

KAMAZ Group

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2007

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO KAMAZ:

We have audited the accompanying consolidated financial statements of OAO KAMAZ and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

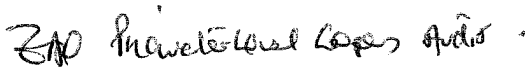
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

Opinion

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




Moscow, Russian Federation
26 August 2008

KAMAZ Group
Consolidated Balance Sheet as at 31 December 2007

<i>In millions of Russian Roubles (RR)</i>	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	7	28,336	27,917
Intangible assets	10	504	326
Investment in associates and joint ventures	8	727	218
Available-for-sale investments	9	2,211	1,193
Finance lease receivables	11	2,224	1,279
Deferred income tax assets	31	3,530	5,145
Other non-current assets	12	700	36
Total non-current assets		38,232	36,114
Current assets			
Inventories	13	13,292	10,688
Trade and other receivables	14	9,915	9,863
Current income tax prepayments		303	118
Finance lease receivables	11	1,938	1,757
Financial instruments at fair value through profit or loss	9	344	496
Cash and cash equivalents	15	4,309	2,478
Total current assets		30,101	25,400
TOTAL ASSETS		68,333	61,514
EQUITY			
Share capital	17	35,361	39,287
Revaluation reserve for available-for-sale financial assets	9	1,330	493
(Accumulated deficit)		(3,992)	(8,796)
Equity attributable to the Company's shareholders		32,699	30,984
Minority interest		1,783	1,520
TOTAL EQUITY		34,482	32,504
LIABILITIES			
Non-current liabilities			
Borrowings	18	4,438	4,452
Deferred income tax liabilities	31	2,552	2,248
Restructured taxes	20	1,886	1,450
Provisions for liabilities and charges	21	166	34
Other non-current liabilities		61	16
Total non-current liabilities		9,103	8,200
Current liabilities			
Borrowings	18	8,312	7,368
Trade and other payables	22	13,040	9,198
Current income tax payable		1,234	839
Other taxes payable	19	541	2,006
Restructured taxes	20	101	214
Provisions for liabilities and charges	21	1,478	1,143
Deferred income		42	42
Total current liabilities		24,748	20,810
TOTAL LIABILITIES		33,851	29,010
TOTAL EQUITY AND LIABILITIES		68,333	61,514

Approved and signed on 26 August 2008.


 S.A. Kogogin
 General Director


 G. Sh. Imanova
 Deputy General Director

The accompanying notes on pages 7 to 45 are an integral part of these consolidated financial statements.

KAMAZ Group
Consolidated Income Statement for the year ended 31 December 2007

<i>In millions of Russian Roubles (RR)</i>	Note	2007	2006
Revenue	23	97,229	71,012
Cost of sales	24	(75,601)	(57,072)
Gross profit		21,628	13,940
Distribution costs	25	(4,180)	(2,967)
General and administrative expenses	26	(5,881)	(4,811)
Research and development costs		(118)	(130)
Share of profits (losses) in associates and joint ventures	8	43	(5)
Other operating income	28	478	84
Other operating expenses	28	(1,031)	(679)
Operating profit		10,939	5,432
Finance income	29	234	527
Finance cost	29	(903)	(1,547)
Gain on forgiveness and restructuring of taxes and borrowings	18,20	695	1,216
Profit before tax		10,965	5,628
Income tax expense	31	(3,097)	(1,488)
Profit for the year		7,868	4,140
Profit is attributable to:			
Equity holders of the Company		7,427	3,851
Minority interest		441	289
Earnings per share for profit attributable to the equity holders of the Company (expressed in Roubles per share)			
- basic	30	9.53	4.90
- diluted	30	9.53	4.90

KAMAZ Group
Consolidated Cash Flows Statement for the year ended 31 December 2007

<i>In millions of Russian Roubles (RR)</i>	Note	2007	2006
Cash flows from operating activities			
Profit before income tax		10,965	5,628
Adjustments for:			
Depreciation of property, plant and equipment	7,27	2,067	2,159
Amortization of intangible assets	10,27	64	48
Gain on disposals of property, plant and equipment	28	(196)	(20)
Share of losses (profits) of associates and joint ventures	8	(43)	5
Losses on disposals of associates	8	-	28
Gain on forgiveness and restructuring of tax debts	20	(695)	(1,173)
Gain on forgiveness and restructuring of borrowings	18	-	(43)
Interest income	29	(203)	(103)
Interest expense	29	903	1,547
Gains from sale and other disposals of subsidiaries	16,28	(92)	-
Gains from sale of available-for-sale investments	28	(41)	(19)
Provisions for tax liabilities and charges	26	264	64
Net realizable value inventory provision	24	39	75
Impairment provision for receivables	25	54	22
Warranty provision	21	482	269
Foreign exchange gain	29	(31)	(424)
Other		-	67
Operating cash flows before working capital changes		13,537	8,130
Increase in trade and other receivables		(2,559)	(2,337)
Increase in inventories		(3,001)	(1,044)
Increase in accounts payable		4,203	3,219
Decrease in taxes payable		(607)	(147)
Increase (decrease) in other non-current liabilities		42	(41)
Cash generated from operations		11,615	7,780
Income taxes paid		(1,299)	(1,024)
Net cash from operating activities		10,316	6,756
Cash flows from investing activities			
Purchases of property, plant and equipment	7	(3,080)	(1,882)
Proceeds from sale of property, plant and equipment	7	150	173
Share capital contribution to JVs and associates	8	(472)	(66)
Proceeds from sale of subsidiaries, net of cash disposed	16	179	-
Proceeds from sale of available-for-sale investments	9	325	168
Purchases of available-for-sale investments	9	(287)	-
Disposals (purchases) of financial instruments through profit and loss	9	152	(63)
Development cost incurred and purchases of intangible assets	10	(242)	(154)
Loans issued to related parties	6	992	(1,054)
Interest received	29	203	103
Net cash used in investing activities		(2,080)	(2,775)

KAMAZ Group
Consolidated Cash Flows Statement for the year ended 31 December 2007

<i>In millions of Russian Roubles (RR)</i>	Note	2007	2006
Cash flows from financing activities			
Proceeds from borrowings		14,784	21,734
Repayment of borrowings		(13,858)	(22,933)
Proceeds from sale of treasury shares		-	7
Interest paid		(657)	(1,207)
Repayment of restructured taxes	20	(76)	(177)
Dividends paid to minority shareholders		(57)	(29)
Share buy-back	17	(6,541)	-
Net cash used in financing activities		(6,405)	(2,605)
Net increase in cash and cash equivalents		1,831	1,376
Cash and cash equivalents at the beginning of the year		2,478	1,102
Cash and cash equivalents at the end of the year	15	4,309	2,478

KAMAZ Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2007

In millions of Russian
Roubles (RR)

	Attributable to equity holders of the Company							Minority interest	Total equity
	Note	Share capital	Share Pre-mium	Trea-sury shares	Accum-ulated deficit	Revaluation reserve for available-for-sale financial assets	Total		
Balance at 31 December 2005		152,400	(94,475)	(141)	(31,151)	92	26,725	1,260	27,985
Profit for 2006		-	-	-	3,851	-	3,851	289	4,140
Fair value gains net of tax on available-for-sale financial assets		-	-	-	-	401	401	-	401
Total recognised income for 2006		-	-	-	3,851	401	4,252	289	4,541
Disposals of treasury shares	17	-	-	141	(134)	-	7	-	7
Transfer of inflation loss	17	(113,113)	94,475	-	18,638	-	-	-	-
Dividends declared to minority shareholders		-	-	-	-	-	-	(29)	(29)
Balance at 31 December 2006		39,287	-	-	(8,796)	493	30,984	1,520	32,504
Profit for 2007		-	-	-	7,427	-	7,427	441	7,868
Fair value gains net of tax on available-for-sale financial assets		-	-	-	-	837	837	-	837
Currency translation differences		-	-	-	(8)	-	(8)	-	(8)
Total recognized income for 2007		-	-	-	7,419	837	8,256	441	8,697
Share buy-back	17	(3,926)	-	-	(2,615)	-	(6,541)	-	(6,541)
Dividends declared to minority shareholders		-	-	-	-	-	-	(178)	(178)
Balance at 31 December 2007		35,361	-	-	(3,992)	1,330	32,699	1,783	34,482

1 KAMAZ Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2007 for OAO KAMAZ (the "Company") and its subsidiaries (together referred to as the "Group" or "KAMAZ Group").

The Company was incorporated and operates in the Russian Federation. The Company is an open joint stock company and was set up in accordance with Russian regulations.

There was no ultimate controlling party of the Company at 31 December 2007. During 2005, 2006 and 2007 the Company was in the process of reorganizing its shareholders' structure. At 31 December 2007 the majority of shares in KAMAZ was owned by a group of investors subject to certain restrictions on rights to vote and sell the shares imposed by Management of the Company, acting as an individual. Among these investors were the Republic of Tatarstan and an institutional investor referred to in the notes to these financial statements as a significant shareholder. The Russian Federation represented by the Federal Agent managing federal property (Rosimushestvo) is also one of the largest shareholders with a stake of 37.78% in share capital. Other shares are distributed between financial investors and employees.

Operating activity. The Group's core operations are production and sale of trucks in the Russian Federation and abroad. The Group's manufacturing facilities are primarily based in Naberezhnye Chelny. The Group has a distribution and service network which covers the Russian Federation, the Commonwealth of Independent States and a number of other countries.

The Company's registered address is 2 Avtozavodskoy pr., Naberezhnye Chelny, Republic of Tatarstan, Russia, 423827.

2 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Amendments of the consolidated financial statements after issue. The Company's shareholders and management have the power to amend the consolidated financial statements after issue.

Presentation currency. All amounts in these financial statements are presented in millions of Russian Roubles ("RR million") unless otherwise stated.

Accounting for the effects of hyperinflation. The Russian Federation previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The characteristics of the economic environment of the Russian Federation indicate that hyperinflation ceased with effect from 1 January 2003. The Group therefore restated equity components, except retained earnings recognised prior to 1 January 2003 to the measuring unit current at 31 December 2002 and treated such amounts as the basis for the carrying amounts in these financial statements.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

2 Summary of Significant Accounting Policies (Continued)

Consolidated financial statements (Continued)

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in the income statement.

Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Inter-company transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the carrying value of assets transferred cannot be recovered. The Company and all its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Acquisition of minority interest. The difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as loss or gain directly in equity. Gains and losses on the disposal of interests in subsidiaries where the parent retains control are also reported within shareholders' equity.

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any.

The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in joint ventures. The Group's interests in jointly controlled entities are accounted for by the equity method. Jointly controlled entities are corporations, partnerships or other entities in which each venturer has an interest and for which there is a contractual arrangement between the venturers that establishes joint control over the economic activity of the entity. Investments in jointly controlled entities are initially recognised at cost. The carrying amount of jointly controlled entities includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of jointly controlled entities is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, plant and equipment. The Group decided to apply the exemption available to first time IFRS adopters and recorded property, plant and equipment in the opening IFRS balance sheet at deemed cost (fair value) calculated by professional appraisers. The difference between the fair value of property, plant and equipment and their carrying value under Russian Accounting Rules ("RAR") at 1 January 2005 is recorded in retained earnings at that date.

Property, plant and equipment are reported at cost (or at deemed cost for assets acquired prior to the date of transition to IFRS) net of accumulated depreciation and impairment provision, if any. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the carrying amount of the replaced part is derecognised.

2 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

At each reporting date Management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the Management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. For the purpose of determining the impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows i.e. cash generating units. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. The management assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their cost (or deemed cost for assets acquired prior to the date of transition to IFRS) to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings	40 - 60
Plant and equipment	10 - 20
Vehicles	5 - 10
Other fixed assets	3 - 10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life and the asset has no scrap value. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance lease payables. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of return on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful lives or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as finance lease receivables and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised as revenue from operations over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term unless the Group acts as a manufacturer or dealer lessor, in which case such costs are expensed as part of the selling expense similarly to outright sales.

Impairment of finance lease receivables is recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

2 Summary of Significant Accounting Policies (Continued)

Intangible assets. The Group's intangible assets have definite useful lives and primarily include capitalised development costs and computer software.

Research and development costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when costs can be measured reliably and it is probable that the project will be successful considering Management ability and intention to complete or sell project, and project's commercial and technological feasibility. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit (3-10 years on average).

Intangible assets are amortised using the straight-line method over their useful lives:

	<u>Useful lives in years</u>
Patents	5-10 years
Software licenses	5 years
Capitalised internal development costs	3-10 years
Other licenses	3-7 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell, based on cash generating unit level.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: financial instruments carried at fair value through profit or loss, loans and receivables, held-to-maturity assets and available-for-sale investments

Financial instruments carried at fair value through profit or loss are securities or other financial assets, which are either acquired for generating profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists (trading instruments). The Group classifies financial assets into this category if it has an intention to sell them within a short period after acquisition that is within 3 months. The Group does not voluntarily designate other financial instruments as at fair value through profit or loss.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held-to-maturity classification includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. The Group did not hold any held-to-maturity investments during the reported periods.

Available-for-sale investments comprise all other financial assets not included in the previous categories.

Initial recognition of financial instruments. Financial instruments carried at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for financial instruments recorded at fair value; and recognised in equity for assets classified as available-for-sale.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2 Summary of Significant Accounting Policies (Continued)

Financial instruments carried at fair value through profit or loss (trading investments). Trading investments are carried at fair value. Interest earned on debt trading investments calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income when the Group's right to receive the dividend payment is established and collection of the dividend is probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading investments in the period in which they arise.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in the income statement when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through current period's income statement.

Income tax. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge/ (benefit) comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating costs.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are measured at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and distribution costs.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised within distribution costs in the income statement.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

2 Summary of Significant Accounting Policies (Continued)

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the balance sheet as a share premium.

Where the Company or its subsidiary purchases its own shares in the market, the shares are presented as a deduction from equity, at the amount paid including transaction costs using par value method: the par value of the treasury shares is presented as a deduction from share capital with adjustment of premiums or discounts against share premium. On subsequent sale of treasury shares, excess of the sale price over the par value of the treasury shares reissued is credited to share premium (excess of par value over sell price recorded in retained earnings).

No gain or loss is recognised in profit or loss on transactions in an entity's own shares. All consideration paid or received is recognised in equity.

Share premium. Difference between fair value of consideration received for issued shares of the Company and nominal amount of issued shares is recognised in equity as share premium. Share premium and share capital accounts are presented in balance sheet as one account Share capital and share premium.

Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or after the balance sheet date but before the financial statements are authorized for issue.

Value added taxes. Value added tax related to sales is payable to tax authorities upon delivery of goods or collection of advances from customers. Input VAT is generally reclaimable against sales VAT upon delivery of goods and services. The tax authorities permit the settlement of VAT on a net basis. VAT related to purchases which have not been settled at the balance sheet date (VAT recoverable) is recognised in the balance sheet on a gross basis and disclosed separately as an asset. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT paid to suppliers of property, plant and equipment is included in the cash flows for purchases of property, plant and equipment reported in the cash flows statement.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Tax assets are written down or liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues using a single best estimate of the most likely outcome. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the acquisition or construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognized in profit or loss as an expense on a time proportion basis using the effective interest method.

Financial liability (or a part of a financial liability) is derecognised from balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Low interest/interest-free loans received from the government and from any other counterparty are treated under IAS 39 and recognized at inception at the present value of the future repayments, discounted using the market rate of interest for similar loans.

2 Summary of Significant Accounting Policies (Continued)

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provision is estimated by weighting all possible outcomes by their associated probabilities. Provision for taxes other than on income, fines and penalties are recognised in accordance with policy discussed in Note 2 "Uncertain tax position".

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises the estimated liability to repair or replace products sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the entity's functional currency at the official exchange rate of the Central Bank of Russian Federation (CBRF) at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity investments are reported as part of the fair value gain or loss.

Revenue recognition. Revenues from sales of trucks, spare parts and other products are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport products to a specified location, revenue is recognised when the products are passed to the customer at the destination point.

Sales are shown net of VAT and discounts, and after eliminating sales within the Group. Sales of services are recognised in the accounting period in which the services are rendered. Sales of trucks under the finance lease agreements are recorded at fair value at the shipment date. Interest income on the resulting finance lease receivables is recognised on a time-proportion basis using the effective interest method.

Revenues are measured at the fair value of the consideration received or receivable.

Classification of complex lease transactions. KAMAZ Group entities lease out their own products under finance lease agreements. These transactions are reported as revenue from vehicle sales recorded at fair value in the reporting period in which the products were dispatched. Interest income earned on finance leases of the Group's own products is recorded as revenue from finance services using the effective interest method at interest rates implicit in the finance lease agreements.

Non-cash settlements. A portion of sales and purchases are settled by bills of exchange, which are negotiable debt instruments.

Sales and purchases that are expected to be settled by bills of exchange, mutual settlements or other non-cash settlements are recognised based on the Management's estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the cash flows statement, so investing activities, financing activities and the total of operating activities represent actual cash flows.

Bills of exchange are issued by the Group entities as payment instruments, which carry a fixed date of repayment. Bills of exchange issued by the Group are carried at amortised cost using the effective interest method.

2 Summary of Significant Accounting Policies (Continued)

Non-cash settlements (Continued)

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. Bills of exchange issued by customers or issued by third parties are carried at amortised cost using the effective interest method. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the reporting period in which the associated services are rendered by the employees of the Group.

Pension costs. In the normal course of business Group companies contribute to the Russian Federation state pension scheme on behalf of their employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

KAMAZ and its largest subsidiaries operate voluntary pension schemes, which include both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors, such as age, years of service and average compensation by employee's grade. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by management using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of plan liabilities corridor are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plan, the Group pays fixed contributions into separate entity and has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Earnings per share. Basic earnings per share are determined by dividing the profit attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the reporting period. For the purpose of calculating diluted earnings per share, profit or loss attributable to the shareholders of the Company, and the weighted average number of ordinary shares outstanding are adjusted for the effects of an assumed conversion of all dilutive potential ordinary shares into ordinary shares.

Fair value. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Segment reporting. KAMAZ Group reports one business segment since the production and sale of vehicles, spare parts and related services are not subject to significantly different risks and returns as determined by current industry accounting practice. The Group has two secondary reportable geographical segments: exports and domestic markets. Information in respect of geographical segments is disclosed in note 23. Substantially all of the Groups' assets are located in and capital expenditure is made in the Russian Federation.

3 Critical Accounting Estimates and Judgments in Applying Accounting Policies

Segment reporting (Continued)

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Notes 21, 31 and 32. KAMAZ Group entities calculated tax provision on the basis of the following assumptions: tax claims resulting from the completion of the tax audits were recorded and other tax risks were also estimated with the involvement of tax specialists and lawyers. Tax provisions were accrued when probability of cash outflows exceeded 50%. If the probability of cash outflows is less than 50% the related possible tax claims are disclosed. Were Management assessment of these risks not correct and possible risks would be reconsidered as probable the amount of provision would be by RR 3,106 million higher. If Management overestimated the probability of risks than no provision would be recognised in consolidated balance sheet and total liabilities would be RR 2,316 million lower.

Deferred tax. During the period 2005 - 2007 the company submitted a number of tax declarations updated to include losses of prior periods. However whether or not the tax authorities would accept these claims was uncertain at the time of submission. In the event the company succeeded during 2007 in claiming a total of RR 11,065 million tax losses carried forward, the tax benefit of which totalled RR 2,655 million. Based on their best judgement of the eventual outcome of these claims management recognised the benefit of these tax losses as follows: RR 534 million in 2005, RR 515 million in 2006 and RR 1,606 million in 2007.

Interest rates affecting fair values of liabilities. Interest rates used for calculation of the carrying values of the restructured tax liabilities and borrowings were determined for KAMAZ Group entities at the date of the agreements on restructuring based on the cost of long-term rouble borrowings taking into account the restructuring period (Notes 18 and 20).

Interest rate used for fair valuation of the borrowing denominated in Japanese Yen obtained from the Ministry of Finance which was restructured in December 2005 was estimated to be 6.62% per annum. The interest rate used for fair valuation of the provision for restructured taxes and penalties in 2007 was assumed to be equal to 9.5% per annum (2006: 10.3%).

Were applied interest rates higher or lower by 10% from Management estimates, the gain from restructured taxes for 2007 would be estimated RR 30 million higher or lower, respectively.

Useful lives of property, plant and equipment. The Group's Management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 7). This estimate is based on projected product lifecycles and past experience of usage of the similar equipment. Management will increase the depreciation charge where useful lives are less than previously estimated lives and consider whether the change in the useful life is an impairment indicator.

Were the actual useful lives of the property, plant and equipment lower or higher by 10% from Management's estimates, the carrying amount of the plant and equipment at 31 December 2007 would be estimated RR 639 million higher or RR 688 million lower, respectively.

Inventory obsolescence. Group entities review inventory turnover variances from the established standards by category and investigate significant variances (Note 13). If Group entities identify inventory with a cost above its net realizable value the inventory is adjusted for impairment. Inventory with a storage period over six months is subject to individual review for the purposes of determining its net realizable value. If the Group were to provide 100% of inventory with storage over six months the carrying amount of inventory at 31 December 2007 would be by RR 228 million lower. If the Group were only to provide against inventory with a storage period of more than twelve months then the carrying amount of inventory at 31 December 2007 would be by RR 228 million higher.

4 Adoption of New or 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 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 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced 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 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

Other new standards or interpretations. The Group has adopted the following interpretations which became effective from 1 January 2007:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

5 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 Group 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.

Puttable financial instruments and obligations arising on liquidation – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take 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 applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The revised IAS 23 would not have impact on Group's accounts as Group already capitalizes borrowing costs (Note 7).

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 1 replaces the financial statement titles 'balance sheet' and 'cash flows statement' with 'statement of financial position' and 'statement of cash flows'. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets or the revaluation of premises. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

5 New Accounting Pronouncements (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these consolidated financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards.

5 New Accounting Pronouncements (Continued)

The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements except:

- **IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.** The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009.
- **IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009).** The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5.
- **IAS 19, Employee Benefits.** The key change to IAS 19 is a clarification that a reduction in the extent to which future salary increases are linked to the benefits payable for past service is a curtailment. This amendment applies prospectively to changes in benefits that occur on or after 1 January 2009.
- **IAS 28, Investments in Associates (and consequential amendments to IFRS 7 and IAS 32).** The amendment clarifies that an associate is treated as a single asset for the purposes of impairment testing and allows subsequent reversals of goodwill included in the carrying value of the associate. The amendment also reduces the disclosure requirements relating to associates accounted for at fair value through profit or loss.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

Other new standards and interpretations. The Group does not plan to early adopt the following new standards and 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 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

6 Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions, the party is entity's joint venture or key management personnel. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

6 Balances and Transactions with Related Parties (Continued)

Unless otherwise noted, the transactions with related parties, including loans received from the state owned banks, sales of products to government agencies and government owned companies are made on arm's length basis. The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 and at 31 December 2006 is detailed below.

The Russian Federation represented by the Federal Agent managing federal property is one of the largest shareholders and holds 37.78% of shares in the Company as at 31 December 2007. The Russian Federation does not prepare consolidated financial statements for public purposes.

Following the General Shareholders' Meeting held in June 2007, members of the Board of Directors were as follows: four members were representatives of the Russian Federation, one member was the general director of the Company, one member was the leader of KAMAZ's trade union, one member was the mayor of Naberezhnye Chelny, two members were independent directors, and two members were representatives of other shareholders.

Governmental economic and social policy significantly influences the financial position, results of operation and cash flows of the Group. Tax accruals and payments are made based on the requirements of Russian tax legislation. Tax restructuring is described in Note 20. Restructuring of loan to Minfin is described in Note 18.

As of and for the year ended 31 December 2007 and 31 December 2006, respectively, the Group had the following balances, income and expense items attributable to related party transactions:

<i>In millions of Russian Roubles (RR)</i>	As of 31 December 2007		For the year ended 31 December 2007	
	Total assets	Total liabilities	Income	Expenses
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	303	1,234	-	845
Unified social tax	-	200	-	3,229
VAT recoverable/payable	2,133	171	-	-
Other taxes	1,239	170	-	727
Restructured taxes	-	1,987	695	161
Deferred income	-	42	-	-
Long-term loans and borrowings	-	3,281	-	-
Short-term loans and borrowings	-	3,877	-	-
Interest expense	-	-	-	307
Trade and other receivables	969	-	-	-
Trade and other payables	-	213	-	-
Sales of goods	-	-	5,951	-
Purchases of goods	-	-	-	4,208
Balances and transactions with shareholders with significant influence				
Interest income	-	-	76	-
Services rendered	-	-	-	12
Balances and transactions with a subsidiary which is under significant influence of a member of key management personnel of the Group, acting as an individual				
Sales of goods to subsidiary	-	-	961	-
Net profit earned by subsidiary	-	-	165	-
Balances and transactions with minority shareholders of subsidiaries				
Dividends accrued	-	-	-	125
Interest expenses	-	-	-	27
Balances and transactions with JV				
Trade and other payables	-	17	-	-
Sales of goods	-	-	5	-
Purchases of goods	-	-	-	179
Balances and transactions with associates				
Trade and other receivables	146	-	-	-
Trade and other payables	-	191	-	-
Sales of goods	-	-	1,348	-
Purchases of goods	-	-	-	2,349

6 Balances and Transactions with Related Parties (Continued)

	As of 31 December 2006		For the year ended 31 December 2006	
	Total assets	Total liabilities	Income	Expenses
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	118	839	-	920
Unified social tax	-	263	-	2,096
VAT recoverable/payable	2,253	583	-	-
Other taxes	733	1,160	-	752
Restructured taxes	-	1,664	1,173	158
Deferred income	-	42	-	-
Long-term loans and borrowings	-	2,269	-	-
Short-term loans and borrowings	-	1,903	-	-
Interest expense	-	-	-	395
Trade and other receivables	357	-	-	-
Trade and other payables	-	203	-	-
Sales of goods	-	-	3,159	-
Purchases of goods	-	-	-	552
Balances and transactions with shareholders with significant influence				
Loans issued (USD denominated at effective interest rate LIBOR plus 3.75% matured 23 October 2007). Fair value approximates carrying amount.	1,054	-	-	-
Interest income	-	-	17	-
Services rendered	-	-	-	26
Balances and transactions with minority shareholders of subsidiaries				
Long-term loans and borrowings	-	57	-	-
Short-term loans and borrowings	-	65	-	-
Interest expense	-	-	-	35
Balances and transactions with JV				
Trade and other payables	-	109	-	-
Sales of goods	-	-	2	-
Purchases of goods	-	-	-	42
Balances and transactions with associates				
Trade and other receivables	156	-	-	-
Trade and other payables	-	101	-	-
Sales of goods	-	-	1,915	-
Purchases of goods	-	-	-	904

In 2007, the amount of remuneration of the Board of Directors and Management Board members comprised salaries, discretionary bonuses and other short-term benefits of RR 211 million (2006: RR 155 million). At the meeting on the 3 September 2004 the Board of Directors approved share options vesting upon issuance to the Management Board with no time limit for exercising: 640 thousand shares held as treasury shares by the Group were granted for sale to the members of Management Board at USD 0.34 per share. These 640 thousand share options were exercised for the whole amount in February 2006 for RR 7 million.

On 23 August 2005 the Board of Directors approved a long-term remuneration scheme for the members of the Management Board of KAMAZ, to be paid in addition to recurring annual compensation. The total amount of remuneration to be paid after 23 August 2009 is dependent upon the increase in the market capitalisation of the company and is limited to a maximum of RR 150 million. The amount of remuneration accrued during 2007 was RR 36 million (2006: RR 28 million). The total balance accrued at 31 December 2007 was RR 72 million (2006 RR 36 million).

One of the significant shareholders acted as a trustee for managing financial instruments at fair value through profit or loss in the amount of RR 331 million as at 31 December 2006 and until the first quarter of 2007. These financial instruments mainly included domestic corporate and government bonds disclosed in Note 9 (b). Transactions in respect of investment in KAMAZ-Capital are disclosed in Note 9.

Long-term and short-term loans are issued by Sberbank, Vneshtorgbank and Ministry of Finance of Russian Federation. Terms and conditions are disclosed in Notes 18 and 33.

At 31 December 2007 KAMAZ had guarantees issued to its subsidiary which is under significant influence of a member of key management personnel of the group, acting as an individual, amounting to RR 2,647 million.

7 Property, Plant and Equipment

Property, plant and equipment book value movements are summarised below:

<i>In millions of Russian Roubles (RR)</i>	Land	Buildings	Plant and equipment	Other	Assets under construction	Total
Cost						
Balance at 31 December 2005	1,856	17,210	8,831	1,238	1,206	30,341
Additions	-	-	-	-	2,154	2,154
Disposals	(118)	(32)	(89)	(86)	-	(325)
Transfers	-	120	384	310	(814)	-
Balance at 31 December 2006	1,738	17,298	9,126	1,462	2,546	32,170
Additions	-	-	-	-	2,982	2,982
Disposals	(96)	(170)	(259)	(116)	(17)	(658)
Transfers	-	945	1,802	404	(3,151)	-
Balance at 31 December 2007	1,642	18,073	10,669	1,750	2,360	34,494
Accumulated Depreciation						
Balance at 31 December 2005	-	(758)	(1,128)	(313)	-	(2,199)
Depreciation expense for the year 2006	-	(761)	(1,097)	(301)	-	(2,159)
Disposals	-	18	62	25	-	105
Balance at 31 December 2006	-	(1,501)	(2,163)	(589)	-	(4,253)
Depreciation expense for the year 2007	-	(769)	(1,042)	(256)	-	(2,067)
Disposals	-	66	76	20	-	162
Balance at 31 December 2007	-	(2,204)	(3,129)	(825)	-	(6,158)
Net Book Value						
Balance at 31 December 2006	1,738	15,797	6,963	873	2,546	27,917
Balance at 31 December 2007	1,642	15,869	7,540	925	2,360	28,336

Plant and equipment includes assets under finance leases, whose net book value totalled RR 195 million (2006: RR 312 million).

Interest capitalized during 2007 within the cost of acquired property, plant and equipment totalled RR 191 million (2006: RR 144 million). Interest rate used to determine the amount of borrowing costs eligible for capitalization is 8.3% in 2007 (2006: 8.7%).

8 Investment in Associates and Joint Ventures

The table below summarises the movements in the carrying amount of the Group's investments in associates and joint ventures.

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Carrying amount at 1 January	218	171
Fair value of net assets of associates and joint ventures acquired	472	66
Share of results of associates and joint ventures, after tax	43	(5)
Reclassification from subsidiary to associate / (from associate to subsidiary)	(6)	14
Sale of associates	-	(28)
Carrying amount at 31 December	727	218

8 Investment in Associates and Joint Ventures (Continued)

a) Investment in Associates

The Group has shares in more than 20 associates, none of which is significant individually. A summary of the Group's share in associates and summarised financial information including assets, liabilities, revenues, profit or loss at 31 December 2007 and 31 December 2006 is set out below:

<i>In millions of Russian Roubles (RR)</i>	Interest	Share of net asset	Share of net profit/ (loss)	Current assets	Current liabilities	Non- Current assets	Non- Current liabilities	Revenue	Profit/ (loss)
For the year ended 31 December 2007									
ZF KAMA	49.99%	47	21	299	(238)	32	-	1,103	43
Bashkirskiy autocenter KAMAZ	37%	3	2	212	(220)	12	-	653	7
Astrakhanskiy autocenter KAMAZ	23%	1	-	13	(11)	-	-	6	-
Other	20-50%	6	9	128	(90)	17	(33)	704	26
Total		57	32	652	(559)	61	(33)	2,466	76
For the year ended 31 December 2006									
ZF KAMA	49.99%	25	-	249	(229)	31	-	416	-
Kemerovskiy autocenter KAMAZ	35%	6	3	192	(184)	9	-	1,736	9
Bashkirskiy autocenter KAMAZ	37%	-	-	73	(86)	11	-	187	-
Astrakhanskiy autocenter KAMAZ	23%	1	-	12	(11)	2	-	26	(1)
Other	20-50%	18	(12)	172	(157)	11	(1)	518	(38)
Total		50	(9)	698	(667)	64	(1)	2,883	(30)

b) Investment in Joint Ventures

As at 31 December 2007 the Group has interests in the following jointly controlled entities: KIP-Master (50% of share capital is owned by one of the Group's subsidiaries where KAMAZ owns 96%), Cummins-KAMA, Zelenodolskiy autocenter KAMAZ, Federal-Mogul Powertrain Production, Knorr-Bremse KAMA. A summary of the Group's share in joint ventures and related financial information including total assets, liabilities, revenues, profit or loss at 31 December 2007 and 31 December 2006 is set out below:

<i>In millions of Russian Roubles (RR)</i>	Interest	Share of net assets	Share of net profit	Current assets	Current liabilities	Non- Current assets	Non- Current liabilities	Revenue	Profit/ (loss)
For the year ended 31 December 2007									
CUMMINS KAMA	50%	275	6	628	(83)	6	-	235	12
KIP-Master	50%	247	5	53	(16)	514	(57)	74	11
Federal Mogul Powertrain Production	50%	108	-	216	-	-	-	-	-
Knorr-Bremse KAMA	50%	26	-	52	-	-	-	-	-
Zelenodolskiy autocenter KAMAZ	50%	14	-	9	(8)	26	-	27	-
Total		670	11	958	(107)	546	(57)	336	23
For the year ended 31 December 2006									
CUMMINS KAMA	50%	9	3	26	(12)	5	-	50	7
KIP-Master	50%	145	1	71	(219)	453	(3)	26	2
Zelenodolskiy autocenter KAMAZ	50%	14	-	5	(5)	27	-	25	(1)
Total		168	4	102	(236)	485	(3)	101	8

8 Investment in Associates and Joint Ventures (Continued)

b) Investment in Joint Ventures (Continued)

Shares of the Group's associates and joint ventures are not listed on any stock exchange. Group associates and joint ventures have no contingencies. Some investments of the Group in associates are equal to zero. The unrecognised share of losses of these associates is RR 6 million for 2007 (2006: RR 1 million). Cumulatively, the unrecognised share of losses of these associates is RR 8 million (2006: RR 2 million).

During 2007 the Group made additional investments to CUMMINS KAMA of RR 260 million due to increase of share capital of the joint venture and founded joint ventures Federal-Mogul Powertrain Production and Knorr-Bremse KAMA with the aim of manufacturing automotive components. The Group increased its share in Kemerovskiy autocenter KAMAZ from 35% to 51% in 2007. Corresponding investment was reclassified from associate to subsidiary companies. At the date of acquisition of this additional stake the net assets of Kemerovskiy autocenter were RR 19 million.

9 Available-for-sale Investments and Financial Instruments at Fair Value through Profit or Loss

a) Available-for-sale investments

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Name		
KAMAZ-Capital (11.2% of share capital)	2,203	1,138
Nasko Tatarstan	-	50
Other	8	5
Total	2,211	1,193

At 31 December 2007 OAO KAMAZ-Capital held 33.2% of OAO KAMAZ's share capital. The investment in OAO KAMAZ-Capital represents 11.2% of its shares. This investment was acquired in exchange for 26,323 thousand shares of OAO KAMAZ (3.72% of OAO KAMAZ share capital) in 2005.

In December 2007 OAO KAMAZ transferred to trust management operated by a significant shareholder the shares of OAO KAMAZ-Capital. On 15 April 2008 these shares were sold to one of the significant shareholders for 83.7 RR per share for total amount of RR 2,203 million (Note 34). The share price was confirmed by independent appraiser. The effective price of OAO KAMAZ-Capital shares was determined by applying a 25% discount for indirect holding and illiquidity of OAO KAMAZ-Capital's stock.

In 2007 the Group purchased and resold a minority stake in one of its subsidiary OAO NEFAZ to financial investors. Consideration received was RR 376 million. The gain recognised from the resale was RR 41 million (Note 29).

Investments in shares of other companies are carried at cost of RR 8 million (2006: RR 55 million). Shares of these companies are not listed on any stock exchange and it is impossible to obtain any reliable information about their performance or their value in current transactions from public sources.

b) Financial instruments at fair value through profit or loss

The Group's financial instruments at fair value through profit or loss include quoted government and corporate bonds and shares denominated in Russian Roubles, and are managed as a part of a portfolio of financial instruments held for trading.

The tables below represent financial instruments at fair value through profit or loss of the Group as of 31 December 2007 and 31 December 2006.

<i>In millions of Russian Roubles</i>	Municipal bonds	Corporate bonds	Corporate shares	Total
31 December 2007				
Other Russian municipalities	4	-	-	4
Large Russian corporates	-	-	43	43
Medium sized companies	-	219	65	284
Small companies	-	13	-	13
Total current amounts	4	232	108	344

9 Available-for-sale Investments and Financial Instruments at Fair Value through Profit or Loss (Continued)

<i>In thousands of Russian Roubles</i>	Municipal bonds	Corporate bonds	Total
31 December 2006			
Moscow city	120	-	120
Other Russian municipalities	62	-	62
Large Russian corporates	-	82	82
Medium sized companies	-	212	212
Small companies	-	20	20
Total current amounts	182	314	496

The maturity of the financial instruments at fair value through profit or loss was as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Bonds due: - within 1 year	32	113
- between 2 and 5 years	204	383
Total	236	496

None of bonds were past due.

Effective interest rates attached to the bonds were as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Effective interest rate:		
8-10%	138	309
10-12%	53	87
12-14%	45	100
Total	236	496

10 Intangible Assets

Intangible assets comprise the following:

<i>In millions of Russian Roubles (RR)</i>	Development costs	Other Intangible Assets	Total
Cost			
Balance at 31 December 2005	217	49	266
Additions	142	12	154
Balance at 31 December 2006	359	61	420
Additions	187	55	242
Balance at 31 December 2007	546	116	662
Accumulated Amortisation			
Balance at 31 December 2005	(22)	(24)	(46)
Amortisation expense	(38)	(10)	(48)
Balance at 31 December 2006	(60)	(34)	(94)
Amortisation expense	(49)	(15)	(64)
Balance at 31 December 2007	(109)	(49)	(158)
Net Book Value			
Balance at 31 December 2006	299	27	326
Balance at 31 December 2007	437	67	504

10 Intangible Assets (Continued)

Development costs capitalized comprise the following projects:

<i>In millions of Russian Roubles (RR)</i>	Expected useful life	2007	2006
Engines Euro-3, Euro-4, Euro-5	5-10 years	119	86
Heavy truck family (KAMAZ-6520)	7 years	105	92
Buses KAMAZ-NEFAZ	7 years	87	43
Long-haul truck (KAMAZ-6520)	7 years	33	11
All-wheel-drive truck family	5 years	25	28
Light truck family (KAMAZ-4308)	7 years	13	11
Others	3-7 years	55	28
Total		437	299

All development project costs were internally generated. Other intangible assets represent licences for software and other intangibles purchased outside the Group.

11 Finance Lease Receivables

Information on minimum finance lease payments and their present value is specified below:

<i>In millions of Russian Roubles (RR)</i>	Due within 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2006	1,966	1,932	3,898
Less future finance charges	(209)	(653)	(862)
Present value of minimum lease payments at 31 December 2006	1,757	1,279	3,036
Minimum lease payments at 31 December 2007	2,558	2,625	5,183
Less future finance charges	(620)	(401)	(1,021)
Present value of minimum lease payments at 31 December 2007	1,938	2,224	4,162

The Group provides leasing facilities to the buyers of trucks and buses. The common terms of leasing agreements include 30% advance payment and 2-3 years lease period. Effective interest rate for finance lease receivables is 21.3% in 2007 (2006: 19.2%). The fair value of finance lease receivables as at 31 December 2007 is not significantly different to their carrying value. Group has no unguaranteed residual value accruing to the lessor. At 31 December 2007 lease balances past due less than 30 days but not impaired are RR 246 million (2006: RR 15 million), overdue balances from 30 to 120 days which are individually impaired totaling RR 161 million (2006: RR 17 million). The fair value of collateral for past due balances but not impaired total RR 269 million, collateral for balances past due and individually impaired is RR 184 million.

12 Other Non-Current Assets

Other non-current assets consist of the following:

<i>In millions of Russian Roubles (RR)</i>	31 December 2007	31 December 2006
Long term receivables	330	48
(less impairment provision for long term receivables)	(36)	(39)
Long term receivables, net	294	9
Advances issued for equipment	334	8
Other	72	19
Total non-current assets	700	36

Long term receivables as at 31 December 2007 comprise principally receivables for sale of land and industrial buildings to Tatarstan Ministry of Land and Property Affairs totalling RR 234 million with regular payment instalments during 3 years. The fair value of these receivables was determined using a discount rate of 7.8% applied for financial instruments with the same credit risk and maturity. As at 31 December 2007 the balance overdue for 3 months but not impaired was RR 107 million. In the first quarter of 2008 Management re-negotiated the conditions of payment and agreed that the payment will be settled in exchange for a non-cash asset. At 31 December 2007 other non-current assets included RR 120 million of advances for property, plant and equipment denominated in Euros.

13 Inventories

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Raw materials and consumables	6,043	4,618
(Less net realizable value provision)	(620)	(522)
Raw materials and consumables, net	5,423	4,096
Work in progress	2,920	2,103
Finished goods	4,953	4,552
(Less net realizable value provision)	(4)	(63)
Finished goods, net	4,949	4,489
Total inventory	13,292	10,688

14 Trade and Other Receivables

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Trade receivables	3,843	3,448
(less impairment provision for trade accounts receivable)	(185)	(238)
Trade receivables, net	3,658	3,210
Promissory notes receivable	-	51
Advances issued and prepayments	2,135	1,897
(less impairment provision for advances issued and prepayments)	(22)	(13)
Advances issued and prepayments, net	2,113	1,884
Other receivables	837	753
(less impairment provision for other receivables)	(65)	(75)
Other receivables, net	772	678
Loans issued to related parties (Note 6)	-	1,054
VAT recoverable	2,133	2,253
Other prepaid taxes	1,239	733
Total trade and other receivables	9,915	9,863

The fair value of each class of the trade and other receivables is not significantly different from their carrying values.

14 Trade and other receivables (Continued)

Analysis of trade receivables is as following:

<i>In million of Russian Roubles</i>	2007	2006
Current and not impaired	3,133	2,786
Past due but not impaired		
- less than 30 days overdue	198	334
- 30 days to 60 days overdue	137	78
- 60 days to 90 days overdue	190	12
Total past due but not impaired	525	424
Individually impaired		
- 90 days to 120 days overdue	4	7
- 120 days to 365 days overdue	36	61
- 1 year to 3 years overdue	145	170
Total individually impaired	185	238
Impairment loss provision	(185)	(238)
Total trade receivables	3,658	3,210

loans issued to related parties and other receivables balances are neither past due nor impaired except for those mentioned in Note 12.

Accounts receivable denominated in foreign currency:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
EURO	465	157
USD	38	32
Other CIS currencies	321	73
Total	824	262

15 Cash and Cash Equivalents

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Cash in bank	3,940	2,216
Term deposits	306	118
Bank promissory notes	63	144
Total cash and cash equivalents	4,309	2,478

15 Cash and Cash Equivalents (Continued)

Deposits bear interest in 2007 of 1.5-11 % per annum (2006: 2.4 -11% per annum). The other cash balances are not interest-bearing.

Cash balances denominated in foreign currency:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
EURO	66	185
USD	101	92
Other CIS currencies	65	67
Total	232	344

Term deposits include deposits with original maturity term of up to three months. All cash and cash equivalents balances are neither past due nor impaired.

16 Disposal of Subsidiary

In October 2007 the Group sold its subsidiary OOO "Avtosila", where the Group owned 100%, for RR 184 million. The Group recognised a gain from the sale of the subsidiary of RR 51 million (Note 28). In 2007 the Group lost control over three 100%-owned subsidiaries where the court appointed the court liquidator: OOO TEF KAMATransservice, OOO KAMAZ-Autodor and OOO KAMAZ-Montage. As a result of write-off of net liabilities totaling RR 41 million of these subsidiaries the Group recognized a gain (Note 28).

The assets and liabilities of disposed subsidiaries as at the date of disposal:

<i>In millions of Russian Roubles (RR)</i>	OOO KAMA transservice	OOO KAMAZ- Autodor	OOO KAMAZ- Montage	OOO Avtosila	Total
Cash and cash equivalents	-	-	-	5	5
Other current assets	178	22	29	883	1,112
Non-current assets	33	62	7	3	105
Current liabilities	(176)	(125)	(71)	(758)	(1,130)
Net assets	35	(41)	(35)	133	92

17 Share Capital and Share Premium

<i>In millions of Russian Roubles (RR)</i>	Number of outstanding shares (in thousands)	Ordinary Shares			Treasury Shares		Total
		Nominal amount	Hyper- inflation adjustment	Share Premium	Nominal amount	Hyper- inflation adjustment	
At 31 December 2005	785,748	39,287	113,113	(94,475)	(36)	(105)	57,784
Transfer of inflation loss	-	-	(113,113)	94,475	-	-	(18,638)
Disposal of treasury shares	-	-	-	-	36	105	141
At 31 December 2006	785,748	39,287	-	-	-	-	39,287
Share buy-back	(78,518)	(3,926)	-	-	-	-	(3,926)
At 31 December 2007	707,230	35,361	-	-	-	-	35,361

Total amount of authorised ordinary shares is 707,230 thousand (2006: 785,748 thousand shares) with a nominal value of RR 50 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

The extraordinary shareholders' meeting held on 6 August 2007 approved the decision to decrease the share capital of OAO KAMAZ by no more than 10% of share capital or 78,575 thousand shares through the purchase of own shares and their further cancellation. The purchase price was approved by the Board of Directors at 83.31 RR per share. On 9 November 2007 the Board of Directors approved the Report on results of share buy-back programme: OAO KAMAZ repurchased 78,518 thousand shares (9.99% of share capital), of which 77,895 thousand shares were from a significant shareholder. As a result, by the end of 2007 the Company's registered share capital comprised 707,230 thousand shares with nominal value equal to RR 35,361 million (31 December 2006: RR 39,287 million).

17 Share Capital and Share Premium (Continued)

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 39,287 million. During 2006 the Company made a legally effective resolution to transfer to retained earnings the accumulated loss on the restatement of capital contributions and to state share capital at its nominal registered amount.

Negative share premium resulted from several contributions where fair value of consideration received for issued shares of the Company was below nominal amount of issued shares. These contributions include initial contribution of social assets, transfer of statutory revaluation reserve to share capital and exchange of debt for shares.

18 Borrowings

The Group's borrowings mature as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Borrowings due: - within 1 year	8,312	7,368
- between 2 and 5 years	3,111	3,186
- after 5 years	1,327	1,266
Total borrowings	12,750	11,820

Long-term borrowings

The Group's long-term borrowings are as follows:

<i>In millions of Russian Roubles (RR)</i>	Carrying value		Fair value	
	2007	2006	2007	2006
Ministry of Finance of RF	1,557	1,551	1,279	1,459
Domestic bonds	-	1,500	-	1,500
Vneshtorgbank	1,415	561	1,415	561
AC Bars Bank	515	305	515	305
Sberbank	309	157	309	157
Absolut bank	200	-	200	-
Kanematsu	181	241	181	241
Bank Zenit	37	58	37	58
Other	224	79	224	79
Total long-term borrowings	4,438	4,452	4,160	4,360

The loan from the Ministry of Finance was restructured in 2005 until the end of 2034 with a fixed interest rate of 1% per annum. In 2006 the loan from ACB Rosbank was settled with a gain of RR 43 million between the carrying amount of the loan and amount negotiated with the lender.

The loans from Kanematsu and EBRD are issued at floating interest rates.

Domestic bonds were issued in September 2005 at 8.6% effective interest rate (1,500 thousands bonds with nominal amount of RR 1,000 per bond with maturity of 5 years, coupon interest rate is fixed until September 2008 when the Group will be able to set a new interest rate and the bonds' holder are given the right to accept a new interest rate or decline and receive the cash).

The nominal interest rates for long-term borrowings at the balance sheet date were as follows:

	2007	2006
Ministry of Finance (in Yen)	1 %	1 %
Kanematsu (in Yen), 6-months repricing period	Yen LIBOR + 3 %	Yen LIBOR + 3 %
Domestic bonds (in RR)	-	8.5%
VTB (in EURO), 6-months repricing period	EURIBOR + 3.6 %	EURIBOR+2.65%
Other	7%-14%	10-12.5%

18 Borrowings (Continued)

The effective interest rates for long-term borrowings at the balance sheet date were as follows:

% per annum	31 December 2007			31 December 2006		
	Russian Roubles	EURO	Yens	Russian Roubles	EURO	Yens
Ministry of Finance (in Yen)	-	-	6.6%	-	-	6.6%
Kanematsu (in Yen)	-	-	3.1%	-	-	3.1%
Domestic bonds (in RR)	-	-	-	8.6%	-	-
VTB (in EURO)	-	7.98%	-	-	7.5%	-
Other credits (in RR)	7%-14%	-	-	10-12.5%	-	-

The Group's long-term borrowings are denominated in currencies as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Borrowings denominated in:		
- Russian Roubles	1,556	2,136
- Yens	1,738	1,792
- Euros	1,117	524
- Other CIS currencies	27	-
Total long-term borrowings	4,438	4,452

Short-term borrowings

The Group's short-term borrowings are as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Sberbank	3,009	768
Domestic bonds	1,500	-
Vneshtorgbank	798	1,063
Ak Bars Bank	894	325
EBRD	824	1,061
ALFA Bank	305	-
Bank Zenit	245	339
Ministry of Finance of Russian Federation	70	72
Kanematsu	29	31
Syndicated loan	-	2,706
Other lenders	522	867
Interest payable	116	136
Total short-term borrowings	8,312	7,368

Current portion of long-term loans as at 31 December 2007 is RR 2,744 million (2006: RR 1,134 million).

EBRD loan is payable until 2011. However, in 2006-2007 the Company did not comply with limitation of the free cash flows to debt service ratio set in the EBRD agreement. Although subsequent to the balance sheet date the Management has negotiated the above covenant breaches with the EBRD and received a confirmation that EBRD has no intention to accelerate the loan repayment as a consequence of this breach, the related loan has been reclassified as short-term in accordance with IAS 1.

In October 2007 Group repaid the syndicated loan which was received in October 2006.

The interest rates for short-term loans were 7%-17% per annum at 31 December 2007 (2006: 7.6-12% per annum).

The Group's short-term borrowings are denominated in currencies as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Borrowings denominated in:		
- Russian Roubles	6,944	3,152
- US Dollars	824	2,412
- Euros	410	1,651
- Yens	99	104
- Other CIS currencies	35	49
Total short-term borrowings	8,312	7,368

18 Borrowings (Continued)

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency liabilities or interest rate exposures. Fair value of each class of short-term borrowings approximates their carrying amount at 31 December 2007 and 31 December 2006.

19 Other Taxes Payable

Taxes payable within one year comprise the following:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Unified social tax	200	263
Value-added tax	171	583
Tax penalties and interest	8	1,036
Personal income tax	87	69
Property tax	23	28
Other taxes	52	27
Total	541	2,006

20 Restructured Taxes

Restructured taxes represent a liability for the expected outflows under decrees of the Government of the Russian Federation issued during 2007, 2006, 2002 and 2001 that allowed the Group to postpone payment of tax liabilities (unified social tax, VAT, fines and penalties). During 2006, the liability for taxes payable accumulated in prior periods (before 2000) and totalling RR 2,592 million has been derecognised and a new liability for restructured taxes was recorded with a corresponding gain totalling RR 1,173 million included in the income statement in 2006.

In 2007 the gain on penalties restructuring and forgiveness was recognised in the amount of RR 445 million and RR 250 million respectively. The penalties forgiveness and restructuring was allowed due to compliance with payment schedule under decrees of the Government of the Russian Federation issued during 2006, 2002 and 2001.

Movements in the liabilities for restructured taxes are as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Carrying amount at 1 January	1,664	264
Tax restructuring (reclassification from current taxes payable)	933	2,592
Gain from restructuring, including forgiveness of penalties	(695)	(1,173)
Settlement	(76)	(177)
Unwinding of the discount and effect of changes of discount rate	161	158
Carrying amount at 31 December	1,987	1,664
Current portion of tax restructured	101	214
Long-term portion of tax restructured	1,886	1,450

The above liability is carried at the present value of the amounts expected to be paid to settle the obligation, calculated by applying the discount rate of 9.5% (2006: 10.3%).

The liability for restructured taxes is denominated in Russian roubles and matures as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
- within 1 year	101	214
- between 2 and 5 years	707	610
- after 5 years	1,179	840
Total	1,987	1,664

In the event of the Company's failure to make current tax payments and payments of restructured tax liabilities by the end of each quarter, the Ministry of Taxes and Duties may, within one month, recommend to the Russian Government to cancel the restructuring decree and call the entire liability.

21 Provisions for Liabilities and Charges

Provisions for liabilities and charges changed in the following manner:

<i>In millions of Russian Roubles (RR)</i>	Warranty provision	Taxes other than on income, fines and penalties	Total
Carrying value at 31 December 2005	192	818	1,010
Charged to profit and loss	269	64	333
Utilized	(166)	-	(166)
Carrying value at 31 December 2006	295	882	1,177
Charged to profit and loss	482	303	785
Reversed through profit and loss	-	(39)	(39)
Utilized	(279)	-	(279)
Carrying value at 31 December 2007	498	1,146	1,644
Current portion	332	1,146	1,478
Non-current portion	166	-	166

Warranty. The Group provides warranties in respect of automotive trucks for a period of 18 months or 100,000 km of mileage and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 498 million (2006: RR 295 million) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns. At 31 December 2007 RR 332 million of warranty provision is expected to be either fully utilised or released by the end of 2008 (2006: RR 261 million by the end of 2007).

Taxes other than on income, fines and penalties: The Group has recorded provisions of RR 1,146 million (2006: RR 882 million). The balance at 31 December 2007 is expected to be either fully utilised or released by the end of 2010. Provision for tax liabilities relates to tax contingencies resulting from uncertain interpretation of tax legislation.

22 Trade and Other Payables

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Trade payables	6,816	4,830
Wages and salaries payable	2,097	1,201
Advances received	3,526	2,817
Other	601	350
Trade and other payables	13,040	9,198

The fair value of each class of financial liabilities included within trade and other payables is not significantly different to its carrying value.

Trade and other payables denominated in foreign currency are as follows:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
EURO	272	184
USD	112	212
Other CIS currencies	50	215
Total	434	611

23 Revenue

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Trucks and assembly kits	62,290	42,825
Spare parts	14,951	11,729
Buses, truck trailers and truck mixers	10,540	8,905
Metallurgical products	3,542	2,376
Truck repair services	1,381	1,334
Finance lease income	748	561
Other sales of goods	2,737	2,374
Other services	1,040	908
Total	97,229	71,012

Sales of goods include RR 215 million (2006: RR 6,505 million) and purchase of the materials include RR 1,476 million (2006: RR 5,116million) settled using bills of exchange.

23 Revenue (Continued)

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Domestic sales		
Trucks and assembly kits	45,249	28,750
Spare parts	11,239	8,296
Buses, truck trailers and truck mixers	9,532	8,047
Leasing income	748	561
Other sales	8,552	6,907
Total domestic sales	75,320	52,561
Export sales		
Trucks and assembly kits	17,041	14,075
Spare parts	3,712	3,433
Buses, truck trailers and truck mixers	1,008	858
Other sales	148	85
Total export sales	21,909	18,451
Total	97,229	71,012

24 Cost of Sales

Cost of sales includes the following items:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Materials and components used	57,758	42,791
Labour costs	10,899	7,120
Fuel and energy	3,687	2,982
Depreciation of property, plant and equipment	1,808	1,955
Services	1,790	1,735
Warranty accruals	482	269
Provision for inventories	39	75
Other costs	355	242
Changes in inventory of finished goods and work in progress	(1,217)	(97)
Total	75,601	57,072

25 Distribution Costs

Distribution costs comprise:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Labour costs	1,318	931
Transportation expenses	813	622
Material consumed	708	361
Other services	468	355
Advertising	268	183
Insurance	69	60
Depreciation of property, plant and equipment	51	45
Customs duty	49	39
Impairment provision for receivables	54	22
Other distribution costs	382	349
Total	4,180	2,967

26 General and Administrative Expenses

General and administrative expenses include the following items:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Labour costs	2,884	2,257
Taxes other than income tax	659	752
Services	772	672
Provision for taxes other than income tax	264	64
Depreciation of property, plant and equipment	208	159
Amortization of intangible assets	64	48
Business trip costs	169	128
Material consumed	122	115
Insurance	305	281
Bank services	89	62
Consulting and information services	101	84
Other expenses	244	189
Total	5,881	4,811

27 Expenses by Nature

Materials and components in:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Cost of sales	57,758	42,791
Distribution costs	708	361
General and administrative expenses	122	115
Total	58,588	43,267

Wages and salaries in:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Cost of sales	10,899	7,120
Distribution costs	1,318	931
General and administrative expenses	2,884	2,257
Total	15,101	10,308

Payments to state pension fund were RR 2,386 million in 2007 (2006: RR 1,612 million). Accrued expenses for non-state defined benefit pension plan were RR 78 million. At 31 December 2007 defined benefit liabilities recognised in balance sheet as other non-current liabilities were RR 47 million (2006: RR 11 million), unrecognised amount of defined benefit liabilities was RR 332 million (2006: RR 126 million).

Depreciation of property, plant and equipment and amortisation of intangible asset in:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Cost of sales	1,808	1,955
Distribution costs	51	45
General and administrative expenses	208	159
Total depreciation of property, plant and equipment	2,067	2,159
Amortization of intangible assets	64	48
Total	2,131	2,207

28 Other Operating Income and Expenses

Other operating income comprises:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Gain on disposal of property, plant and equipment	196	20
Gain on sale and other disposals of subsidiaries	92	-
Reimbursement of leasing expenses	65	-
Gain on sale of available-for-sale investments	41	19
Foreign exchange gains	-	45
Other operating income	84	-
Total	478	84

Other operating expenses comprise:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Social expenditures and charity	839	620
Foreign exchange losses	77	-
Other operating expenses	115	59
Total	1,031	679

29 Finance Income and Costs

Finance income comprises of the following:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Interest income on promissory notes and loans issued	203	103
Foreign exchange gains	31	424
Total	234	527

Finance cost comprises the following:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Interest on loans and borrowings	828	1,235
Less interest capitalized	(191)	(144)
Interest expenses	637	1,091
Unwinding of the discount and effect of changes of discount rate on restructured taxes	161	158
Unwinding of the discount on restructured loans	102	282
Interest expense on finance leases where the Group is the lessee	3	16
Total	903	1,547

30 Earnings per Share

Earnings per share are calculated as follows:

	2007	2006
Basic earnings per share:		
Profit attributable to equity holders of the Company (RR million)	7,427	3,851
Weighted average number of ordinary shares in issue (thousands)	779,204	785,687
Basic earnings per share (Roubles per share)	9.53	4.90
Diluted earnings per share:		
Weighted average number of ordinary shares in issue (thousands)	779,204	785,694
Diluted earnings per share (Roubles per share)	9.53	4.90

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the year (Note 17).

31 Income Taxes

Income tax expense comprises the following:

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Current tax	845	920
Deferred tax	1,588	568
Provisions for income tax	664	-
Income tax expense for the year	3,097	1,488

Reconciliation between the expected and the actual taxation charge is provided below.

<i>In millions of Russian Roubles (RR)</i>	2007	2006
Profit before tax	10,965	5,628
Theoretical tax charge at statutory rate (2007: 24%; 2006: 24%)	2,632	1,351
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductable expenses	826	652
Impairment of deferred tax asset	581	-
Provisions for income tax	664	-
Previous years' losses utilization	(1,606)	(515)
Income tax expense for the year	3,097	1,488

Utilisation of tax losses refers to a number of tax declarations submitted during the period 2005 - 2007 updated to include prior year losses. As a result of these claims the company successfully claimed a total of RR 11,065 million tax losses, the tax benefit of which was RR 2,655 million, of which RR 534 million was recognised in 2005, RR 515 million in 2006 and RR 1,606 million in 2007. (See Note 3).

Non-deductable expenses mainly consist of social expenses and other general and administrative expenses not included in the taxable profit in accordance with tax legislation. Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at a rate of 24% (2006: 24%).

Deferred tax movements for the year ended 31 December 2007 are as follows:

<i>In millions of Russian Roubles (RR)</i>	1 January 2007	Charged/ (credited) to profit or loss	Recognised in equity	Disposed subsidiaries	31 December 2007
Tax effect of taxable temporary differences					
Property, plant and equipment	(2,056)	248	-	-	(1,808)
Accounts payable	(109)	44	-	-	(65)
Inventory	(12)	(9)	-	-	(21)
Loans and borrowings	(468)	42	-	-	(426)
Taxes payable and restructured taxes	(260)	(67)	-	-	(327)
Investments	(182)	(21)	(228)	-	(431)
Finance lease receivables	(35)	(160)	-	-	(195)
Gross deferred tax liability	(3,122)	77	(228)	-	(3,273)
Tax effect of deductible temporary differences and tax loss carried forward					
Property, plant and equipment	4,375	(622)	-	(103)	3,650
Accounts receivable	88	(21)	-	-	67
Inventory	13	68	-	-	81
Intangible assets	751	(640)	-	-	111
Accounts payable	106	90	-	-	196
Provisions	55	74	-	-	129
Tax loss carry forward	631	(614)	-	-	17
Gross deferred tax asset	6,019	(1,665)	-	(103)	4,251
Net deferred tax asset	2,897	(1,588)	(228)	(103)	978

31 Income Taxes (Continued)

Deferred tax movements for the year ended 31 December 2006 are as follows:

<i>In millions of Russian Roubles (RR)</i>	1 January 2006	Charged/ (credited) to profit or loss	Recognised in equity	31 December 2006
Tax effect of taxable temporary differences				
Property, plant and equipment	(2,100)	44	-	(2,056)
Accounts payable	-	(109)	-	(109)
Inventory	(130)	118	-	(12)
Loans and borrowings	(628)	160	-	(468)
Taxes payable and restructured taxes	(10)	(250)	-	(260)
Investments	(132)	8	(58)	(182)
Finance lease receivable	39	(74)	-	(35)
Gross deferred tax liability	(2,961)	(103)	(58)	(3,122)
Tax effect of deductible temporary differences and tax loss carried forward				
Property, plant and equipment	4,934	(559)	-	4,375
Accounts receivable	86	2	-	88
Inventory	1	12	-	13
Intangible assets	823	(72)	-	751
Accounts payable	53	53	-	106
Provisions	31	24	-	55
Tax loss carry forward	556	75	-	631
Gross deferred tax asset	6,484	(465)	-	6,019
Net deferred tax asset	3,523	(568)	(58)	2,897

Deferred tax assets include tax related to land totalling RR 2,676 million as at 31 December 2007 (2006: RR 3,118 million). The Group has no intention to sell the land owned in the foreseeable future, but the deferred tax asset in respect of land is recognised based on the assumption that its carrying value will be recovered through sale, as required by IFRS.

The Group has not recorded deferred tax liabilities in respect of taxable temporary differences of RR 1,192 million (2006: RR 453 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

The current portion of deferred tax is RR 311 million as at 31 December 2007 (2006: RR 86 million).

Income tax payable includes profit tax payable related to uncertain tax position in the amount of RR 1,170 million as at 31 December 2007 (2006: RR 506).

32 Contingencies, Commitments and Operating Risks

Litigation. From time to time and in the normal course of business, claims against the Group are received. On the basis of their own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims.

At 31 December 2007 and 2006 the Group was engaged in litigation proceedings as a defendant with a number of clients and customers. No provision has been made as the Group's Management believes that risks of these proceedings are remote.

32 Contingencies, Commitments and Operating Risks (Continued)

Tax contingencies. Russian tax and customs legislation is subject to varying interpretations, and changes, which 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 take 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. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic approach to 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.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, Management adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

At 31 December 2007, total liabilities recorded for uncertain tax positions amounted to RR 2,316 million (2006: RR 1,388 million). With this exception, 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. In addition, the Group estimates that it has potential obligations from exposure to other than remote tax risks of RR 3,106 million (2006: RR 3,311 million).

Contractual commitments. The Group has contractual commitments for the acquisition of property, plant and equipment as at 31 December 2007 totalling RR 1,926 million (2006: RR 290 million).

Guarantees. As at 31 December 2007 and 31 December 2006, the Group had not issued guarantees (irrevocable assurances that the Group will make payments in the event that other third party cannot meet its obligations).

The Group received guarantees for the following liabilities:

<i>In millions of Russian Roubles (RR)</i>	Notes	2007		2006	
		Guarantees received	Related liability	Guarantees received	Related liability
Tatarstan Ministry of Finance (Kanematsu loan)	18	404	210	410	272
Russian Federation Ministry of Finance (EBRD loan)	18	1,731	697	1,856	898
Tatarstan Ministry of Finance (EBRD loan)	18	314	127	337	163
Total guarantees		2,449	1,034	2,603	1,333

32 Contingencies, Commitments and Operating Risks (Continued)

Assets pledged and restricted. The Group had the following assets pledged as collateral as at 31 December 2007 and 31 December 2006:

<i>In millions of Russian Roubles (RR)</i>	Notes	2007		2006	
		Asset pledged	Related liability	Asset pledged	Related liability
Property, plant and equipment	7	3,092	3,011	3,822	5,022
Inventory	13	6,459	3,891	4,082	1,983
Shares of subsidiary at net asset value and OAO KAMAZ's bills of exchange at nominal value		2,477	1,128	3,554	2,706
Total		12,028	8,030	11,458	9,711

At 31 December 2007 and 2006 12,000 thousand shares of OAO KAMAZ-Metallurgiya representing a controlling stake (52%) with total nominal value of RR 1,200 million were pledged for a loan issued by the Russian Federation Ministry of Finance. At 31 December 2006 KAMAZ's bills of exchange amounting to RR 917 million were pledged to Alfabank. The corresponding loan was settled in June 2007.

Loan covenants. The covenants attached to some loans include of obligatory provision of financial statements and other information about the Group's business to the lender. The EBRD loan agreements and syndicated loan included also financial covenants such as to maintain asset value, debt/asset ratio, interest coverage ratio at a certain level, and to limit dividends as a percentage of net profit for the year and amount of debt/guarantees issued by the Company. The details of a technical breach of covenants attached to the EBRD loan are disclosed in Note 18.

Loan commitments. In most cases the Group could repay its debts early, after notification of the borrower, without penalties. The exceptions are loans from EBRD (the penalty is 0.125% of the loan amount due), VTB (early repayment could be made only after receipt of written permission given by the bank) and AK Bars Bank (early repayment is forbidden for some loan agreements).

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.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation.

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.

Global liquidity issues. The last year has seen sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors were forced to re-evaluate the risks they were taking which resulted in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Group to refinance its borrowings and affect the value of its receivables and other financial assets. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in base interest rate is generally not evidence of impairment. Management is unable to estimate effects on the Group's financial position of any further possible deterioration in the financial markets liquidity and increased volatility. Under IFRS, impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised.

33 Financial Risks Management

Financial risk factors

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Group applies the following key principles to manage the risks that it faces in the course of its business:

- Segregation of authority and responsibility of each business unit and compliance with the principle of collective decision making when conducting transactions,
- Regular monitoring of the risk exposure accepted by the Group.

Risk management is a constant and continuous process comprising four prime components: risk identification, measurement, control and monitoring.

The main risk management techniques in the Group are insurance, provisioning, regulation of transactions (development of regulatory documents), establishing limits on transactions, distribution, mitigation (assets and liabilities management) and avoidance.

(a) Market risk

The Group takes on exposure to market risks. Market risks arise from changes in open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. Group Management monitors the risk of negative changes in prices and interest rates. However, the use of this approach does not prevent losses in the event of significant market movements.

(i) Currency risk

The Group exports production to CIS countries and other countries and attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Notes 14, 15) and liabilities (Notes 18 and 22) give rise to foreign exchange exposure. Currency risk is monitored monthly.

The Group is exposed to currency risk arising on open loan positions denominated in Euro, US dollars and Japanese Yen obtained to finance purchases of equipment and working capital. Management considers hedging of these positions unsuitable.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2007:

<i>In millions of Russian Roubles (RR)</i>	Monetary financial assets		Monetary financial Liabilities		Net balance sheet position
	Cash and equivalents	Accounts receivable	Accounts payable	Borrowings	
Russian Roubles	4,077	13,016	(10,570)	(8,500)	(1,977)
US Dollars	101	38	(112)	(824)	(797)
Euros	66	585	(272)	(1,527)	(1,148)
Yen	-	-	-	(1,837)	(1,837)
Other CIS currencies	65	321	(50)	(62)	274
Total	4,309	13,960	(11,004)	(12,750)	(5,485)

33 Financial Risks Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2006:

<i>In millions of Russian Roubles (RR)</i>	Monetary financial assets		Monetary financial Liabilities		Net balance sheet position
	Cash and equivalents	Accounts receivable	Accounts payable	Borrowings	
Russian Roubles	2,134	11,376	(7,402)	(5,288)	820
US Dollars	92	32	(212)	(2,412)	(2,500)
Euros	185	157	(184)	(2,175)	(2,017)
Yen	-	-	-	(1,896)	(1,896)
Other CIS currencies	67	73	(215)	(49)	(124)
Total	2,478	11,638	(8,013)	(11,820)	(5,717)

The above analysis includes only monetary assets and liabilities. The Group does not hold any currency derivatives.

Investments in non-monetary assets are not considered to give rise to any material currency risk.

Group monitors exchange rates and market forecasts on foreign exchange rates regularly as well as prepares budgets for long-term, medium-term and short-term periods.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the Group's functional currency, with all other variables held constant. When the Group has net liabilities in each foreign currency, a strengthening of the foreign currency against the Rouble would generate an exchange loss to the Group.

<i>In millions of Russian Roubles (RR)</i>	2007	2006
<i>Pre-tax impact on profit or loss and on equity of:</i>		
US Dollar strengthening / weakening by 10%	80	250
Euro strengthening / weakening by 10%	115	202
Yen strengthening / weakening by 10%	184	190

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

(ii) Price risk

Other price risk. The Group has exposure to equity price risk. At 31 December 2007, if equity prices at that date had been 10% (2006: 10%) lower with all other variables held constant, profit before tax for the year would have been RR 34 million (2006: RR 49 million) lower, mainly as a result of impairment of corporate bonds and shares classified as trading instruments at fair value through profit or loss, and other components of equity would have been RR 220 million (2006: RR 114 million) lower.

(iii) Interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest-bearing short-term and long-term borrowings the majority of which are at fixed interest rates.

33 Financial Risks Management (Continued)

Financial risk factors (Continued)

(a) **Market risk (Continued)**

(iii) **Interest rate risk**

The table below summarises the Group's exposure to interest rate risks. The table presents the amounts of the Group's financial liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In millions of Russian Roubles (RR)</i>	On demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
31 December 2007					
Fixed interest rate	3,021	3,842	1,555	28	8,446
Fixed interest rate , Yen	-	70	258	1,299	1,627
EURIBOR based interest rates	-	410	1,117	-	1,527
LIBOR based interest rates, USD	-	824	-	-	824
LIBOR based interest rates ,Yen	-	29	181	-	210
Total	3,021	5,175	3,111	1,327	12,634

<i>In millions of Russian Roubles (RR)</i>	On demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
31 December 2006					
Fixed interest rate	1,114	2,035	2,136	-	5,285
Fixed interest rate , Yen	-	72	285	1,266	1,623
EURIBOR based interest rates	26	1,625	524	-	2,175
LIBOR based interest rates. USD	-	2,329	-	-	2,329
LIBOR based interest rates ,Yen	-	31	241	-	272
Total	1,140	6,092	3,186	1,266	11,684

At 31 December 2007, if interest rates at that date had been 10% lower with all other variables held constant, interest expense for the year would have been RR 64 million (2006: RR 110 million) lower. If interest rates had been 10% higher, with all other variables held constant, interest expense would have been RR 64 million (2006: RR 110 million) higher.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates:

<i>In % p.a.</i>	2007				2006			
	RR	USD	Euro	Yen	RR	USD	Euro	Yen
Assets								
Cash and cash equivalents	1.5-11%	2.9-3.5%	2.4-3.5%	-	8-11%	2.9%	2.4%	-
Liabilities								
Borrowings	7-14%	LIBOR +1	EURIBOR +2.65% to +3.7%	1%p.a. Yen LIBOR +3%	10-12.5%	USD LIBOR +1 to 1.5	EURIBOR +1.5 to +3.7	1%p.a. Yen LIBOR +3%

33 Financial Risks Management (Continued)

Financial risk factors (Continued)

(b) Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, loans issued and balances with banks. 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 monetary financial assets, net of provision for impairment, represents the maximum amount exposed to credit risk. Although collection of the financial assets could be influenced by economic factors, Management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which, at the time of deposit, are considered to have a minimal risk of default. However, the use of this approach does not prevent losses in the event of significant market movements.

The Group's maximum exposure to credit risk by class of assets is as follows:

<i>In millions of Russian Roubles (RR)</i>	31 December 2007	31 December 2006
Cash and cash equivalents (Note 15)	4,309	2,478
-BBB- to A-	2,647	1,169
-BB- to BB+	724	460
-B- to B+	695	660
CCC+	142	81
-Other	101	108
Quoted bonds (Note 9)	236	496
Long term receivables - unrated (Note 12)	366	28
Finance lease receivables - unrated (Note 11)	4,162	3,036
Group 1 – Current finance lease receivables	1,938	1,757
Group 2 – Non-current finance lease receivables	2,224	1,279
Trade receivables (Note 14)	3,658	3,210
Group 1 – companies under state control	416	357
Group 2 – dealers	1,267	955
Group 3 – other customers	1,975	1,898
Other receivables and promissory notes receivable – unrated (Note 14)	772	729
Loans issued to related party BB-	-	1,054
Total maximum exposure to credit risk	13,503	11,031

All of the financial assets of the Group, except for RR 344 million (2006: RR 496 million) in bonds and shares, categorised as assets at fair value through profit or loss and for RR 2,211 million (2006: RR 1,193 million) investment in equity stakes categorised as available for sale investments, are loans and receivables.

The process of management of credit risk includes assessment of credit reliability of counterparties and reviewing payments received. All the leasing receivables from the Group customers are secured by the pledge of vehicles. The fair value of vehicles pledged at 31 December 2007 was RR 6,981 million (2006: RR 4,911 million). Term of collateral equals to the term of lease contract.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in this Note.

Cash and cash equivalents are kept in stable Russian and regional banks. Management considers credit risk associated with these banks negligible.

The Group did not issue any financial guarantees for third parties in 2007 and 2006.

33 Financial Risks Management (Continued)

Financial risk factors (Continued)

(b) Credit risk (Continued)

Credit risks concentration

In the normal course of business there is no concentration of credit risks: the Group does not have single trade debtor balance comprising more than 5% (2006: 5%) of the total trade accounts receivable of the Group. However, at 31 December 2007 there is one significant debtor balance owing the Group for property, plant and equipment (Note 12).

The Group's cash and cash equivalents are distributed among with 39 banks (2006: 28 banks) consequently there is no significant exposure of the Group to a concentration of credit risk.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times for all cash flow obligations as they become due by preparing long-term, medium-term and short-term budgets, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group monitors the following financial ratios in order to ensure that no liquidity difficulties arise:

	Current ratio	Target ratio
Net debt/EBITDA	0.6	not more than 2.5
EBIT/Interest expense	17.2	not less than 5

Management considers the targeted ratios sustainable in the foreseeable future. Management believes that the Group has access to additional credit facilities if required. The available upon request credit facilities amounted to RR 1,200 million (2006: RR 279 million).

The analysis below represents management expectations of repayment schedule of monetary assets and liabilities of the Group as of 31 December 2007 and 31 December 2006. The table below is based on the earliest possible repayment dates and on nominal cash flows. Foreign currency cash flows are translated using spot exchange rates as of 31 December 2007 and 31 December 2006.

<i>In millions of Russian Roubles (RR)</i>	Demand and				Total
	less than 3 month	From 3 to 12 months	From 1 to 5 years	More than 5 years	
31 December 2007					
Cash and cash equivalents rates	4,309	-	-	-	4,309
Trade receivables	3,625	33	-	-	3,658
Finance lease receivables	485	1,453	2,224	-	4,162
Other receivables and loans issued	621	151	-	-	772
Long term receivables	-	-	366	-	366
Available-for-sale investments	-	-	2,211	-	2,211
Other financial assets	108	32	204	-	344
Total monetary financial assets	9,148	1,669	5,005	-	15,822
Borrowings	(3,021)	(5,175)	(3,111)	(1,327)	(12,634)
Trade payables	(6,536)	(280)	-	-	(6,816)
Other non-current liabilities	-	-	(14)	(47)	(61)
Other payables	(601)	-	-	-	(601)
Future interest payments	(459)	(883)	(837)	(1,833)	(4,012)
Total monetary financial liabilities	(10,617)	(6,338)	(3,962)	(3,207)	(24,124)
Net balance of payments at 31 December 2007	(1,469)	(4,669)	1,043	(3,207)	(8,302)

33 Financial Risks Management (Continued)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

<i>In millions of Russian Roubles (RR)</i>	Demand and less than 3 month	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
31 December 2006					
Cash and cash equivalents	2,478	-	-	-	2,478
Trade receivables	3,196	14	-	-	3,210
Finance lease receivables	439	1,318	1,279	-	3,036
Other receivables and loans issued	668	1,115	-	-	1,783
Long term receivables	-	-	28	-	28
Available-for-sale investments	-	-	1,193	-	1,193
Other financial assets	-	113	383	-	496
Total monetary financial assets	6,781	2,560	2,883	-	12,224
Borrowings	(1,140)	(6,092)	(3,186)	(1,266)	(11,684)
Trade payables	(4,689)	(141)	-	-	(4,830)
Other non-current liabilities	-	-	(5)	(11)	(16)
Other payables	(350)	-	-	-	(350)
Future interest payments	(581)	(1,086)	(858)	(1,976)	(4,501)
Total monetary financial liabilities	(6,760)	(7,319)	(4,049)	(3,253)	(21,381)
Net balance of payments at 31 December 2006	21	(4,759)	(1,166)	(3,253)	(9,157)

The Group did not have any derivative financial instruments issued/held during the year ended 31 December 2007 and 31 December 2006.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by the sum of total equity and net debt. The Group considers total capital under management to be RR 42,579 million.

The gearing ratios at 31 December 2007 and 31 December 2006 were as follows:

<i>In millions of Russian Roubles (RR)</i>	31 December 2007	31 December 2006
Long-term borrowings	4,438	4,452
Short-term borrowings	8,312	7,368
Less: cash and cash equivalents	(4,309)	(2,478)
Less: financial assets at fair value through profit and loss	(344)	(496)
Net debt	8,097	8,846
Equity	34,482	32,504
Total net debt and equity	42,579	41,350
Gearing ratio	19%	21%

The Group management constantly monitors profitability ratios, market share price and debt/capitalization ratio. The targeted gearing ratio is 30%.

34 Events After the Balance Sheet Date

In April 2008 Group sold the shares of OAO KAMAZ-Capital for RR 2,203 million (Note 9).

On 13 August 2008 the Group concluded an agreement to acquire the 49% minority stake in one of its subsidiaries OAO Leasing company KAMAZ for RR 21 million.