,018	91,018	26,208	117,226
Dividends (note 24(c))	-	-	-	(17,094)	(17,094)	-	(17,094)
New shares issued (note 2(b))	231	(231)	-	-	-	-	-
Transactions with minority interests (note 2(b))	-	19,428	-	-	19,428	(19,657)	(229)
Balance at 31 December 2005 (notes 4 and 6(a))	87,592	309,107	-	248,226	644,925	68,648	713,573
Profit and total recognised income and expense for the year	-	-	-	194,586	194,586	33,401	227,987
Dividends (note 24(c))	-	-	-	(30,593)	(30,593)	-	(30,593)
Distributions to shareholders (note 6(a))	-	-	-	(35,054)	(35,054)	-	(35,054)
New shares issued (note 2(b))	186	29,842	-	-	30,028	(10,625)	19,403
Transactions with minority interests (note 6(c))	-	12,698	-	-	12,698	(10,862)	1,836
Purchase of treasury shares (note 24(a))	-	-	(277,421)	-	(277,421)	-	(277,421)
Balance at 31 December 2006	87,778	351,647	(277,421)	377,165	539,169	80,562	619,731

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 80.

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1 Background

(a) Organisation and operations

OAO GAZ (“GAZ” or the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian Federation open joint stock (public) companies, closed joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation as well as companies established in accordance with the legislation of 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 on the Russian Trading System (“RTS”).

The business activities of the Group are managed by OOO Managing Company Group GAZ (the “Manager”).

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

The Group’s principal activity is the production of:

- Light commercial vehicles;
- Passenger cars;
- Buses of different types;
- Diesel engines and fuel injection equipment;
- Road construction vehicles;
- Trucks;
- Special vehicles;
- Spare parts for produced cars.

The 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 75.02% of Company’s shares as at 31 December 2006.

(b) Russian business environment

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

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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 conduct accounting records and compose their Financial Statements in Russian Rubles and in accordance with requirements of Russian Legislation on taxation and accounting.

Companies which execute their activity in Great Britain conduct accounting records and compose their Financial Statements in Great Britain Pounds and in accordance with requirements of UK GAAP.

The consolidated financial statements differ from Russian Financial Statement and UK GAAP Financial Statement on adjustments required for the presenting of financial performance, profit and loss results and cash flow statement in accordance with IFRS. These adjustments are not recorded in accounting books of the Group's Companies.

(b) Group restructuring

In 2005 OAO Russkie Mashiny commenced the first phase of a restructuring process whereby controlling ownership interests in a number of subsidiaries were transferred to OAO GAZ in exchange for additional shares issued by OAO GAZ. Those subsidiaries comprise Buses and Diesel Engines lines of business.

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 Chelyabinskie Stroitelno-dorozhnye Mashiny are to be transferred to the Company in exchange for additional shares issued by the Company, refer note 24(a).

The process of additional share placement was completed on 1 February 2007. The results of the placement are disclosed in note 36(a).

As at 31 December 2006 4,896,611 additionally issued ordinary shares (or 79% out of 6,200,000 ordinary shares announced to be placed) were actually placed.

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 6(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 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

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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 elected to use RUR as the presentation currency for the purposes of these consolidated financial statements because 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 in the consolidated financial statements are translated from RUR to USD at the closing exchange rate at 31 December 2006 of RUR 26.3311 to USD 1.

(f) Going concern

The consolidated financial statements have been prepared on the going concern basis because Basic Element Limited which is controlled by the ultimate controlling party (refer note 34(a)) has undertaken to provide the Group with such financial and other support as is necessary to allow the Group to continue its activities at least until 31 December 2007 and thereafter for the foreseeable future.

(g) 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.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in note 33 – 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 Company. Control exists when the Company 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.

(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 Company 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 Group's controlling shareholder's consolidated 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 for the acquisition is recognised directly in equity.

(iii) 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.

(iv) Disposal of subsidiaries

Disposals of subsidiaries are accounted for by recognising 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.

(v) Transactions eliminated on consolidation

Intra-group balances, 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.

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(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 are stated at cost or deemed cost less accumulated depreciation and impairment losses. 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.

The cost of certain property, plant and equipment at the date of adopting IFRSs, 1 January 2002, was determined by reference to its fair value at that date (‘deemed cost’).

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.

(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.

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(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 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. 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 expenditure capitalised 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.

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(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. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) Amortisation

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

(e) Investments

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, 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, with any resultant gain or loss being recognised directly in equity.

The fair value of investments 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 and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

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

(g) Trade and other receivables

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

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(h) Cash and cash equivalents

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

(i) Impairment

(i) Financial assets

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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. 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.

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.

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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.

(j) Share capital

(i) Preference share capital

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

(ii) Dividends and distributions to shareholders

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

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are measured at amortised cost, using the effective interest method.

(l) Employee benefits

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

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

(m) 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.

(n) Trade and other payables

Short-term trade and other payables are stated at initial cost, long-term trade and other payables are stated at amortized cost.

(o) 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 provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; 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.

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.

(p) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the 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.

(q) 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, 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.

(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 the revenue is recognized when the risks and rewards are transferred to the buyer. The difference between the

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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.

(r) Financial income and expenses

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

All borrowing costs are recognised in profit or loss using the effective interest method except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Interest income is recognized as it accrues using the effective interest method.

(s) Operating leases

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.

(t) Social expenditure

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

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged 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. The Group's primary format for segment reporting is based on business segments.

(v) 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.

(w) Changes in classification

During the current year, the Group modified the classification of transportation expenses related to the purchase of raw materials and wages and salaries of purchase department staff in the income statement. Comparatives were reclassified for consistency, which resulted in RUR 845,573 thousand/ USD* 32,113 thousand being reclassified from distribution expenses to cost of sales for 2005.

Also, the Group offsets revenue against cost of sales of gas under an agency agreement in accordance with the accounting policy described in note 3(q)(i). Comparatives were adjusted for

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consistency, which resulted in RUR 1,317,562 thousand/ USD* 50,038 thousand being offset for 2005.

During the current year, the Group modified the classification of taxes other than on profit in the income statement. Comparatives were reclassified for consistency, which resulted in RUR 1,077,482 thousand/ USD* 40,921 thousand being reclassified from other expenses to administrative expenses for 2005.

(x) Changes in accounting policy

New Standards, amendments to Standards and Interpretations, which are effective for periods beginning on or after 1 January 2006, did not have any impact on the Group's financial position or performance. Therefore the Group did not change its accounting policies compared to prior period.

(y) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- 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 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 becomes mandatory for the Group's 2007 financial statements. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Group's 2007 financial statements. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's

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2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004). It is not expected to have any impact on the consolidated financial statements.

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which is effective for annual periods beginning on or after 1 March 2007. The Interpretation addresses the classification of the share-based payment as equity-settled or cash-settled in the financial statements of the entity receiving the services. 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.

4 Prior period restatement

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

As a result, liabilities to employees as at 31 December 2005 and administrative expenses for the year ended 31 December 2005 were both understated by RUR 224,000 thousand/ USD* 8,507 thousand.

Opening balances as at 1 January 2006 in these consolidated financial statements have been restated accordingly.

5 Segment reporting

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

(a) Operating (or business) segments

The main format, operating (or business) segments were determined based on the Group's management structure and internal reporting system.

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

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

The Group comprises the following main business segments:

Vehicles. The manufacture and sale of a wide range of commercial vehicles and passenger cars.

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.

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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), export 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.

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

(i) Business segments

2006, ’000 RUR	**Vehicles**	**Buses**	**Diesel engines and fuel injection equipment**	**Trucks**	**Road construction vehicles**	**Eliminations**	**Consolidated**
Revenue from external customers	70,638,677	16,075,425	14,122,920	11,364,578	6,591,770	-	118,793,370
Inter-segment revenue	9,727,328	155,955	2,030,139	109,015	11,994	(12,034,431)	-
Total revenue	80,366,005	16,231,380	16,153,059	11,473,593	6,603,764	(12,034,431)	118,793,370
Segment result	4,239,114	2,450,418	2,202,073	744,872	1,018,401	(19,145)	10,635,733
Unallocated administrative expenses							(1,274,351)
Financial income							896,894
Financial expenses							(1,710,189)
Income tax expense							(2,544,957)
Profit for the year							6,003,130
Depreciation/amortisation	2,277,060	183,939	321,880	298,248	120,944	-	3,202,071
Capital expenditure	3,553,897	383,045	987,874	227,320	396,895	-	5,549,031
Impairment losses	309,342	19,423	90,223	81,953	(4,446)	-	496,495

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

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	5,873,875	4,352,078	3,311,019	(819,343)	52,891,592
Unallocated assets							4,037,335
Total assets							56,928,927
Segment liabilities	13,675,975	1,443,640	1,714,986	1,240,061	852,144	(784,363)	18,142,443
Unallocated liabilities							22,468,273
Total liabilities							40,610,716

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

Restated 2005, ’000 RUR	**Vehicles**	**Buses**	**Diesel engines and fuel injection equipment**	**Trucks**	**Road construction vehicles**	**Eliminations**	**Consolidated**
Revenue from external customers	57,323,485	13,423,341	12,987,242	6,753,809	4,096,553	-	94,584,430
Inter-segment revenue	5,891,461	133,049	1,361,173	80,257	13,181	(7,479,121)	-
Total revenue	63,214,946	13,556,390	14,348,415	6,834,066	4,109,734	(7,479,121)	94,584,430
Segment result	2,085,101	1,696,694	1,721,479	(80,759)	594,509	2,593	6,019,617
Unallocated administrative expenses							(121,993)
Financial income							591,032
Financial expenses							(1,511,701)
Income tax expense							(1,890,258)
Profit for the year							3,086,697
Depreciation/amortisation	2,051,602	196,776	448,792	299,340	148,068	-	3,144,578
Capital expenditure	1,194,425	104,991	675,454	107,958	90,763	-	2,173,591
Impairment losses	333,265	199,644	228,249	191,100	11,363	-	963,621

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

31 December 2005, ’000 RUR	**Vehicles**	**Buses**	**Diesel engines and fuel injection equipment**	**Trucks**	**Road construction vehicles**	**Eliminations**	**Restated Consolidated**
Segment assets	21,122,352	5,876,287	5,504,600	5,002,540	2,331,742	(878,395)	38,959,126
Unallocated assets							8,625,873
Total assets							47,584,999
Segment liabilities	7,591,550	1,645,438	2,449,459	812,377	492,562	(848,628)	12,142,758
Unallocated liabilities							16,653,094
Total liabilities							28,795,852

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

2006, ’000 USD*	**Vehicles**	**Buses**	**Diesel engines and fuel injection equipment**	**Trucks**	**Road construction vehicles**	**Eliminations**	**Consolidated**
Revenue from external customers	2,682,708	610,511	536,359	431,603	250,342	-	4,511,523
Inter-segment revenue	369,423	5,923	77,100	4,140	456	(457,042)	-
Total revenue	3,052,131	616,434	613,459	435,743	250,798	(457,042)	4,511,523
Segment result	160,993	93,062	83,630	28,289	38,677	(727)	403,924
Unallocated administrative expenses							(48,398)
Financial income							34,062
Financial expenses							(64,949)
Income tax expense							(96,652)
Profit for the year							227,987
Depreciation/amortisation	86,478	6,986	12,224	11,327	4,593	-	121,608
Capital expenditure	134,970	14,547	37,517	8,633	15,073	-	210,740
Impairment losses	11,749	738	3,426	3,112	(169)	-	18,856

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

31 December 2006, ’000 USD*	**Vehicles**	**Buses**	**Diesel engines and fuel injection equipment**	**Trucks**	**Road construction vehicles**	**Eliminations**	**Consolidated**
Segment assets	1,246,160	279,563	223,077	165,283	125,746	(31,117)	2,008,712
Unallocated assets							153,329
Total assets							2,162,041
Segment liabilities	519,385	54,826	65,132	47,095	32,363	(29,788)	689,013
Unallocated liabilities							853,297
Total liabilities							1,542,310

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

2005, ’000 USD*	**Vehicles**	**Buses**	**Diesel engines and fuel injection equipment**	**Trucks**	**Road construction vehicles**	**Eliminations**	**Consolidated**
Revenue from external customers	2,177,025	509,790	493,228	256,496	155,579	-	3,592,118
Inter-segment revenue	223,744	5,053	51,695	3,048	501	(284,041)	-
Total revenue	2,400,769	514,843	544,923	259,544	156,080	(284,041)	3,592,118
Segment result	79,188	64,437	65,378	(3,067)	22,578	98	228,612
Unallocated administrative expenses							(4,633)
Financial income							22,446
Financial expenses							(57,411)
Income tax expense							(71,788)
Profit for the year							117,226
Depreciation/amortisation	77,917	7,473	17,044	11,368	5,623	-	119,425
Capital expenditure	45,362	3,987	25,652	4,100	3,447	-	82,548
Impairment losses	12,656	7,582	8,668	7,258	432	-	36,596

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

31 December 2005, ’000 USD*	**Vehicles**	**Buses**	**Diesel engines and fuel injection equipment**	**Trucks**	**Road construction vehicles**	**Eliminations**	**Consolidated**
Segment assets	802,183	223,169	209,053	189,986	88,555	(33,360)	1,479,586
Unallocated assets							327,593
Total assets							1,807,179
Segment liabilities	288,311	62,490	93,025	30,852	18,706	(32,229)	461,155
Unallocated liabilities							632,451
Total liabilities							1,093,606

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(ii) Geographical segments

	Russia		CIS		Great Britain		Other regions		Consolidated	
										Restated
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
'000 RUR										
Revenue from external customers	95,478,500	76,600,544	18,619,297	15,918,280	2,122,784	-	2,572,789	2,065,606	118,793,370	94,584,430
'000 USD*										
Revenue from external customers	3,626,072	2,909,128	707,122	604,543	80,619	-	97,710	78,447	4,511,523	3,592,118

	Russia		Great Britain		Consolidated	
						Restated
	2006	2005	2006	2005	2006	2005
'000 RUR						
Capital expenditure	4,737,250	2,173,591	811,781	-	5,549,031	2,173,591
Segment assets	43,258,644	38,959,126	9,632,948	-	52,891,592	38,959,126
'000 USD*						
Capital expenditure	179,910	82,548	30,830	-	210,740	82,548
Segment assets	1,642,873	1,479,586	365,839	-	2,008,712	1,479,586

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

6 Acquisitions and disposals

(a) Acquisition of entities under common control

As part of the Group's restructuring process, which started in 2005 and is described in Note 2(b), the Group purchased controlling ownership interests in OAO Avtomobilny Zavod Ural, OAO Tverskoy excavator, OAO Bryansky arsenal and ZAO Chelyabinskie stroitelno-dorozhnye Mashiny in exchange for 4,345,257 of the Company's ordinary shares. The acquisitions were accounted for as acquisitions of entities under common control in accordance with the accounting policy stated in note 3(a)(ii).

Also, the Group has acquired for RUR 923,000 thousand / USD* 35,054 thousand some companies which are represented mainly by trade houses of subsidiaries listed above with the carrying values of net assets of RUR 785,522 thousand / USD* 29,832 thousand.

The difference between carrying values of the net assets acquired at the acquisition dates and the consideration paid has been recognized as a distribution to shareholders.

In accordance with accounting policy the Group has accounted for the acquisition of entities under common control as if the acquisitions had occurred at 1 January 2005, refer note 3(a)(ii).

The carrying values of the net assets of the entities acquired are as follows at 1 January 2005:

	'000 RUR	'000 USD*
Non-current assets		
Property, plant and equipment	4,154,698	157,787
Intangible assets	22,902	870
Long-term loans advanced	1,600	61
Other long-term assets	135,001	5,127
Current assets		
Loans advanced	301	11
Inventories	1,279,484	48,592
Trade and other receivables	2,778,061	105,505
Cash and cash equivalents	125,386	4,762
Other short-term assets	117,572	4,465
Non-current liabilities		
Deferred tax liabilities	(536,610)	(20,379)
Other long-term payables	(37,455)	(1,422)
Current liabilities		
Loans and borrowings	(2,257,433)	(85,733)
Other short-term payables	(1,043,726)	(39,639)
Net identifiable assets and liabilities	4,739,781	180,007
Minority interests	(315,979)	(12,000)
Negative goodwill credited to equity	4,423,802	168,007

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

The acquired entities contributed RUR 274,030 thousand / USD* 10,407 thousand to the profit for the year ended 31 December 2005 and RUR 1,074,415 thousand / USD* 40,804 thousand to the profit for the year ended 31 December 2006.

(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* 37,637 thousand payable in cash. LDV Group's main activity is the production and domestic sale (in 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* 60,761 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* 23,124 thousand was recognised as other income, see note 11.

It has not been practicable to determine the carrying amounts of LDV Group's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because LDV Group's financial statements were prepared in accordance with UK GAAP, which are significantly different from IFRSs.

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

	’000 RUR	’000 USD*
Non-current assets		
Property, plant and equipment	6,500,485	246,875
Intangible assets	131,908	5,010
Deferred tax assets	30,445	1,157
Current assets		
Inventories	1,186,450	45,059
Trade and other receivables	1,382,848	52,518
Cash and cash equivalents	163,973	6,227
Non-current liabilities		
Loans and borrowings	(1,126,708)	(42,790)
Deferred tax liabilities	(276,958)	(10,518)
Other long-term payables	(668,166)	(25,377)
Current liabilities		
Loans and borrowings	(2,175,412)	(82,618)
Trade and other payables	(3,548,971)	(134,782)
Net identifiable assets and liabilities	1,599,894	60,761
Negative goodwill	(608,894)	(23,124)

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

	’000 RUR	**’000 USD***
Consideration, including deferred consideration of RUR 467,629 thousand/USD* 17,760 thousand	991,000	37,637

Summary of net cash outflow on consideration:

	’000 RUR	**’000 USD***
Consideration settled by cash	*(523,371)*	*(19,877)*
Cash acquired	*163,973*	*6,227*
Net cash outflow	*(359,398)*	*(13,650)*

It has been impracticable to determine what the Group’s revenue and profit for the year would have been had the acquisition of LDV Group occurred on 1 January 2006.

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

(c) Acquisition of minority interests

The Group's purchase of shares in several other subsidiaries within OAO GAZ additional share issuing led to changes in minority interests during 2006. As a result, the Group acquired an additional 4% of OAO Autodiesel, 3% of OAO Pavlovsky Avtobus, 2% of OAO YaZDA, 1% of OAO YaZTA, 6% of OAO Tverskoy Excavator and 3% of OAO Bryansky Arsenal. The acquisitions resulted in a decrease in minority interests of RUR 279,775 thousand / USD* 10,625 thousand and have been accounted for in accordance with the Group's accounting policy described in note 3(a)(iii).

7 Revenue

	2006	Restated 2005	2006	2005
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Light commercial vehicles and minivans	39,918,093	28,866,939	1,516,004	1,096,306
Medium and heavy commercial vehicles	17,106,671	10,970,403	649,676	416,633
Buses	15,274,503	12,833,506	580,094	487,390
Diesel engines and fuel injection equipment	10,273,076	9,550,164	390,150	362,695
Spare parts	10,791,333	10,742,706	409,832	407,985
Passenger cars	9,752,464	9,435,640	370,378	358,346
Road construction vehicles	5,640,429	3,832,105	214,212	145,535
Goods for resale	4,237,850	4,046,022	160,945	153,659
Services	1,813,781	1,418,923	68,884	53,888
Other revenues	3,985,170	2,888,022	151,348	109,681
	118,793,370	94,584,430	4,511,523	3,592,118

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

8 Cost of sales

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Materials	(65,778,622)	(52,284,485)	(2,498,135)	(1,985,656)
Wages and salaries	(10,871,164)	(8,623,710)	(412,864)	(327,510)
Electrical and heating energy	(3,516,263)	(2,806,478)	(133,540)	(106,584)
Repairs and maintenance and services for production activity	(3,082,456)	(1,709,157)	(117,065)	(64,910)
Salary-based taxes	(2,783,445)	(2,260,700)	(105,709)	(85,857)
Depreciation and amortisation	(2,825,695)	(2,754,236)	(107,314)	(104,600)
Goods for resale	(4,176,475)	(3,946,590)	(158,614)	(149,883)
Other	(2,519,069)	(2,787,557)	(95,669)	(105,866)
	(95,553,189)	(77,172,913)	(3,628,910)	(2,930,866)

9 Distribution expenses

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Transportation costs	(1,635,556)	(1,110,692)	(62,116)	(42,181)
Wages and salaries	(646,930)	(445,202)	(24,569)	(16,908)
Advertising	(479,048)	(569,391)	(18,193)	(21,624)
Salary-based taxes	(128,858)	(95,504)	(4,894)	(3,627)
Materials	(126,653)	(122,863)	(4,810)	(4,666)
Repairs	(130,478)	(88,688)	(4,955)	(3,368)
Electrical and heating energy	(73,851)	(57,003)	(2,805)	(2,165)
Depreciation	(40,823)	(24,766)	(1,550)	(941)
Insurance	(20,591)	(21,829)	(782)	(829)
Rent	(16,996)	(18,726)	(645)	(711)
Other	(177,953)	(217,589)	(6,758)	(8,264)
	(3,477,737)	(2,772,253)	(132,077)	(105,284)

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

10 Administrative expenses

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Wages and salaries	(4,297,295)	(2,812,804)	(163,202)	(106,824)
Taxes other than on profit	(935,984)	(1,077,482)	(35,547)	(40,921)
Salary-based taxes	(822,493)	(596,136)	(31,237)	(22,640)
Information and consulting services	(717,489)	(174,815)	(27,249)	(6,639)
Depreciation and amortisation	(335,553)	(365,576)	(12,744)	(13,884)
Rent	(201,152)	(247,369)	(7,639)	(9,395)
Security services	(213,926)	(168,492)	(8,124)	(6,399)
Materials	(171,514)	(103,721)	(6,514)	(3,939)
Insurance	(83,786)	(101,966)	(3,182)	(3,872)
Utility expenses	(109,307)	(144,038)	(4,151)	(5,470)
Repairs and maintenance	(101,910)	(56,586)	(3,870)	(2,149)
Other administrative expenses	(634,505)	(479,181)	(24,097)	(18,198)
	(8,624,914)	(6,328,166)	(327,556)	(240,330)

Wages and salaries include contributions to defined contribution pension plans of RUR 42,600 thousand/ USD* 1,618 thousand (2005: 42,600 thousand/ USD * 1,618 thousand). These amounts are expensed as incurred.

Taxes include additional taxes assessed as a result of a tax audit by the tax authorities of 38,998 thousand/ USD* 1,481 thousand.

11 Other income and expenses

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Income				
Negative goodwill	608,894	-	23,124	-
Income on disposal of property, plant and equipment and intangible assets	1,212	-	46	-
Other income	160,017	145,518	6,078	5,526
	770,123	145,518	29,248	5,526
Expenses				
Social expenses and charity	(513,785)	(468,032)	(19,512)	(17,775)
Research and development costs	(664,425)	(316,052)	(25,233)	(12,003)
Fines and penalties	(243,945)	(111,009)	(9,265)	(4,216)
Impairment of property, plant and equipment	(310,214)	(963,621)	(11,781)	(36,596)

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	2006 ’000 RUR	Restated 2005 ’000 RUR	2006 ’000 USD*	2005 ’000 USD*
Change in bad debts provision and write-offs	(202,999)	(152,013)	(7,709)	(5,773)
Impairment of Intangibles	(186,281)	-	(7,075)	-
Loss on disposal of property, plant and equipment and intangible assets	-	(166,477)	-	(6,322)
Other expenses	(424,622)	(381,788)	(16,127)	(14,500)
	(2,546,271)	(2,558,992)	(96,702)	(97,185)

Fines and penalties include additional tax penalties assessed as a result of a tax audit by the tax authorities of RUR 221,912 thousand/ USD* 8,428 thousand.

12 Total personnel costs

	2006 ’000 RUR	Restated 2005 ’000 RUR	2006 ’000 USD*	2005 ’000 USD*
Wages and salaries	16,057,846	12,113,163	609,843	460,033
Salary-based taxes	3,785,976	2,970,464	143,783	112,812
	19,843,822	15,083,627	753,626	572,845

The average number of employees during 2006 was 110,701 (2005: 113,405).

13 Financial income and expenses

	2006 ’000 RUR	Restated 2005 ’000 RUR	2006 ’000 USD*	2005 ’000 USD*
Financial income				
Interest income	746,143	575,005	28,337	21,837
Foreign exchange gain	122,787	-	4,663	-
Gain on disposal of investments	18,775	16,027	713	609
Dividends received	9,189	-	349	-
	896,894	591,032	34,062	22,446
Financial expenses				
Interest expense	(1,710,189)	(1,500,709)	(64,949)	(56,993)
Other financial expenses	-	(9,367)	-	(356)
Foreign exchange loss	-	(1,625)	-	(62)
	(1,710,189)	(1,511,701)	(64,949)	(57,411)

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14 Income tax expense

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Current tax expense				
Current year	(3,323,059)	(2,282,504)	(126,202)	(86,685)
Under provided in prior years	(162,382)	(29,497)	(6,167)	(1,120)
	(3,485,441)	(2,312,001)	(132,369)	(87,805)
Deferred tax expense				
Origination and reversal of temporary differences	936,669	482,695	35,572	18,332
Change in unrecognised deferred tax assets	3,815	(60,952)	145	(2,315)
	940,484	421,743	35,717	16,017
	(2,544,957)	(1,890,258)	(96,652)	(71,788)

The applicable tax rate for the Company and subsidiaries located in Russia is 24% (2005: 24%). For subsidiaries in UK, the applicable tax rate is the corporation tax rate of 30% (2005: 30%). The same rates were used for measuring deferred taxes.

The amounts underprovided in prior years include additional income tax accruals as a result of a recent audit by the tax authorities of RUR 103,405 thousand/ USD* 3,927 thousand.

Reconciliation of effective tax rate:

	2006 '000 RUR	%	2005 '000 RUR	%
Profit before tax	8,548,087	100%	4,976,955	100%
Income tax at applicable tax rate	(2,051,541)	(24%)	(1,194,469)	(24%)
Income taxed at higher rate	(43,037)	(1%)	-	-
Change in unrecognised deferred tax assets	3,815	0%	(60,952)	(1%)
Underprovided in prior years	(162,382)	(2%)	(29,497)	(1%)
Non-deductible items	(291,812)	(3%)	(605,340)	(12%)
	(2,544,957)	(30%)	(1,890,258)	(38%)

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

	2006 '000 USD*	%	2005 '000 USD*	%
Profit before tax	324,639	100%	189,014	100%
Income tax at applicable tax rate	(77,913)	(24%)	(45,363)	(24%)
Income taxed at higher rate	(1,634)	(1%)	-	-
Change in unrecognised deferred tax assets	145	0%	(2,315)	(1%)
Underprovided in prior years	(6,167)	(2%)	(1,120)	(1%)
Non-deductible items	(11,083)	(3%)	(22,990)	(12%)
	(96,652)	(30%)	(71,788)	(38%)

15 Property, plant and equipment

'000 RUR	Buildings and constructions	Plant and equipment	Tools and other	Construction in progress	Total
Cost /Deemed cost					
At 1 January 2005, as restated	47,882,345	96,284,015	11,202,835	3,775,396	159,144,591
Additions (restated)	-	-	-	1,927,284	1,927,284
Disposals (restated)	(649,185)	(3,996,057)	(666,186)	(290,350)	(5,601,778)
Transfers (restated)	111,045	1,152,869	592,974	(1,856,888)	-
As at 31 December 2005 (restated)	47,344,205	93,440,827	11,129,623	3,555,442	155,470,097
Acquisitions through business combinations	1,922,027	1,216,052	4,103,515	-	7,241,594
Additions	-	-	-	5,203,180	5,203,180
Disposals	(804,751)	(2,539,748)	(614,888)	(330,161)	(4,289,548)
Transfers	546,561	1,322,852	941,249	(3,080,888)	(270,226)
At 31 December 2006	49,008,042	93,439,983	15,559,499	5,347,573	163,355,097
Depreciation and impairment losses					
At 1 January 2005, as restated	(38,027,426)	(84,526,150)	(10,391,949)	(2,404,500)	(135,350,025)
Depreciation charge (restated)	(934,248)	(2,003,699)	(198,110)	-	(3,136,057)
Impairment losses (restated)	(215,361)	(485,938)	(93,787)	(168,535)	(963,621)
Disposals (restated)	508,493	3,766,076	552,476	254,304	5,081,349
Transfers (restated)	1,854	(14,489)	(73,263)	85,898	-

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’000 RUR	**Buildings and constructions**	**Plant and equipment**	**Tools and other**	**Construction in progress**	**Total**
As at 31 December 2005 (restated)	(38,666,688)	(83,264,200)	(10,204,633)	(2,232,833)	(134,368,354)
Acquisitions through business combinations	(61,613)	(83,065)	(596,431)	-	(741,109)
Depreciation charge	(895,061)	(2,044,512)	(359,238)	-	(3,298,811)
Impairment losses	(82,974)	(176,566)	(46,462)	(4,212)	(310,214)
Disposals	737,477	2,412,421	593,182	250,562	3,993,642
Transfers	(281,159)	(7,226)	30,592	257,793	-
At 31 December 2006	(39,250,018)	(83,163,148)	(10,582,990)	(1,728,690)	(134,724,846)
Net book value					
At 1 January 2005 (restated)	9,854,919	11,757,865	810,886	1,370,896	23,794,566
At 31 December 2005 (restated)	8,677,517	10,176,627	924,990	1,322,609	21,101,743
At 31 December 2006	9,758,024	10,276,835	4,976,509	3,618,883	28,630,251

’000 USD*	**Buildings and constructions**	**Plant and equipment**	**Tools and other**	**Construction in progress**	**Total**
Cost /Deemed cost					
At 1 January 2005	1,818,471	3,656,665	425,460	143,382	6,043,978
Additions	-	-	-	73,194	73,194
Disposals	(24,654)	(151,762)	(25,300)	(11,027)	(212,743)
Transfers	4,217	43,784	22,520	(70,521)	-
As at 31 December 2005	1,798,034	3,548,687	422,680	135,028	5,904,429
Acquisitions through business combinations	72,995	46,183	155,843	-	275,021
Additions	-	-	-	197,606	197,606
Disposals	(30,563)	(96,454)	(23,352)	(12,539)	(162,908)
Transfers	20,757	50,239	35,747	(117,006)	(10,263)
At 31 December 2006	1,861,223	3,548,655	590,918	203,089	6,203,885

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'000 USD*	Buildings and constructions	Plant and equipment	Tools and other	Construction in progress	Total
Depreciation and impairment losses					
At 1 January 2005	(1,444,202)	(3,210,126)	(394,664)	(91,318)	(5,140,310)
Depreciation charge	(35,481)	(76,096)	(7,524)	-	(119,101)
Impairment losses	(8,178)	(18,455)	(3,562)	(6,401)	(36,596)
Disposals	19,310	143,028	20,982	9,658	192,978
Transfers	70	(550)	(2,782)	3,262	-
As at 31 December 2005	(1,468,481)	(3,162,199)	(387,550)	(84,799)	(5,103,029)
Acquisitions through business combinations	(2,340)	(3,155)	(22,651)	-	(28,146)
Depreciation charge	(33,993)	(77,646)	(13,643)	-	(125,282)
Impairment losses	(3,150)	(6,706)	(1,765)	(160)	(11,781)
Disposals	28,007	91,619	22,528	9,516	151,670
Transfers	(10,678)	(274)	1,162	9,790	-
At 31 December 2006	(1,490,635)	(3,158,361)	(401,919)	(65,653)	(5,116,568)
Net book value					
At 1 January 2005	374,269	446,539	30,796	52,064	903,668
At 31 December 2005	329,553	386,488	35,130	50,229	801,400
At 31 December 2006	370,588	390,294	188,999	137,436	1,087,317

(a) Acquisitions through business combinations

The fair value of acquisitions through business combinations (RUR 6,500,485 thousand / USD* 246,875 thousand) comprised the fair value of property, plant and equipment of acquired LDV Group at the date of acquisition.

The fair value of property, plant and equipment of acquired LDV Group includes the fair value of vehicles let under operating leases to third parties. Usually the term of rental agreements is 1-2 years.

The historical cost of vehicles let under operating leases as at 28 July 2006 is RUR 1,556,483 thousand / USD* 59,112 thousand. Their fair value at that date is RUR 1,201,824 thousand / USD* 45,643 thousand.

(b) Acquisition of property, plant and equipment

Acquisition of property, plant and equipment during 2006 includes DaimlerChrysler's line of assembly equipment for the production of four-door vehicles of RUR 1,061,127 thousand/ USD* 40,299 thousand (2005: nil).

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(c) 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 310,214 thousand / USD* 11,781 thousand at 31 December 2006 (2005: RUR 963,621 thousand / USD* 36,596 thousand). The impairment loss is included in 'Other expenses' (refer note 11). The impairment loss relates to the 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.

(d) Security

Properties with a net book value of RUR 4,160,866 thousand / USD* 158,021 thousand (2005: RUR 6,421,036 thousand / USD* 243,857 thousand) are subject to a registered debenture to secure bank loans, refer note 26.

(e) 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 2006 the net book value of leased plant and equipment was RUR 1,987,401 thousand / USD* 75,477 thousand (2005: RUR 972,874 thousand / USD* 36,948 thousand). The leased plant and equipment secures lease obligations, refer note 26.

(f) Ownership rights

According to Federal Law on registration of titles for immovable property, all Companies are 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.

(g) Depreciation

As at 31 December 2006, the depreciation charge directly attributable to the cost of inventory of RUR 296,300 thousand / USD* 11,253 thousand is included in the cost of work in progress and finished goods (2005: RUR 151,947 thousand / USD* 5,771 thousand).

The main reason of significant increase of the depreciation charge directly attributable to the cost of inventory as at 31 December 2006 compared to 31 December 2005 is the cost structure of inventory of the newly acquired LDV Group Companies.

Depreciation expense of RUR 2,797,644 thousand/USD* 106,248 thousand has been charged in cost of sales, RUR 40,823 thousand/USD* 1,550 thousand in distribution expenses and RUR 315,991/USD* 12,001 in administrative expense.

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16 Intangible assets

’000 RUR	Licenses	Software	Total
Cost			
As at 1 January 2005, as restated	40,079	283,188	323,267
Additions (restated)	225,398	20,909	246,307
Disposals (restated)	(14,718)	(117,030)	(131,748)
As at 31 December 2005 (restated)	250,759	187,067	437,826
Acquisition through business combination	139,349	-	139,349
Additions	301,448	44,403	345,851
Disposals	(296)	(18,531)	(18,827)
As at 31 December 2006	691,260	212,939	904,199
Amortisation and impairment losses			
As at 1 January 2005, as restated	(23,471)	(270,103)	(293,574)
Amortisation charge (restated)	(19,482)	(17,815)	(37,297)
Disposals (restated)	14,719	111,124	125,843
As at 31 December 2005 (restated)	(28,234)	(176,794)	(205,028)
Acquisitions through business combination	(7,441)	-	(7,441)
Amortisation charge	(33,748)	(13,865)	(47,613)
Impairment losses	(186,281)	-	(186,281)
Disposals	27	1,186	1,213
As at 31 December 2006	(255,677)	(189,473)	(445,150)
Net book value			
As at 1 January 2005	16,608	13,085	29,693
As at 31 December 2005	222,525	10,273	232,798
As at 31 December 2006	435,583	23,466	459,049

’000 USD*	Licenses	Software	Total
Cost			
As at 1 January 2005	1,522	10,755	12,277
Additions	8,560	794	9,354
Disposals	(558)	(4,445)	(5,003)
As at 31 December 2005	9,524	7,104	16,628
Acquisition through business combination	5,293	-	5,293
Additions	11,448	1,686	13,134
Disposals	(9)	(704)	(713)
As at 31 December 2006	26,256	8,086	34,342
Amortisation and impairment losses			
As at 1 January 2005	(891)	(10,258)	(11,149)
Amortisation charge	(740)	(677)	(1,417)
Disposals	559	4,220	4,779
As at 31 December 2005	(1,072)	(6,715)	(7,787)
Acquisitions through business combination	(283)	-	(283)

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

’000 USD*	**Licenses**	**Software**	**Total**
Amortisation charge	(1,282)	(527)	(1,809)
Impairment losses	(7,075)	-	(7,075)
Disposals	1	45	46
As at 31 December 2006	(9,711)	(7,197)	(16,908)
Net book value			
As at 1 January 2005	631	497	1,128
As at 31 December 2005	8,452	389	8,841
As at 31 December 2006	16,545	889	17,434

(a) Acquisition of intangible assets

Acquisition of Intangible assets during 2006 includes Renault Trucks’ license for the production of EURO III engines of RUR 272,788 thousand/ USD* 10,360 thousand (2005: nil).

(b) Amortisation charge

The amortisation charge for the year is included in ‘cost of sales’ and ‘administrative expenses’.

(c) Impairment losses

100% impairment loss on license for the production of Steyr’s engines of RUR 186,281 thousand/ USD* 7,075 thousand (2005: nil) is included in ‘Other expenses’ (refer note 11).

17 Investments

	2006	**Restated 2005**	**2006**	**2005**
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
Non-current				
Available-for-sale investments stated at cost	49,510	190,623	1,880	7,239
Current				
Available-for-sale promissory notes	108,818	405,825	4,132	15,413

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 74,440 thousand/ USD* 2,827 thousand (2005: RUR 299,787 thousand/ USD* 11,385 thousand) which have been matured in 2007.

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

18 Other long-term assets

	2006 ’000 RUR	Restated 2005 ’000 RUR	2006 ’000 USD*	2005 ’000 USD*
Letter of credit	385,061	-	14,624	-
Employees' accounts receivable for apartments	52,365	41,303	1,989	1,569
Other	5,742	9,140	218	347
	443,168	50,443	16,831	1,916

Other long-term assets are discounted at the market rate effective as of the date of initial recognition. The discount rate effective at 31 December 2006 was 11% (2005: 13%).

19 Loans issued

All loans issued bear fixed interest.

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

2006 ’000 RUR	Contractual / Effective interest rate	Less than 1 year	Long-term 1 – 2 years	Long-term 2 – 3 years	Long-term More than 5 years	Total
Loans to companies	0%-1%	158,225	-	-	-	158,225
	8%-12%	2,489,692	281,217	-	-	2,770,909
Loans to banks	2%-3%	101,762	-	-	-	101,762
	6%-14%	37,500	-	-	-	37,500
		2,787,179	281,217	-	-	3,068,396

Restated 2005 ’000 RUR	Contractual / Effective interest rate	Less than 1 year	Long-term 1 – 2 years	Long-term 2 – 3 years	Long-term More than 5 years	Total
Loans to companies	0%-1%	126,449	-	-	-	126,449
	6%	2,859	-	-	-	2,859
	8%-15%	2,311,340	3,476,984	260,026	-	6,048,350
Loans to banks	6%-14%	1,450,513	-	-	-	1,450,513
		3,891,161	3,476,984	260,026	-	7,628,171

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

2006 '000 USD*	**Contractual / Effective interest rate**	**Less than 1 year**	**Long-term 1 – 2 years**	**2 – 3 years**	**More than 5 years**	**Total**
Loans to companies	0%-1%	6,009	-	-	-	6,009
	8%-12%	94,553	10,680	-	-	105,233
Loans to banks	2%-3%	3,865	-	-	-	3,865
	6%-14%	1,424	-	-	-	1,424
		105,851	10,680	-	-	116,531

2005 '000 USD*	**Contractual / Effective interest rate**	**Less than 1 year**	**Long-term 1 – 2 years**	**2 – 3 years**	**More than 5 years**	**Total**
Loans to companies	0%-1%	4,802	-	-	-	4,802
	6%	109	-	-	-	109
	8%-15%	87,780	132,049	9,875	-	229,704
Loans to banks	6%-14%	55,087	-	-	-	55,087
		147,778	132,049	9,875	-	289,702

Most loans are to related parties, refer note 34(c)(iv).

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

20 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**	
		Restated		**Restated**		**Restated**
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Property, plant and equipment	137,187	19,004	(1,719,704)	(1,982,242)	(1,582,517)	(1,963,238)
Investments	29,638	31,764	(7,299)	(5,604)	22,339	26,160
Inventories	151,116	133,615	(26,303)	(64,583)	124,813	69,032
Trade and other receivables	316,666	174,000	(102,179)	(9,927)	214,487	164,073
Trade and other payables	640,087	430,207	-	(996)	640,087	429,211
Tax assets/(liabilities)	1,274,694	788,590	(1,855,485)	(2,063,352)	(580,791)	(1,274,762)
Set off of tax	(745,573)	(541,348)	745,573	541,348	-	-
Net tax assets/(liabilities)	529,121	247,242	(1,109,912)	(1,522,004)	(580,791)	(1,274,762)

'000 USD*	**Assets**		**Liabilities**		**Net**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Property, plant and equipment	5,210	722	(65,311)	(75,281)	(60,101)	(74,559)
Investments	1,126	1,206	(277)	(213)	849	993
Inventories	5,739	5,074	(999)	(2,453)	4,740	2,621
Trade and other receivables	12,026	6,608	(3,880)	(377)	8,146	6,231
Trade and other payables	24,309	16,339	-	(38)	24,309	16,301
Tax assets/(liabilities)	48,410	29,949	(70,467)	(78,362)	(22,057)	(48,413)
Set off of tax	(28,315)	(20,559)	28,315	20,559	-	-
Net tax assets/(liabilities)	20,095	9,390	(42,152)	(57,803)	(22,057)	(48,413)

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

(b) Unrecognised deferred tax assets

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

	2006	Restated 2005	2006	2005
	’000 RUR	’000 RUR	’000 USD*	’000 USD*
Deductible temporary differences	85,370	38,317	3,242	1,455
Tax loss carry-forwards	85,433	136,301	3,245	5,177
	170,803	174,618	6,487	6,632

The tax losses expire in 2012-2016. 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 future taxable profits will be available against which the Group can utilise the benefits therefrom.

(c) Unrecognized deferred tax liability

A temporary difference of RUR 5,037,622 thousand/ USD* 191,318 thousand (2005: RUR 1,122,117 thousand/ USD* 42,616 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.

(d) Movement in temporary differences during the year

Restated ’000 RUR	1 January 2005	Recognised in income	Acquired/ De-consolidated	31 December 2005
Property, plant and equipment	(2,463,339)	500,101	-	(1,963,238)
Investments	12,405	13,755	-	26,160
Inventories	50,674	18,358	-	69,032
Trade and other receivables	356,009	(191,936)	-	164,073
Trade and other payables	347,746	81,465	-	429,211
	(1,696,505)	421,743	-	(1,274,762)

’000 RUR	1 January 2006	Recognised in income	Acquired/ De-consolidated	31 December 2006
Property, plant and equipment	(1,963,238)	657,679	(276,958)	(1,582,517)
Investments	26,160	(3,821)	-	22,339
Inventories	69,032	55,781	-	124,813
Trade and other receivables	164,073	19,969	30,445	214,487
Trade and other payables	429,211	210,876	-	640,087
	(1,274,762)	940,484	(246,513)	(580,791)

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

’000 USD*	1 January 2005	Recognised in income	Acquired/ De-consolidated	31 December 2005
Property, plant and equipment	(93,552)	18,993	-	(74,559)
Investments	471	522	-	993
Inventories	1,924	697	-	2,621
Trade and other receivables	13,520	(7,289)	-	6,231
Trade and other payables	13,207	3,094	-	16,301
	(64,430)	16,017	-	(48,413)

’000 USD*	1 January 2006	Recognised in income	Acquired/ De-consolidated	31 December 2006
Property, plant and equipment	(74,559)	24,976	(10,518)	(60,101)
Investments	993	(144)	-	849
Inventories	2,621	2,119	-	4,740
Trade and other receivables	6,231	758	1,157	8,146
Trade and other payables	16,301	8,008	-	24,309
	(48,413)	35,717	(9,361)	(22,057)

21 Inventories

	2006 ’000 RUR	Restated 2005 ’000 RUR	2006 ’000 USD*	2005 ’000 USD*
Raw materials and consumables	5,706,851	3,921,704	216,733	148,938
Work in progress	1,855,673	1,679,206	70,475	63,773
Finished goods and goods for resale	4,385,100	2,907,322	166,537	110,414
Historical cost of inventory	11,947,624	8,508,232	453,745	323,125
Provision for inventory obsolescence	(767,138)	(601,697)	(29,134)	(22,851)
Net fair value of inventory	11,180,486	7,906,535	424,611	300,274
Write-down of inventories in the current period	(355,976)	(268,692)	(13,519)	(10,204)
Reversal of previous write-down of inventories in the current period	171,559	234,152	6,515	8,893

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

Inventory with a carrying amount of RUR 1,941,275 thousand / USD* 73,726 thousand has been pledged as security for bank loans received (2005: RUR 2,421,045 thousand / USD* 91,946 thousand), refer note 26.

22 Trade and other receivables

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Accounts receivable – trade	5,920,693	4,447,218	224,856	168,896
VAT receivable	2,886,752	3,270,960	109,633	124,224
Prepayments	779,788	566,042	29,615	21,497
Other taxes receivable	48,322	45,946	1,835	1,745
Other receivables	1,909,397	1,576,282	72,515	59,864
	11,544,952	9,906,448	438,454	376,226
Impairment losses	(810,407)	(960,417)	(30,778)	(36,475)
	10,734,545	8,946,031	407,676	339,751

23 Cash and cash equivalents

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Petty cash	9,797	7,595	372	288
Current accounts	1,169,941	591,972	44,432	22,483
Cash equivalents	264,354	119,343	10,040	4,532
Cash and cash equivalents in the balance sheet	1,444,092	718,910	54,844	27,303
Bank overdrafts	(7)	(73,414)	-	(2,788)
Cash and cash equivalents in the statement of cash flows	1,444,085	645,496	54,844	24,515

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

24 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 31 December 2006	Ordinary shares 31 December 2005	Preference shares 31 December 2006	Preference shares 31 December 2005
Authorized shares	20,004,511,693	20,004,511,693	1,453,500	1,453,500
Par value	1 RUR	1 RUR	1 RUR	1 RUR
On issue and fully paid at the beginning of the period	13,131,836	7,049,518	1,453,500	1,453,500
Shares issued	4,675,926	6,082,318	-	-
Shares issued and not paid	220,685	-	-	-
Shares purchased	(3,081,092)	-	(144,750)	-
On issue at the end of the period	14,947,355	13,131,836	1,308,750	1,453,500

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 execute the right to vote in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation.

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

In October 2005, OAO GAZ has completed 6,082,318 ordinary share placement of the new issue with a par value of 1 RUR and purchase price of RUR 1,887 per share. 5,234,870 shares were purchased by OAO Russkie Mashiny (parent company of OAO GAZ), 116,588 shares were purchased by related parties and 730,860 shares were purchased by third parties. The shareholders purchased the shares in exchange for shares in the Group's subsidiaries listed in note 35. This share issue was a part of the Group restructuring process, refer note 2(b).

In December 2006, OAO GAZ placed 4,896,611 ordinary shares of the new issue with a par value of 1 RUR and purchase price of RUR 2,315 per share. 4,345,257 shares were purchased by OAO Russkie Mashiny (parent company of OAO GAZ) and 551,354 shares were purchased by third parties. Out of shares purchased by third parties 330,669 shares were acquired in exchange of the Group's subsidiaries shares (listed in note 35) and the rest 220,685 shares were bought for RUR 510,886 thousand / USD* 19,402 thousand.

This share issue was a part of the Group restructuring process, refer note 2 (b) and it was completed on 1 February 2007.

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

(i) Purchase of treasury shares

On 26 July 2006 the Company purchased 1,311,953 of its own ordinary treasury shares and 144,750 of its own preference treasury shares which represent 10% of share capital at the date of purchase and 7.48% of the share capital as at 31 December 2006. In accordance with Russian Legislation, the Company is obliged to place treasury shares on the open market within 12 months after purchasing the shares or cancel the shares.

(ii) Purchase of Company's shares by its subsidiary OAO Avtomobilny Zavod Ural

During the second half of 2006 Company's subsidiary, OAO Avtomobilny Zavod Ural, purchased from the Company's parent company, OAO Russkie Mashiny, and related parties 1,769,139 ordinary shares of OAO GAZ.

(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 2006, the Company had accumulated retained earnings, including the profit for the current year, of RUR 1,919,919 thousand / USD* 72,915 thousand (2005: RUR 692,402 thousand/USD* 26,296 thousand).

The amount of dividends during 2006 of RUR 805,545 thousand / USD* 30,593 thousand includes dividends of RUR 560,076 thousand/ USD* 21,270 thousand (2005: nil) or RUR 29.8 / USD* 1.13 per ordinary and preference share distributed to ordinary and preference shareholders of OAO GAZ (based on the results of 2005) in accordance with the 2006 Annual Shareholders' Meeting.

(d) Pledged shares

As at 31 December 2006 422,821 ordinary shares were pledged as the security for bank loans received, refer note 26.

25 Earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary and preference shares of RUR 5,123,656 thousand/ USD* 194,586 (2005: RUR 2,396,614 thousand /USD* 91,018 thousand) by the weighted average number of ordinary and preference shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

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

In thousands of shares	**2006**	**2005**
Issued shares at 1 January	18,930,593	18,930,593
Effect of treasury shares purchased in July	(606,960)	-
Effect of treasury shares purchased in October	(110,151)	-
Weighted average number of shares for the year ended 31 December	18,213,482	18,930,593

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 2005, refer note 24(a).

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 30.

	2006	**Restated 2005**	**2006**	**2005**
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Non-current				
Secured bank loans	996,405	3,469,267	37,841	131,756
Unsecured borrowings	-	402,955	-	15,303
Unsecured bond issues	5,000,000	-	189,890	-
Finance lease liability	1,234,199	386,413	46,872	14,675
	7,230,604	4,258,635	274,603	161,734

In February 2006, the Group issued long-term interest-bearing non-convertible bonds of RUR 5,000,000 thousand/USD*189,890 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. Until August 2008 the interest will be accrued based on 8.5% interest rate. Subsequent interest rate will be agreed additionally.

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

	2006	Restated 2005	2006	2005
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Current				
Current portion of secured bank loans	5,646,054	8,413,816	214,426	319,538
Current portion of secured borrowings	24,594	584,889	934	22,213
Unsecured bank loans	6,858,113	996,450	260,457	37,843
Unsecured borrowings	805,531	316,608	30,592	12,024
Bank overdraft	7	73,414	-	2,788
Interest accrued on unsecured bonds issued	166,329	-	6,317	-
Finance lease liabilities	205,277	125,971	7,796	4,785
	13,705,905	10,511,148	520,522	399,191

During 2006, the Group capitalized RUR 52,159 thousand/ USD*1,982 thousand of bank interest within the cost of property, plant and equipment in accordance with note 3(r). The effective rate of capitalisation was 6.89%.

Bank loans include the following loans with floating interest rates as at 31 December 2006:

Bank's name	**Date of loans' principal amount repayment according to the contract**	**Loans' principal amount as at 31 December 2006, '000 RUR**	**Loans' principal amount as at 31 December 2006, '000 USD***	**Contractual interest rate**	**Effective interest rate as at 31 December 2006**	**Frequency of interest rate reconsideration**
Barclays Bank PLC	17 December 2007	2,633,110	100,000	LIBOR + 1.25% + compulsory costs	6.6011%	Monthly
ZAO Raiffeisenbank Austria	30 September 2007	450,000	17,090	MosPrime rate + 2.3%	7.79%	Monthly

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 Group's EBITDA in respect of any period of 12 months ended 31 December 2006 or 30 June 2007 shall not at any time exceed 3 : 1;
2. the ratio of the Group's EBITDA to consolidated net interest expense in respect of any period of 12 months ended 31 December 2006 or 30 June 2007 shall not at any time be less than 4 : 1;

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

3. the Group’s consolidated tangible net worth 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 its assets as a pledge.

The following table shows the period in which interest-bearing financial liabilities reprice:

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

2006 ’000 RUR	**Contractual interest rate**	**Effective 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**	
Secured bank loans:									
RUR	1%-2%	1%-2%	384,556	-	-	-	-	-	384,556
RUR	Mosprime+ 2.3%	7.8%	450,000	-	-	-	-	-	450,000
RUR	6%-8%	6%-8%	1,492,596	-	-	-	-	-	1,492,596
RUR	9%-11%	9%-11%	2,236,901	-	-	-	-	-	2,236,901
USD	2%-8%	2%-8%	976,471	948,715	-	-	-	-	1,925,186
USD	10%	10%	14,102	-	-	-	-	-	14,102
Other currency	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%	1,280,970	-	-	-	-	-	1,280,970
EUR	1%-2%	1%-2%	206,633	-	-	-	-	-	206,633
EUR	8%	8%	1,606,206	-	-	-	-	-	1,606,206
USD	LIBOR+ 1.25%	6.6%	2,633,110	-	-	-	-	-	2,633,110
USD	1%	1%	487,033	-	-	-	-	-	487,033
USD	1%	1%	6,759	-	-	-	-	-	6,759

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

2006 '000 RUR	Contractual interest rate	Effective interest rate	Less than 1 year	Long term 1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	more than 5 years	Total
Overdraft:									
RUR	8%	8%	7	-	-	-	-	-	7
Secured borrowings:									
Other currency	5%	5%	24,594	-	-	-	-	-	24,594
Unsecured borrowings:									
RUR	1%-9%	1%-9%	435,833	-	-	-	-	-	435,833
USD	8.8%	8.8%	369,698	-	-	-	-	-	369,698
Unsecured borrowings in kind of bonds issued:									
RUR	8.5%	8.5%	166,329	5,000,000	-	-	-	-	5,166,329
Finance lease liability:									
RUR	3%-45%	3%-45%	172,796	224,499	9,223	2,319	-	-	408,837
Other currency	9.5%	9.5%	32,481	32,481	32,481	32,481	32,481	868,234	1,030,639
			13,705,905	6,253,385	41,704	34,800	32,481	868,234	20,936,509

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

Restated 2005 '000 RUR	**Contractual interest rate**	**Effective 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**	
Secured bank loans:									
RUR	1%-3%	1%-3%	448,144	-	-	-	-	-	448,144
RUR	7%-10%	7%-10%	4,592,843	-	-	-	-	-	4,592,843
RUR	11%-13%	11%-13%	3,255,746	-	-	-	-	-	3,255,746
USD	1%-2%	1%-2%	86,348	-	-	-	-	-	86,348
USD	8%-8.2%	8%-8.2%	30,735	2,433,097	1,036,170	-	-	-	3,500,002
Unsecured bank loans:									
RUR	7%-13%	7%-13%	996,450	-	-	-	-	-	996,450
Overdraft:									
RUR	8%-10%	8%-10%	73,414	-	-	-	-	-	73,414
Secured borrowings:									
RUR	1%	1%	54,221	-	-	-	-	-	54,221
RUR	7.4%	7.4%	495,318	-	-	-	-	-	495,318
RUR	15%	15%	35,350	-	-	-	-	-	35,350
USD	8.3%	8.3%	316,608	402,955	-	-	-	-	719,563
Finance lease liability:									
RUR	14%-26%	14%-26%	125,971	386,413	-	-	-	-	512,384
			10,511,148	3,222,465	1,036,170	-	-	-	14,769,783

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2006 ’000 USD*	**Contractual interest rate**	**Effective 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**	
Secured bank loans:									
RUR	1%-2%	1%-2%	14,605	-	-	-	-	-	14,605
RUR	Mosprime+ 2.3%	7.8%	17,090	-	-	-	-	-	17,090
RUR	6%-8%	6%-8%	56,686	-	-	-	-	-	56,686
RUR	9%-11%	9%-11%	84,953	-	-	-	-	-	84,953
USD	2%-8%	2%-8%	37,084	36,030	-	-	-	-	73,114
USD	10%	10%	536	-	-	-	-	-	536
Other currency	9%	9%	3,472	1,811	-	-	-	-	5,283
Unsecured bank loans:									
RUR	5%-8%	5%-8%	24,208	-	-	-	-	-	24,208
RUR	8.5%-11%	8.5%-11%	48,649	-	-	-	-	-	48,649
EUR	1%-2%	1%-2%	7,847	-	-	-	-	-	7,847
EUR	8%	8%	61,000	-	-	-	-	-	61,000
USD	LIBOR+ 1.25%	6.6%	100,000	-	-	-	-	-	100,000
USD	1%	1%	18,496	-	-	-	-	-	18,496
USD	1%	1%	257	-	-	-	-	-	257
Overdraft:									
RUR	8%	8%	-	-	-	-	-	-	-
Secured borrowings:									
Other currency	5%	5%	934	-	-	-	-	-	934

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2006 **’000 USD***	**Contractual interest rate**	**Effective 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%	16,552	-	-	-	-	-		16,552
USD	8.8%	8.8%	14,040	-	-	-	-	-		14,040
Unsecured borrowings in kind of bonds issued:										
RUR	8.5%	8.5%	6,317	189,890	-	-	-	-		196,207
Finance lease liability:										
RUR	3%-45%	3%-45%	6,562	8,524	350	88	-	-		15,524
Other currency	9.5%	9.5%	1,234	1,234	1,234	1,234	1,234	32,974		39,144
			520,522	237,489	1,584	1,322	1,234	32,974		795,125

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Restated 2005 ’000 USD*	**Contractual interest rate**	**Effective 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**	
Secured bank loans:									
RUR	1%-3%	1%-3%	17,020	-	-	-	-	-	17,020
RUR	7%-10%	7%-10%	174,426	-	-	-	-	-	174,426
RUR	11%-13%	11%-13%	123,646	-	-	-	-	-	123,646
USD	1%-2%	1%-2%	3,279	-	-	-	-	-	3,279
USD	8%-8.2%	8%-8.2%	1,167	92,404	39,352	-	-	-	132,923
Unsecured bank loans:									
RUR	7%-13%	7%-13%	37,843	-	-	-	-	-	37,843
Overdraft:									
RUR	8%-10%	8%-10%	2,788	-	-	-	-	-	2,788
Secured borrowings:									
RUR	1%	1%	2,059	-	-	-	-	-	2,059
RUR	7.4%	7.4%	18,811	-	-	-	-	-	18,811
RUR	15%	15%	1,343	-	-	-	-	-	1,343
USD	8.3%	8.3%	12,024	15,303	-	-	-	-	27,327
Finance lease liability:									
RUR	14%-26%	14%-26%	4,785	14,675	-	-	-	-	19,460
			399,191	122,382	39,352	-	-	-	560,925

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

Finance lease liabilities are payable as follows:

	2006			2005		
'000 RUR	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	363,125	157,848	205,277	274,892	148,921	125,971
Between one and five years	657,821	291,856	365,965	402,221	15,808	386,413
More than five years	3,734,052	2,865,818	868,234	-	-	-
	4,754,998	3,315,522	1,439,476	677,113	164,729	512,384

	2006			2005		
'000 USD*	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	13,791	5,995	7,796	10,441	5,656	4,785
Between one and five years	24,983	11,084	13,899	15,275	600	14,675
More than five years	141,811	108,838	32,973	-	-	-
	180,585	125,917	54,668	25,716	6,256	19,460

Current finance lease liabilities include RUR 31,785 thousand / USD* 1,207 thousand payable to related parties (2005: RUR 4,481 thousand / USD* 170 thousand), refer note 34(c).

Non-current finance lease liabilities include RUR 6,419 thousand / USD* 244 thousand payable to related parties due in 2008-2010 (2005: 113,993 thousand / USD* 4,329 thousand), refer note 34(c).

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUR 4,160,866 thousand / USD* 158,021 thousand (2005: RUR 6,421,036 thousand / USD* 243,857 thousand) – refer note 15(d).
- Inventory with a carrying amount of RUR 1,941,275 thousand / USD* 73,726 thousand (2005: RUR 2,421,045 thousand / USD* 91,946 thousand) – refer note 21.
- 422,821 of Company's ordinary shares – refer note 24(d).

The finance lease liabilities are secured by the leased assets, refer note 15(e).

27 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.

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The fair value of the delayed taxes as of 31 December 2006, discounted at 11%, was RUR 94,880 thousand / USD* 3,603 thousand (2005: discounted at 13% was RUR 238,804 thousand / USD* 9,069 thousand).

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Over 1 year	133,377	270,286	5,065	10,265
Over 5 years	-	38,592	-	1,466
	133,377	308,878	5,065	11,731

28 Other long-term payables

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Government grants	111,481	133,177	4,234	5,057
Other	1,203,229	30,825	45,696	1,171
	1,314,710	164,002	49,930	6,228

Other long-term payables include RUR 893,167 thousand / USD* 33,921 thousand of payables for the vehicles provided for the operational rent, refer note 3(q)(ii) (2005: nil).

29 Trade and other payables

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Accounts payable – trade	7,015,562	5,402,712	266,437	205,184
Other taxes payable	1,668,119	2,593,386	63,352	98,491
Advances received	1,894,785	1,221,853	71,960	46,403
Payables to employees	2,133,130	1,315,007	81,012	49,941
Warranty provision	356,823	312,700	13,551	11,876
Accounts payable – PPE	293,129	187,471	11,132	7,120
Other payables and accrued expenses	3,364,587	673,058	127,780	25,561
	16,726,135	11,706,187	635,224	444,576

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

30 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 maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

At the balance sheet date there was a significant concentration of credit risk in respect of loans issued to related parties. The total amount of loans issued to related parties was RUR 2,999,065 thousand / USD* 113,898 thousand (2005: RUR 7,593,850 thousand / USD* 288,398 thousand), refer note 34(c)(iv).

(b) Interest rate risk

The Group adopts a policy of ensuring that the major part of its exposure to changes in interest rates on secured bank loans is on a fixed rate basis. For the tables which show the period in which interest-bearing financial assets and liabilities reprice refer note 19 and note 26.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily USD and EUR. Management does not hedge the Group's exposure to foreign currency risk.

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

'000 RUR	**USD-denominated 2006**	**EUR-denominated 2006**	**USD-denominated 2005**	**EUR-denominated 2005**
Current assets				
Loans issued	245,986	-	-	-
Trade and other receivables	144,973	63,742	313,564	131,960
Other receivables	536,399	651,753	13,611	281,836
Current liabilities				
Trade payables	(87,983)	(283)	(140,024)	(115,853)
Other payables	(194,788)	(172,084)	(22,780)	(5,571)
Loans and borrowings	(4,487,173)	(1,812,839)	(433,691)	-
Non-current liabilities				
Loans and borrowings	(948,715)	-	(3,872,222)	-
Other long term liabilities	-	(178,707)	-	-
	(4,791,301)	(1,448,418)	(4,141,542)	292,372

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’000 USD*	**USD-denominated 2006**	**EUR-denominated 2006**	**USD-denominated 2005**	**EUR-denominated 2005**
Current assets				
Loans issued	9,342	-	-	-
Trade and other receivables	5,506	2,421	11,908	5,012
Other receivables	20,371	24,752	517	10,704
Current liabilities				
Trade payables	(3,341)	(11)	(5,318)	(4,400)
Other payables	(7,398)	(6,535)	(865)	(212)
Loans and borrowings	(170,413)	(68,848)	(16,470)	-
Non-current liabilities				
Loans and borrowings	(36,030)	-	(147,059)	-
Other long term liabilities	-	(6,787)	-	-
	(181,963)	(55,008)	(157,287)	11,104

The following exchange rates applied at 31 December:

	31 December 2006			**31 December 2005**		
	US Dollar	**EUR**	**UKP**	**US Dollar**	**EUR**	**UKP**
1 RUR	26.3311	34.6965	51.7775	28.7825	34.1850	49.7218

(d) Fair values

The fair value of unquoted equity investments is discussed in note 17. 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 27.

For receivables, payables and 0% loans 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 11%.

31 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:

	2006 ’000 RUR	**2005 ’000 RUR**	**2006 ’000 USD***	**2005 ’000 USD***
Less than one year	238,261	238,575	9,049	9,061
Between one and five years	754,913	644,649	28,670	24,482
More than five years	5,290,387	3,896,699	200,918	147,988
	6,283,561	4,779,923	238,637	181,531

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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.

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):

	2006	**2005**	**2006**	**2005**
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Less than one year	38,730	64,125	1,471	2,435
Between one and five years	154,920	256,500	5,884	9,741
More than five years	1,549,203	2,565,000	58,835	97,413
	1,742,853	2,885,625	66,190	109,589

During the current year RUR 349,958 thousand / USD* 13,291 thousand was recognised as an expense in the income statement in respect of operating leases and land tax (2005: RUR 338,044 thousand / USD* 12,838 thousand).

32 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 2006 the Group entered into contract to purchase equipment from Chrysler. Part of the purchased equipment is recognized as an asset at the reporting date. The remaining amount to be paid in accordance with the contract is RUR 138,275 thousand/ USD* 5,251 thousand. At the same time the Group has entered into a technology license agreement under which the Group will pay Chrysler an amount of RUR 5,266/ USD* 200 for each vehicle produced using JR-41 technology up to a total of 250,000 vehicles.

Also at 31 December 2006 the Group entered into contract to purchase equipment from Renault Trucks for production of EURO III engines. Part of purchased equipment is recognized as an asset at the reporting date. The remaining amount to be paid in accordance with the contract is EUR 3,848 thousand (or RUR 133,512 thousand/ USD* 5,071 thousand at the 31 December 2006 EUR exchange rate). The Group will also pay for the license to produce these engines to Renault Trucks EUR 5,000 thousand (RUR 173,483 thousand/USD* 6,589 thousand) during five years

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from the start of production. The initial amount paid for the license is recognized as an asset at the reporting date.

At 31 December 2006 the Group entered into contract to purchase equipment from RIKO d.o.o., Ljubljana, Slovenia for EUR 31,686 thousand (or RUR 1,099,393 thousand/ USD* 41,753 thousand at the 31 December 2006 EUR exchange rate).

In addition to above contracts the Group has entered into about 50 contracts of capital commitments for RUR 351,483 thousand/ USD* 13,349 thousand

33 Contingencies

(a) Insurance

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 the Group on matters concerning tax authorities' charges and on matters rising 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 characterised 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* 10,405 thousand were assessed. Management intends to challenge such assessment in court and believes that the Group will be successful in challenging this assessment. 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.

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(d) Guarantees issued for third parties

As at 31 December 2006 the Group issued guarantees for third parties amounting to EUR 362 thousand and RUR 290,080 thousand, - total RUR 302,651 thousand / USD* 11,494 thousand.

These guarantees are secured by property, plant and equipment with a net book value of RUR 369,378 thousand/USD* 14,028 thousand.

34 Related party transactions

(a) Control relationships

The immediate parent company of OAO GAZ is OAO Russkie Machiny, the member of the Basic Element Limited Group (the 'Basic Element Group'). 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 note 35 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 12):

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Salaries and bonuses	480,946	291,268	18,265	11,062
Contributions to State pension fund	10,582	4,008	402	152
	491,528	295,276	18,667	11,214

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(c) Transactions with other related parties

(i) Revenue

Sales to fellow subsidiaries for the year were as follows:

	2006	Restated 2005	2006	2005
	’000 RUR	’000 RUR	’000 USD*	’000 USD*
Sale of goods	(2,026,798)	(6,582,490)	(76,974)	(249,989)
Services provided	(72,923)	(105,485)	(2,769)	(4,006)
	(2,099,721)	(6,687,975)	(79,743)	(253,995)

(ii) Purchases of raw materials and services

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

	2006	Restated 2005	2006	2005
	’000 RUR	’000 RUR	’000 USD*	’000 USD*
Purchase of raw materials	3,450,049	4,934,767	131,026	187,412
Purchase of services	407,864	191,267	15,490	7,264
	3,857,913	5,126,034	146,516	194,676

(iii) Trade and other receivables

Trade and other receivables owed by fellow subsidiaries at the end of the year were as follows:

	2006	Restated 2005	2006	2005
	’000 RUR	’000 RUR	’000 USD*	’000 USD*
Bank promissory notes	-	106,196	-	4,033
Receivables	357,196	269,354	13,566	10,230
Advances issued	14,855	1,776	564	67
Other receivables	738,704	593,054	28,054	22,523
	1,110,755	970,380	42,184	36,853

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(iv) Loans issued and other current investments

Loans issued to fellow subsidiaries at the end of the year were as follows:

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Non-current				
Companies of Basic Element Group				
In RUR at a fixed interest rate of 12%	260,026	-	9,875	-
In USD at a fixed interest rate of 8.2% - 8.8%	-	3,737,009	-	141,924
	260,026	3,737,009	9,875	141,924
Current				
Parent company				
In RUR at a fixed interest rate of 6%	-	2,845	-	108
In RUR at a fixed interest rate of 10% - 12%	-	2,009,693	-	76,324
Companies of Russkie Mashiny Group				
In RUR at a fixed interest rate of 0% - 1%	91,954	100,331	3,492	3,810
In RUR at a fixed interest rate of 9% - 12%	598,072	293,458	22,714	11,145
Companies of Basic Element Group				
In RUR at a fixed interest rate of 9% - 12%	882,220	-	33,505	-
In USD at a fixed interest rate of 8.2%	239,293	-	9,088	-
AKB Soyuz controlled by ultimate shareholder				
In RUR at a fixed interest rate of 3%	100,000	-	3,798	-
In RUR at a fixed interest rate of 6% - 10%	27,500	253,871	1,044	9,641
In RUR at a fixed interest rate of 14%	-	1,196,643	-	45,446
Other related parties				
In RUR at a fixed interest rate of 9% - 12%	800,000	-	30,382	-
	2,739,039	3,856,841	104,023	146,474

All loans provided by the Group are unsecured.

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During 2005 the Group issued RUR 3,454,764 thousand / USD* 131,205 thousand of long-term loan in USD at a fixed interest rate of 8.2% to the companies controllable by the ultimate shareholder.

During 2005 the Group issued RUR 233,000 thousand / USD* 8,849 thousand of long-term loan in RUR at a fixed interest rate of 3%-12% to other related parties.

During 2006 the Group issued RUR 563,146 thousand / USD* 21,387 thousand of short-term loan at a fixed interest rate of 6%-15% to the Parent Company (2005: RUR 2,384,257 thousand/ USD* 90,549 thousand) which were repaid during 2006.

During 2006 the Group issued RUR 36,821 thousand / USD* 1,398 thousand of short-term loan at a fixed interest rate of 0%-1% to the companies controllable by Russkie Mashiny Group (2005: RUR 835,638 thousand/ USD* 31,736 thousand) and RUR 934,100 thousand / USD* 35,475 thousand of short-term loan of at a fixed interest rate of 6%-15% (2005: nil).

During 2006 the Group issued RUR 5,726,300 thousand / USD* 217,473 thousand of short-term loan at a fixed interest rate of 3%-7% repayable in 2006-2007 to the AKB Soyuz controllable by ultimate shareholder (2005: RUR 1,669,642 thousand/ USD* 63,410 thousand).

During 2006 the Group issued RUR 1,660,000 thousand / USD* 63,043 thousand of short-term loan in RUR at a fixed interest rate of 3%-12% to other related parties (2005: nil).

During 2006 the Group has received RUR 583,751 thousand/ USD* 22,170 thousand (2005: RUR 296,978 thousand/ USD* 11,279 thousand) of interest income on loans issued to related parties.

(v) Trade and other payables

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

	2006	Restated 2005	2006	2005
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
Trade payables	265,199	338,801	10,072	12,867
Advances received	2,806	37,128	107	1,410
Other payables	283,178	291,184	10,755	11,059
	551,183	667,113	20,934	25,336

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(vi) Loans received

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

	2006 '000 RUR	Restated 2005 '000 RUR	2006 '000 USD*	2005 '000 USD*
Non-current				
AKB Soyuz controlled by ultimate shareholder				
Bonds issued in RUR at a fixed interest rate of 8%	99,898	-	3,794	-
Finance lease liabilities	6,419	113,993	244	4,329
	106,317	113,993	4,038	4,329
Current				
AKB Soyuz controlled by ultimate shareholder				
In RUR at a fixed interest rate of 1% - 3%	195,642	-	7,430	-
In RUR at a fixed interest rate of 11%	800,000	137,833	30,382	5,235
Companies of Basic Element Group				
In RUR at a fixed interest rate of 7.4%	-	495,318	-	18,811
In RUR at a fixed interest rate of 9%	435,758	57,100	16,549	2,169
In USD at a fixed interest rate of 8.3%	368,636	719,563	14,000	27,327
Other related parties	-	33,255	-	1,263
Finance lease liabilities	31,785	4,481	1,207	170
	1,831,821	1,447,550	69,568	54,975

As at 31 December 2006 of the loans received from related parties (both long-term and short-term) RUR 195,642 thousand / USD* 7,430 thousand (2005: RUR 137,833 thousand / USD* 5,235 thousand) are secured loans; the rest are unsecured.

During 2006 the Group received RUR 99,898 thousand / USD* 3,794 thousand of long-term loan in kind of bonds issued repayable in 2011 with the fixed interest rate of 8% from OAO AKB Soyuz (2005: nil).

During 2006 the Group received RUR 4,522,913 thousand / USD* 171,771 thousand of short-term loan at a fixed interest rate of 1%-3% from OAO AKB Soyuz (2005: RUR 4,959,603 thousand / USD* 188,355 thousand) and RUR 5,124,656 thousand / USD* 194,624 thousand of short-term loan at a fixed interest rate of 11% (2005: nil).

During 2006 the Group accrued RUR 28,065 thousand / USD* 1,065 thousand of interest expense on loans received from OAO AKB Soyuz (2005: RUR 7,266 thousand / USD* 276 thousand).

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

In 2006 the Group also accrued RUR 33,997 thousand / USD* 1,291 thousand (2005: RUR 82,958 thousand / USD* 3,151 thousand) of interest expense on loans received from other related parties.

(vii) Treasury shares

In the second half of 2006 the Company purchased 1,251,516 of its own ordinary shares and 17,771 of its own preference shares from OAO Russkie Mashiny, the Company's parent company for RUR 2,861,859 thousand/USD* 108,687 thousand.

In the second half of 2006 one of the Group's subsidiaries, OAO AZ Ural, purchased 440,607 of the Company's ordinary shares from OAO Russkie Mashiny for RUR 1,020,005 thousand/USD* 38,738 thousand and 1,328,532 of the Company's ordinary shares from Basic Element Group for RUR 3,075,552 thousand/USD* 116,803 thousand.

(viii) Guarantees issued for related parties

As at 31 December 2006 the Group issued guarantees for related parties amounting to RUR 1,685,190 thousand / USD* 64,000 thousand.

These guarantees are secured by property, plant and equipment with a net book value of RUR 822,827 thousand/USD* 31,249 thousand.

(d) Pricing policies

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

35 Significant subsidiaries

	Country of incorporation	Voting ownership 2006	Effective ownership 2006	Voting ownership 2005	Effective ownership 2005
OOO RPAS	Russia	100%	100%	100%	100%
OOO UK GAZ Group (OOO UK RusPromAuto)	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%	92%	100%	89%
OOO Likinsky avtobus	Russia	100%	100%	100%	100%
OAO Golitsinsky avtobusny zavod	Russia	100%	100%	100%	100%
OOO TD Russkie avtobusy	Russia	100%	100%	100%	89%
OOO Likinsky avtobusny zavod	Russia	100%	100%	100%	100%
OAO Pavlovsky avtobus	Russia	92%	92%	89%	89%
OAO Avtomobilny zavod Ural	Russia	100%	100%	100%	100%
OOO TD Uralavto	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%

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

	Country of incorporation	Voting ownership 2006	Effective ownership 2006	Voting ownership 2005	Effective ownership 2005
OOO Avtomobilny zavod GAZ	Russia	100%	100%	100%	100%
OOO TD Russkie mashiny	Russia	100%	100%	100%	100%
OOO GAZ-Finance	Russia	100%	100%	-	-
OOO GAZ-Capital	Russia	100%	85%	-	-
GAZ International Limited	Great Britain	100%	100%	-	-
LDV Holdings Limited	Great Britain	100%	100%	-	-
LDV Group Limited	Great Britain	100%	100%	-	-
Birmingham Pressing Limited	Great Britain	100%	100%	-	-
ZAO Chelyabinskie stroitelno-dorozhnye mashiny	Russia	100%	100%	100%	100%
OAO Tverskoy excavator	Russia	86%	86%	80%	80%
OAO Bryansky arsenal	Russia	59%	59%	56%	56%
OOO Excavatorny zavod Kovrovets	Russia	50%	43%	-	-
OAO YAZDA	Russia	88%	88%	86%	86%
OAO YAZTA	Russia	89%	89%	88%	88%
OAO Autodiesel	Russia	61%	61%	57%	57%

In addition to the above, there are 13 insignificant subsidiaries incorporated in Russia.

36 Events subsequent to the balance sheet date

(a) Additional OAO GAZ share issue

After 31 December 2006, on 1 February 2007 OAO GAZ completed its additional share placement started on 2 December 2006 (refer note 2(b)).

As a result of the placement completion Company's ownership interests in the following subsidiaries were increased by:

	Country of incorporation	Change of voting ownership after 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%

Out of 6,200,000 additionally issued shares that were to be placed, 86.91% were actually placed (or 5,388,424 shares). Upon registration of the results of placement, the OAO GAZ share capital will be correspondingly comprised of 18,520,260 ordinary shares and 1,453,500 preference shares. The share of OAO Russkie Mashiny in Company's share capital will be 72.81%.

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(b) Acquisition of Marco Polo technology

Subsequent to 31 December 2006 the Company has signed an agreement on the transfer of Marco Polo technology for the manufacture of Andare 850 and Andare 1000 models of buses. According to the Agreement the Company obtained an exclusive right to use Marco Polo technology for manufacturing and assembling of licensed vehicles in Russia and sell these vehicles in Russia and countries of the former Soviet Union. The license agreement has been concluded for 10 years.

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