SEVERSTAL-AUTO GROUP

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND REPORT ON REVIEW

30 June 2007

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of the Open Joint-Stock Company "Severstal-auto"

Introduction
We have reviewed the accompanying consolidated condensed interim balance sheet of Open Joint-Stock Company "Severstal-auto" as of 30 June 2007 and the related consolidated condensed interim statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

ZAO PricewaterhouseCoopers Audit

24 September 2007
Moscow, Russian Federation

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(in millions of Russian Roubles)

	Note	RUB million		Supplementary information US$ million (Note 2)	
		At 30 June 2007	At 31 December 2006	At 30 June 2007	At 31 December 2006
ASSETS					
Non-current assets:					
Property, plant and equipment	6	13,739	13,012	532	494
Development costs	7	800	803	32	31
Goodwill		1,484	1,484	57	56
Intangible assets		170	163	7	6
Financial assets		52	54	2	2
Other non-current assets		769	272	30	10
Total non-current assets		**17,014**	**15,788**	**660**	**599**
Current assets:					
Inventories	9	7,086	6,396	275	243
Accounts receivable and prepayments	10	6,335	4,662	245	177
Other current assets		12	19	-	1
Cash and cash equivalents	11	1,885	1,449	73	55
Total current assets		**15,318**	**12,526**	**593**	**476**
Total assets		**32,332**	**28,314**	**1,253**	**1,075**
LIABILITIES AND EQUITY					
Equity:					
Capital and reserves attributable to the Company's equity holders:	12				
Share capital		530	530	21	20
Treasury shares		(243)	-	(9)	-
Share option		6	-	-	-
Share premium		6,019	6,019	233	229
Additional paid-in capital		1,438	1,438	56	55
Retained earnings		5,385	4,769	210	181
Total capital and reserves attributable to the Company's equity holders		**13,135**	**12,756**	**511**	**485**
Minority interest		4,003	4,008	155	152
Total equity		**17,138**	**16,764**	**666**	**637**
Non-current liabilities:					
Long-term borrowings	13	1,443	1,736	56	66
Long-term taxes payable		6	6	-	-
Post-retirement benefit obligation		48	57	2	2
Deferred income on government grant and other non-current liabilities		346	369	13	14
Deferred income tax liabilities		1,173	1,186	45	45
Total non-current liabilities		**3,016**	**3,354**	**116**	**127**
Current liabilities:					
Accounts payable		3,722	4,273	144	162
Advances received and other payables	14	1,984	1,327	77	50
Taxes payable		543	522	21	20
Warranty and other provisions		135	186	5	7
Short-term borrowings	15	5,794	1,888	224	72
Total current liabilities		**12,178**	**8,196**	**471**	**311**
Total liabilities		**15,194**	**11,550**	**587**	**438**
Total liabilities and equity		**32,332**	**28,314**	**1,253**	**1,075**

General Director
V.A. Shvetsov

Chief Financial Officer
N.A. Sobolev

24 September 2007

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

(in millions of Russian Roubles)

(Amounts translated into US Dollars for convenience purposes, Note 2)

		RUB million		Supplementary information US$ million (Note 2)	
		Six months ended 30 June		Six months ended 30 June	
	Note	**2007**	**2006**	**2007**	**2006**
Sales	16	23,361	15,036	896	538
Cost of sales		(18,340)	(11,394)	(703)	(408)
Gross profit		**5,021**	**3,642**	**193**	**130**
Distribution costs		(908)	(598)	(35)	(21)
General and administrative expenses		(1,508)	(1,411)	(58)	(50)
Other operating expenses		(229)	(54)	(9)	(2)
Operating profit		**2,376**	**1,579**	**91**	**57**
Interest expense		(181)	(167)	(7)	(6)
Foreign exchange gain - net		8	18	-	1
Gain on restructuring of assets and liabilities		-	10	-	-
Profit before tax		**2,203**	**1,440**	**84**	**52**
Income tax expense		(576)	(435)	(22)	(16)
Profit for the period		**1,627**	**1,005**	**62**	**36**
Attributable to:					
Equity holders of the Company		1,289	699	49	25
Minority interest		338	306	13	11
		1,627	**1,005**	**62**	**36**
Weighted average number of shares outstanding during the period (thousands)		34.21	34.27	34.21	34.27
Earnings per share for profit attributable to the equity holders of the Company during the period (in RUB and US$) – basic and fully diluted		37.68	20.40	1.43	0.73

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

(in millions of Russian Roubles)

(Amounts translated into US Dollars for convenience purposes, Note 2)

		RUB million		Supplementary information US$ million (Note 2)	
		Six months ended 30 June		Six months ended 30 June	
	Note	**2007**	**2006**	**2007**	**2006**
Cash flows from operating activities					
Income before taxation		**2,203**	**1,440**	**84**	**52**
Adjustments for:					
Depreciation		521	425	20	15
Share option		6		-	
Provision for impairment of receivables		14	15	1	1
Excess of acquired share of net assets over purchase consideration	8	(33)	-	(1)	-
Interest expense		181	167	7	6
Provisions movements		(51)	11	(2)	-
Loss on disposal of other non-current assets		-	32	-	1
Post-employment benefit obligation		(9)	10	-	-
Development expenses write-off	7	93	4	4	-
Expenses financed by government grant		(23)	-	(1)	-
Loss/(Gain) on sale of property, plant and equipment		74	(1)	3	-
Operating cash flows before working capital changes		**2,976**	**2,103**	**115**	**75**
Increase in accounts receivable and prepayments		(1,687)	(1,037)	(65)	(37)
Increase in inventories		(690)	(454)	(26)	(16)
(Increase)/decrease in other current assets		7	(12)	-	-
Increase in accounts payable, advances received and other payables		423	795	16	29
Decrease in taxes payable, other than income tax		(149)	(69)	(6)	(2)
Cash generated from operations		**880**	**1,326**	**34**	**49**
Income tax paid		(419)	(286)	(16)	(10)
Interest paid		(189)	(174)	(7)	(6)
Net cash from operating activities		**272**	**866**	**11**	**33**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(1,312)	(462)	(50)	(16)
Proceeds from the sale of property, plant and equipment		58	55	2	2
Development costs	7	(136)	(68)	(5)	(2)
Acquisition of subsidiary, net of cash acquired	8	(311)	-	(12)	-
Purchase of other non-current assets		(963)	(165)	(37)	(6)
Net cash used in investing activities:		**(2,664)**	**(640)**	**(102)**	**(22)**
Cash flows from financing activities:					
Proceeds from borrowings		12,223	7,092	468	254
Repayment of borrowings and long-term taxes payable		(8,603)	(6,949)	(330)	(248)
Purchase of treasury shares	12	(243)	-	(9)	-
Dividends paid		(549)	(15)	(21)	(1)
Net cash generated from financing activities		**2,828**	**128**	**108**	**5**
Net increase in cash and cash equivalents		**436**	**354**	**17**	**16**
Effect of exchange rate changes on cash & cash equivalents				**1**	
Cash and cash equivalents at the beginning of the period		**1,449**	**1,296**	**55**	**45**
Cash and cash equivalents at the end of the period	11	**1,885**	**1,650**	**73**	**61**

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

(in millions of Russian Roubles)

(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	Share capital	Treasury shares	Share option	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2005		**530**	**-**	**-**	**6,019**	**1,438**	**3,422**	**11,409**	**3,371**	**14,780**
Profit for the period		-	-	-	-	-	699	699	306	1,005
Total recognised profit for the period		**-**	**-**	**-**	**-**	**-**	**699**	**699**	**306**	**1,005**
Dividends	12	-	-	-	-	-	(480)	(480)	-	(480)
Balance at 30 June 2006		**530**	**-**	**-**	**6,019**	**1,438**	**3,641**	**11,628**	**3,677**	**15,305**
Balance at 31 December 2006		**530**	**-**	**-**	**6,019**	**1,438**	**4,769**	**12,756**	**4,008**	**16,764**
Profit for the period		-	-	-	-	-	1,289	1,289	338	1,627
Total recognised profit for the period		**530**	**-**	**-**	**6,019**	**1,438**	**6,058**	**14,045**	**4,346**	**18,391**
Acquisition of minority interest	8	-	-	-	-	-	-	-	(344)	(344)
Share option	12	-	-	6	-	-	-	6	-	6
Treasury shares acquisition	12	-	(243)	-	-	-	-	(243)	-	(243)
Dividends	12	-	-	-	-	-	(675)	(675)	-	(675)
Balance at 30 June 2007		**530**	**(243)**	**6**	**6,019**	**1,438**	**5,385**	**13,135**	**4,003**	**17,138**

	Share capital	Treasury shares	Share option	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Supplementary information US$ million (Note 2)									
Balance at 30 June 2006	**20**	**-**	**-**	**222**	**53**	**134**	**429**	**136**	**565**
Balance at 30 June 2007	**21**	**(9)**	**-**	**233**	**56**	**210**	**511**	**155**	**666**

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

1 The Severstal-auto Group and its operations

OAO "Severstal-auto" (the "Company") and its subsidiaries' (the "Group") principal activities are the manufacture and sale of vehicles, including automotive components, assembly kits, and engines. The Group's manufacturing facilities are primarily based in the City of Ulyanovsk, the Nizhny Novgorod Region, the City of Naberezhnye Chelny and Elabuga in the Russian Federation.

OAO "Severstal-auto" was incorporated as an open joint stock company in the Russian Federation in March 2002 by OAO "Severstal" (the predecessor) by contributing its controlling interests in OAO "UAZ" and OAO "ZMZ", which were acquired through purchases close to the end of 2000, in exchange for the Company's share capital.

In 2006 the Group commenced production of FIAT and Ssang Yong passenger cars and started sales of FIAT and Ssang Yong imported vehicles.

The Company's parent is New Deal Investments Limited which holds 58% (31 December 2006: 58%) of the Company's share capital.

Vadim Shvetsov, General Director of OAO Severstal-Auto, has become the main owner of the company, having increased his participation in the registered capital by acquiring the share that used to belong to Alexey Mordashov, General Director of OAO Severstal.

Earlier Alexey Mordashov and Vadim Shvetsov controlled 49.3% and 8.7% of OAO Severstal-Auto shares respectively through New Deal Investments company. After completing the acquisition of Newdeal Investments, which took place in the beginning of the year 2007, Vadim Shvetsov became the owner of 58% of Severstal-Auto shares.

During the six months ended 30 June 2007 the Group established 3 new subsidiary companies. They will distribute the vehicles produced in cooperation with global OEMs ("Original Equipment Manufacturers").

The registered office of the Company is Kolpachniy Pereulok, 6, building 2, Moscow, 101000, Russian Federation.

These condensed consolidated interim financial statements were approved for issue by the General Director and Chief Financial Officer on 24 September 2007.

2 Basis of preparation and significant accounting policies

2.1. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No.34, Interim financial reporting ("IAS 34"). These condensed consolidated interim financial statements do not contain all the information required for the preparation of the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2006 prepared in accordance with International Financial Reporting Standards ('IFRS'). Except as discussed below, the 31 December 2006 consolidated balance sheet data has been derived from audited financial statements.

2.2. Significant accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2006, as described in the annual consolidated financial statements of the Group for the year ended 31 December 2006.

Additionally the Group accounted for treasury shares and an equity-settled share-based compensation scheme during the six months ended 30 June 2007. The description of the accounting policy for these items is disclosed below.

2 Basis of preparation and significant accounting policies (continued)

2.3. Share based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.4. Supplementary information

U.S. Dollar ("US$") amounts shown in the consolidated financial statements are translated from the RUB as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 30 June 2007 of RUB 25.81 = US$1 (at 30 June 2006 of RUB 27.08 = US$1). The statement of income and cash flow statement have been translated at the average exchange rates during the six months ended 30 June 2007 of 26.08 rubles per $1 and 30 June 2006 of 27.93 rubles per $1. The difference was recognised in equity. The US$ amounts are presented solely for the convenience of the reader, and should not be treated as a representation that RUB amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

Exchange restrictions and currency controls exist relating to converting the RUB into other currencies. The RUB is not freely convertible in most countries outside of the Russian Federation

3 Adoption of new and revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. These standards affect disclosure and presentation formats and therefore have no impact on the financial statements at June 30, 2007 which are condensed financial statements.

3 Adoption of new and revised standards and interpretations (continued)

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).

IFRIC 9, Reassessment of embedded derivatives (effective for periods beginning on or after 1 June 2006, that is from 1 January 2007).

IFRIC 10, Interim Financial Reporting and Impairment (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007).

Management is currently assessing what impact the revised standards and interpretations will have on the Group's financial statements. Management does not expect these new standards and interpretations to affect significantly the Group's financial statements.

4 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements. Management does not expect IFRS 8 to affect significantly the Group's financial statements.

***IAS 23, Borrowing costs (Revised*). IAS 23 removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

***IFRIC 11,* IFRS 2,** Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning after 1 July 2008).

IFRIC 14, IAS 19, The limit on a Defined Benefit Asset, Minimum Funding requirements and their Interactions (effective for annual periods beginning on or after 1 January 2008).

Management does not expect these new standards and interpretations to affect significantly the Group's financial statements.

5 Balances and transactions with related parties

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

(in millions of Russian Roubles - RUB)

5 Balances and transactions with related parties (continued)

5.1 Balances and transactions with related parties

There were no balances with related parties of the Group as at 30 June 2007 due to changes in shareholders structure (see Note 1). Balances with related parties of the Group as at 31 December 2006 consist of the following:

	Newdeal Investments Limited	**Other Severstal group companies**	**Total**
Nature of the relationship	Parent company	Significant influence of management	
Balances			
At 31 December 2006			
Accounts receivable and prepayments	-	25	25
Accounts payable	-	168	168

Transactions with related parties of the Group for the years ended 30 June 2007 and 30 June 2006 consist of the following:

	Newdeal Investments Limited	**Other Severstal group companies**	**Members of the Board of Directors and Management**	**Total**
Nature of relationship	Parent company	Significant influence of management	Significant influence	
Transactions				
Six months ended 30 June 2007				
Purchases	-	91	-	91
Sales revenue	-	3	-	3
Share option	-	-	6	6
Dividends paid	411	-	-	411
Six months ended 30 June 2006				
Purchases	-	500	-	500
Sales revenue	-	130	-	130
Cash deposits	-	1,835	-	1,835

5.2 Directors' compensation

Compensation paid to 9 key managers and directors (six months ended 30 June 2006: 9 people) is made up of a contractual salary and a performance bonus depending on operating results.

Additional fees, compensation and allowances to directors for their services in that capacity, and also for attending board meetings and board committees' meetings were not paid.

On 30 May 2007 the Group granted senior management options to acquire in total 790,000 of the Company's ordinary shares at an exercise price of $30.5 which represents average market share price for 3 month preceding grant date. Market share price at grant date equals $30.. The options are exercisable during 3 years after a 1 year vesting period for the members of the Board of directors and during 2 years after a 2 years vesting period for the senior management, subject to certain conditions, including remaining in employment in the Group up until the vesting date.

Total key management and directors' compensation included in general and administrative expenses in the statement of income amounted to RUB 47 for the six months ended 30 June 2007 (six months ended 30 June 2006: RUB 40) representing short-term employee benefits only.

In the six month ended 30 June 2007 the Group also recognized an expense in the amount of RUB 6 for equity-settled, share based compensation plan.

(in millions of Russian Roubles - RUB)

6 Property, plant and equipment

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

	Land and Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2005	5,794	7,535	1,211	615	15,155
Acquired through business combination	-	10	-	-	10
Additions	-	-	-	486	486
Disposals	(1)	(16)	(9)	(36)	(62)
Transfers	27	314	65	(406)	-
Balance at 30 June 2006	**5,820**	**7,843**	**1,267**	**659**	**15,589**
Balance at 31 December 2006	5,938	8,364	1,405	1,035	16,742
Additions	-	-	-	1,313	1,313
Disposals	(4)	(124)	(3)	(25)	(156)
Transfers	97	423	76	(596)	-
Balance at 30 June 2007	**6,031**	**8,663**	**1,478**	**1,727**	**17,899**
Accumulated Depreciation					
Balance at 31 December 2005	(926)	(1,637)	(365)	-	(2,928)
Depreciation expense for six months of year 2006	(98)	(226)	(90)	-	(414)
Disposals	-	4	4	-	8
Balance at 30 June 2006	**(1,024)**	**(1,859)**	**(451)**	**-**	**(3,334)**
Balance at 31 December 2006	(1,124)	(2,080)	(526)	-	(3,730)
Depreciation expense for six months of year 2007	(102)	(260)	(92)	-	(454)
Disposals	-	19	5	-	24
Balance at 30 June 2007	**(1,226)**	**(2,321)**	**(613)**	**-**	**(4,160)**
Net Book Value					
Balance at 30 June 2006	**4,796**	**5,984**	**816**	**659**	**12,255**
Balance at 31 December 2006	**4,814**	**6,284**	**879**	**1,035**	**13,012**
Balance at 30 June 2007	**4,805**	**6,342**	**865**	**1,727**	**13,739**

Bank borrowings are secured on properties as at 30 June 2007 to the value of RUB 2,455 (31 December 2006: RUB 1,202); see Note 15.

During six months ended 30 June 2007 the Group capitalized borrowing costs of RUB 49 (six months ended 30 June 2006: RUB 24) in the cost of the qualifying assets, annual capitalization rate was 8% (six months ended 30 June 2006: 8%).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 30 June 2007 cost of the land amounts to RUB 931 (31 December 2006: RUB 931).

(in millions of Russian Roubles - RUB)

7 Development costs

	30 June 2007	31 December 2006
Cost		
Balance at the beginning of the year	870	753
Additions	136	212
Write-off	(93)	(95)
Balance at the end of the period	**913**	**870**
Accumulated amortisation and impairment		
Balance at the beginning of the year	(67)	(14)
Amortisation charge	(46)	(53)
Balance at the end of the period	**(113)**	**(67)**
Net Book Value		
Balance at 30 June 2007, 31 December 2006	**800**	**803**

The write-off consists of costs that will not result in future economic benefits to the Group.

Development costs comprise:

	30 June 2007	31 December 2006
Development of diesel engine funded by government grant	216	224
Expenditures related to establishing production of diesel engine	138	146
Development of new off-road vehicle (UAZ Patriot)	184	135
Improvement of vehicles to satisfy Euro-2 requirements	27	60
Improvement of four-cylinder petrol engine	-	58
Development of SYMC production process	51	52
Improvement of some vehicle component parts	27	29
Development of new light commercial vehicle (UAZ-2360)	20	23
Commercial vehicle at UAZ	10	10
Improvement of diesel engine funded by internal financing	16	22
Development of Fiat production process	45	20
ISUZU light trucks	2	2
Improvement for Euro-3 engine	24	-
Other	40	22
Total	**800**	**803**

8 Acquisition of minority interest

Increase in holding stake of OAO "ZMZ"

The holding stake in OAO "ZMZ" was further increased by step acquisition from 75% up to 79% of total share capital in six month period ended 30 June 2007.

	Six month ended 30 June 2007
Step increase in % of ownership	3.80%
Purchase consideration	311
Share of net assets acquired from minority shareholders	(344)
Gain on acquisition of minority interest	**(33)**

The Company was able to increase the ownership in this subsidiary by acquiring shares from minority shareholders who, having lost significant influence, sold their shares at favourable prices to the Company.

(in millions of Russian Roubles - RUB)

9 Inventories

	30 June 2007	31 December 2006
Raw materials	3,591	4,083
Less: provision	(63)	(56)
	3,528	4,027
Work in progress	864	694
	864	694
Finished products	2,695	1,677
Less: provision	(1)	(2)
	2,694	1,675
Total	**7,086**	**6,396**

Inventories of RUB 763 (31 December 2006: RUB 776) have been pledged as security for borrowings, see Note 15.

10 Accounts receivable and prepayments

	30 June 2007	31 December 2006
Trade receivables	4,806	2,789
Less: provision for impairment	(56)	(48)
	4,750	2,741
Other receivables	432	808
Less: provision for impairment	(9)	(8)
	423	800
Advances to suppliers	903	831
Less: provision for impairment	(19)	(16)
	884	815
VAT recoverable, net	238	276
Prepayments	40	30
Total	**6,335**	**4,662**

Included within net VAT recoverable is RUB 27 of deferred VAT payable (31 December 2006: RUB 1).

Foreign currency denominated net trade receivables:

Currency	30 June 2007	31 December 2006
Euro	72	1,026
US$	90	22
Total	**162**	**1,048**

The carrying value of accounts receivable and prepayments as at 30 June 2007 and 30 June 2006 is approximately equal to their fair value.

Non-cash settlements

In the six months ended 30 June 2007 none of the Group's settlements of accounts receivable were settled by means of mutual settlements or by means of third-party bills of exchange. In the six months ended 30 June 2006 RUB 648 (approximately 5% of total sales) of the Group's settlements of accounts receivable were settled by means of mutual settlements and RUB 20 (approximately 1% of total sales) by means of third-party bills of exchange.

(in millions of Russian Roubles - RUB)

11 Cash and cash equivalents

	30 June 2007	31 December 2006
Cash on hand and balances with banks	969	919
Letters of credit	588	416
Cash deposits	268	69
Short-term bank promissory notes	60	45
Total	**1,885**	**1,449**

Short term cash deposits of RUB 155 held by the Group at 30 June 2007 bear interest of 2.15% per annum, of RUB 91 bear interest of 4.5%, and of RUB 22 bear interest of 5% (31 December 2006: RUB 69 bear interest of 4.5% per annum). Cash and cash equivalents of RUB 237 bear interest less of 3%, RUB 390 bear interest of 4-5% (31 December 2006: RUB 251 bear interest of 2%-3%, RUB 398 bear interest of 5% per annum), RUB 990 held by the Group are not interest bearing (31 December 2006: RUB 731). Letters of credit were established for suppliers of assmbly kits.

Foreign currency denominated cash balances consist of the following:

Currency	30 June 2007	31 December 2006
Euro	70	63
US$	42	45
Japanese yen	607	320
Total	**649**	**428**

The carrying value of cash and cash equivalents as at 30 June 2007 and 31 December 2006 is approximately equal their fair value.

12 Shareholders' equity

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

	Number of outstanding ordinary shares (thousands)	Share capital, RUB	Treasury shares	Share premium, RUB	Additional paid-in capital, RUB
At 31 December 2006	34,270	530	-	6,019	1,438
At 30 June 2007	34,270	530	(243)	6,019	1,438

The total authorised number of ordinary shares is 82,074 thousand (31 December 2006: 82,074 thousand). Nominal value of all shares is 12.5 roubles per share. Statutory share capital of the Company totalled RUB 428 (31 December 2006: RUB 428).

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For six months ended 30 June 2007, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUB 204 and the closing balance of the accumulated profit including the current reporting period net statutory profit totalled RUB 7,085. Management believes that the accumulated profit including the current year net statutory profit is distributable.

In June 2006, the General Shareholders' Meeting decided to pay dividends of RUB 480 for 2005, or 14 roubles per ordinary share. In June 2007, the General Shareholders' Meeting decided to pay dividends of RUB 675 for 2006, or 19.7 roubles per ordinary share.

12 Shareholders' equity (continued)

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

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

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

During six months ended 30 June 2007 the Group acquired ordinary shares of Severstal-auto on the market for RUB 243 at average price of 786 rubles per share (market price at the date of agreement was $30 per share). The Company reserved these treasury shares for a share option program for senior management and members of the Board of directors.

On 30 May 2007 the Group granted senior management options to acquire in total 790,000 of the Company's ordinary shares at an exercise price of US$30.5.

The options are exercisable during 3 years after a 1 year vesting period for the members of the Board of directors (150,000 shares) and during 2 years after a 2 years vesting period for the senior management (640,000 shares), subject to certain conditions, including remaining in employment in the Group up until the vesting date.

At 30 June the Group had 790,000 outstanding options with exercise price of US$30.5 per share.

The fair value of options granted during the six months ended 30 June 2007 was determined using the Black-Scholes valuation model. The significant inputs into the model were share price of US$ 30, at the grant date, exercise price shown above, standard deviation of expected share price returns of 32%, option life disclosed above, and an annual risk-free interest rate of 5.7%. Historical 2-year volatility of Russian stock exchange index adjusted for the Company's beta was used as a proxy for the expected volatility of the share price.

In the six month ended 30 June 2007 the Group also recognized an expense in the amount of RUB 6 for equity-settled share based compensation plan.

As at 30 June 2007 the total carrying amount of the share option in the balance sheet amounts to RUB 6.

13 Long-term borrowings

In January 2004 the Company issued rouble-denominated non-convertible bonds for RUB 1,500 payable in six years time with a coupon payable every six months of 11.25% per annum. Transaction costs incurred on the bond placement of RUB 16 were deducted from proceeds received. The funds received were lent to subsidiaries on similar terms.

In January 2007 the Group changed the bond interest rate from 11.25% to 8%. As a result the holders of a part of the bonds in the amount of RUB 762 requested early redemption of the bonds and RUB 375 were subsequently placed at the secondary market.

During the year ended 31 December 2004 the Group received a Euro denominated loan from Sberbank amounting to RUB 297 with an effective floating interest rate of Euro LIBOR + 4.35% for purchase of equipment for a painting workshop. As of 30 June 2007 the outstanding long-term part of this loan amounted to RUB 91. (31 December 2006: RUB 121). The loan is repayable in nine equal semi-annual instalments starting from July 2005.

(in millions of Russian Roubles - RUB)

13 Long-term borrowings (continued)

In 2006 the Group received a Euro denominated loan from Kommerzbank of RUB 123 and during the six months ended 30 June 2007 the Group additionally received RUB 26 of the loan with an effective floating interest rate of Euro EURIBOR + 0.85%. As of 30 June 2007 the outstanding long-term part of this loan amounted to RUB 104 (31 December 2006: RUB 98), which should be paid proportionally before 2011.

During the six months ended 30 June 2007 the Group received another Euro denominated loan from Kommerzbank of RUB 126 of the loan with an effective floating interest rate of Euro EURIBOR + 0.80%. As of 30 June 2007 the outstanding long-term part of this loan amounted to RUB 101 (31 December 2006: RUB 0), which should be paid proportionally until 2012.

As of 30 June 2007 the outstanding amount of AkBars loan amounted to RUB 40 (31 December 2006: RUB 43). The loan was received in 2005 with an effective interest rate of EURIBOR +2.375%.

Long-term debt is repayable as follows:

	30 June 2007	31 December 2006
1 to 2 years	129	97
2 to 3 years	1,206	97
3 to 4 years	68	1,521
4 to 5 years	40	21
Total	**1,443**	**1,736**

As at 30 June 2007 and 31 December 2006 the carrying value of these liabilities approximates their fair value.

14 Advances received and other payables

	30 June 2007	31 December 2006
Advances from customers	561	588
Salaries payable	225	207
Bonus accrual	104	185
Dividends payable	285	159
Vacation accrual	242	128
Other	567	60
Total	**1,984**	**1,327**

Non-cash settlements

In the six months ended 30 June 2007 none of the Group's settlements of accounts payable and accrued charges were settled by means of third-party bills of exchange or by means of mutual settlements with suppliers. In the six months ended 30 June 2006 RUB 6 of the Group's settlements of accounts payable and accrued charges were settled by means of third-party bills of exchange and RUB 648 (approximately 6% of total purchases) by means of mutual settlements.

15 Short-term borrowings

As at 30 June 2007 and 31 December 2006 short-term borrowings consist of bank loans amounting to RUB 5,794 and RUB 1,888 respectively. That amount included short-term part of long-term loans of RUB 61 (31 December 2006: RUB 96); and interest accrued on loans amounting to RUB 70 (31 December 2006: RUB 87).

As at 30 June 2007 short-term debt comprises a total of rouble and foreign currency denominated loans at effective interest rates of 1-8% of RUB 2,517, 8-8.2% of RUB 265 and ruble denominated bridge loan from Raiffeisen bank of RUB 3,012 with an effective floating interest rate of one month MOSPRIME of RUB +1.6%. The loan from Raiffeisen bank of RUB 3,000 was subsequently replaced by bond issue of RUB 3,000 in July 2007, see Note 22.

As at 31 December 2006 short-term debt comprises a total of rouble-denominated loans at effective interest rates of 1-7% of RUB 1,109, 7-11.25% of RUB 779.

As at 30 June 2007 and 31 December 2006 loans for RUB 3,218 and RUB 2,690 respectively, inclusive of long-term borrowing from Sberbank (Note 13), are guaranteed by collateral of inventories and equipment; see Notes 6 and 9.

(in millions of Russian Roubles - RUB)

16 Sales

	Six months ended 30 June 2007	Six months ended 30 June 2006
Vehicles	15,785	8,651
Engines	4,387	3,885
Automotive components	2,018	1,775
Assembly kits	-	28
Other sales	1,171	697
Total	**23,361**	**15,036**

17 Segment information

Primary reporting format – business segments

At 30 June 2007 the Group is organised as two main business segments:

(1) manufacture and sale of vehicles and
(2) manufacture and sale of engines.

Other Group operations are not sufficiently significant to be recorded as separate reportable segments.

The segment results for the six months ended and balances at 30 June 2007 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	17,199	6,871		
Inter-segmental sales	(26)	(683)		
Net sales	**17,173**	**6,188**	**-**	**23,361**
Segment results / operating income	1,241	1,135	-	2,376
Interest expense				(181)
Net foreign exchange gain				8
Gain on forgiveness of tax penalties				-
Segment results				**2,203**
Income tax expense				(576)
Income for the year				**1,627**
Segment assets	22,234	8,501	1,597	32,332
Segment liabilities	8,357	2,332	4,505	15,194
Capital expenditures	2,232	179		2,411
Depreciation	350	167	4	521
Non-cash gains/ (losses) other than depreciation	(242)	(144)	79	(307)

(in millions of Russian Roubles - RUB)

17 Segment information (continued)

The segment results for the six months ended 30 June 2006 and balances at 31 December 2006 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	9,864	5,598		15,462
Inter-segmental sales	(26)	(400)		(426)
Net sales	**9,838**	**5,198**		**15,036**
Segment results / operating income	691	888		1,579
Interest expense			(167)	(167)
Net foreign exchange loss			18	18
Gain on restructuring of assets and liabilities			10	10
Segment results				**1,440**
Income tax expense				(435)
Income for the year				**1,005**
Segment assets	18,026	8,387	1,901	28,314
Segment liabilities	7,547	2,147	1,855	11,549
Capital expenditures	524	170	-	694
Depreciation	282	143	-	425
Non-cash gains/(losses) other than depreciation	(23)	12	-	(11)

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

18 Contingencies, commitments and operating risks

18.1. Contractual commitments and guarantees

As at 30 June 2007 the Group had contractual commitments of RUB 3,214 for the purchase of property, plant and equipment from third parties (31 December 2006: RUB 950).

18.2. Taxation

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 30 June 2007 no other provision for potential tax liabilities had been recorded except for recorded at 31 December 2006.

18 Contingencies, commitments and operating risks (continued)

18.3. Dependency on a limited number of suppliers and customers

The Group is dependent on a relatively limited number of suppliers for several raw materials and components used in the manufacturing of its products. Consequently, there is a risk that the Group may not be able to negotiate favourable terms, ensure adequate quality of its raw material and components and the performance of its business segments could be affected.

The engine business segment sells 60% (six month ended 30 June 2006: 65%) of its production of engines to one customer – OAO "GAZ". Consequently, the segment performance, results of the operation and prospects of the engine business are highly dependent on the continued relationship with this customer. In 2005 the Group signed a 3 year contract with OAO "GAZ" for delivery of engine supplies.

18.4. Insurance policies

The Group holds insurance policies in relation to its operating assets and vehicles and all events subject to mandatory insurance. The Group does not have business interruption insurance. The Group is subject to political, legislative, tax and regulatory developments and risks, which are not covered by insurance.

18.5. Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

18.6. Legal proceedings

During the year ended 30 June 2007 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

18.7. Operating environment of the Group

Whilst there have been improvements in the economic trends in the country, the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

(in millions of Russian Roubles - RUB)

19 Principal subsidiaries

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

Entity	Country of incorpo-ration	Activity	30 June 2007 % of total share capital	30 June 2007 % of ordinary shares	31 December 2006 % of total share capital	31 December 2006 % of ordinary shares
OAO "Ulyanovsky Avtomobilny Zavod"	Russia	Manufacture and sale of passenger automobiles, light trucks and minibuses	66	68	66	68
OAO "Zavolzhskiy Motor Works"	Russia	Manufacture and sale of engines for passenger automobiles, trucks and buses	79	88	75	88
OAO "Small Car Plant"	Russia	Manufacture and sale of passenger automobiles	100	100	100	100
OOO "Severstalavto-Elabuga"	Russia	Manufacture and sale of commercial vehicles	100	-	100	-
OOO "Severstalavto"	Russia	Auto trading	100	-	100	-
OOO "UAZ-Metallurgia"	Russia	Manufacture and sale of metal products	66	-	66	-
OOO "UAZ-Autotrans"	Russia	Transport services	66	-	66	-
OOO "UAZ-Tekhinstrument"	Russia	Manufacture and sale of tooling equipment	66	-	66	-
OOO "ZMZ-Podshipniky Skolzheniya"*	Russia	Manufacture and sale of bearings	100	-	100	-
OOO "RosALit"	Russia	Manufacture and sale of metals products	79	-	75	-
OOO "Zavod "Metalloform"	Russia	Manufacture and sale of metals products	79	-	75	-
OOO "Specinstrument"	Russia	Manufacture and sale of tooling equipment	79	-	75	-
OOO "ZMZ-Transservice"	Russia	Transport services	79	-	75	-
OOO "Remservis"	Russia	Repair services	79	-	75	-
ZAO "Kapital"	Russia	Rent services	100	-	72	-
OOO "Torgovy Dom Severstal-auto"	Russia	Vehicles distribution	100	-	-	-
OOO "Severstalauto-invest"	Russia	Vehicles distribution	100	-	-	-
OOO "Turin-Auto"	Russia	Vehicles distribution	100	-	-	-

OOO "ZMZ - Transservice", OOO "RosALit", OOO "Zavod "Metalloform", OOO "Specinstrument" are 100% owned by the Company's subsidiary OAO "ZMZ". OOO "UAZ – Autotrans", OOO "UAZ-Tekhinstrument" and OOO "UAZ-Metallurgia" are 100% owned by the Company's subsidiary OAO "UAZ". Share in OOO "ZMZ – Podshipniky Skolzheniya", OOO "ZMZ - Transservice", OOO "UAZ-Metallurgia", OOO "UAZ-Autotrans", OOO "UAZ-Tekhinstrument", OOO "RosALit", OOO "Zavod "Metalloform", OOO "Specinstrument", OOO "Severstalauto-Elabuga", OOO "Severstalauto", OOO "Torgovy Dom Severstal-auto", OOO "Severstalauto-invest", OOO "Turin-Auto" represent stockholders' stakes, not number of shares held.

* OOO "ZMZ-Podshipniky Skolzheniya"* was sold in September 2007. See Note 22 .

20 Financial risks

20.1. Credit risk

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

20.2. Foreign exchange risk

The Group's manufacturing operation is in the Russian Federation with limited imports of raw materials and components. Revenue from export of the Group's automotive production is 9% (for six months ended 30 June 2006: 10%) of total revenue, most of these sales are denominated in hard currency. Net foreign currency receivables amount to RUB 162 (31 December 2006: RUB 1,048). Hence, the Group is exposed to the related foreign exchange risk primarily with respect to U.S. Dollar. However, management believes that foreign exchange risk is not significant.

20.3. Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing borrowings. The Group has short term cash deposits bearing the interest rate of 2.15-5% (see Note 11). The Group has mostly fixed rate interest bearing borrowings; however the Group has a long term loan with floating interest rate of Euro LIBOR and Euro EURIBOR (see Note 13).

20.4. Fair values

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

At 30 June 2007 and 31 December 2006 the carrying value of financial assets and cash deposits approximates their fair value.

21 Seasonality

The manufacture and sale of vehicles, including automotive components, assembly kits, and engines is subject to insignificant seasonal fluctuations with peak demand in spring being approximately equal that of autumn.

22 Post balance sheet events

Isuzu Motors Limited and Severstal-auto announced the joint venture establishment. The new joint venture will be located within the production facilities of Severstal-auto in the Volga region. Production capacity of the new joint venture will reach 25,000 units per year.

On 25 July 2007 Severstal-auto issued rouble-denominated non-convertible bonds of RUB 3,000 payable in six years time with a coupon payable every six months of 7.7% per annum.

In September 2007 the Company sold its stake in OOO "ZMZ – Podshipniky Skolzheniya" for consideration of RUB 400. Management is currently assessing the financial effect of the subsidiary's disposal.

On 11 September 2007 a Letter of intent on seting up of a joint venture with FIAT Auto was signed.