KAMAZ Group

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

31 December 2008

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

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 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

30 June 2009
Moscow, Russian Federation

In millions of Russian Roubles	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	8	29,481	28,336
Intangible assets	11	852	504
Investment in associates and joint ventures	9	508	727
Available-for-sale investments	10	1,246	2,211
Finance lease receivables	12	1,269	1,886
Deferred income tax assets	33	2,519	3,530
Other non-current assets	13	543	700
Total non-current assets		**36,418**	**37,894**
Current assets			
Inventories	14	21,770	13,292
Trade and other receivables	15	9,820	9,916
Current income tax prepayments		1,231	303
Finance lease receivables	12	2,294	2,276
Financial instruments at fair value through profit or loss	10	19	344
Cash and cash equivalents	16	6,769	4,309
Total current assets		**41,903**	**30,439**
TOTAL ASSETS		**78,321**	**68,333**
EQUITY			
Share capital	17	35,361	35,361
Revaluation reserve for available-for-sale financial assets	10	-	1,330
Accumulated deficit		(3,637)	(3,992)
Equity attributable to the Company's equity holders		**31,724**	**32,699**
Minority interest		**1,755**	**1,783**
TOTAL EQUITY		**33,479**	**34,482**
LIABILITIES			
Non-current liabilities			
Borrowings	18	3,447	4,438
Deferred income tax liabilities	33	1,994	2,552
Restructured taxes	20	1,173	1,886
Provisions for liabilities and charges	21	-	166
Finance lease payables	23	603	14
Post-retirement benefit obligation	24	107	47
Total non-current liabilities		**7,324**	**9,103**
Current liabilities			
Borrowings	18	18,960	8,312
Trade and other payables	22	15,019	13,035
Finance lease payables	23	48	5
Current income tax payable		1,014	1,234
Other taxes payable	19	933	541
Restructured taxes	20	157	101
Provisions for liabilities and charges	21	1,336	1,478
Deferred income		51	42
Total current liabilities		**37,518**	**24,748**
TOTAL LIABILITIES		**44,842**	**33,851**
TOTAL EQUITY AND LIABILITIES		**78,321**	**68,333**

Approved for issue and signed on behalf of the Board of Directors on 30 June 2009.

S.A. Kogogin
General Director

G. Sh. Imanova
Deputy General Director

In millions of Russian Roubles	**Note**	**2008**	**2007**
Revenue	25	96,348	97,229
Cost of sales (excluding Impairment of property, plant and equipment)	26	(79,168)	(75,601)
Impairment of property, plant and equipment	8	(679)	-
Gross profit		**16,501**	**21,628**
Distribution costs	27	(5,311)	(4,180)
General and administrative expenses	28	(5,954)	(5,881)
Research and development costs		(117)	(118)
Share of profits (losses) in associates and joint ventures	9	(22)	43
Gain from sale of availabel-for-sale investments	10	1,747	-
Other operating income	29	921	478
Other operating expenses	29	(1,469)	(1,031)
Operating profit		**6,296**	**10,939**
Finance income	31	213	234
Finance costs	31	(3,383)	(903)
Gain on forgiveness and restructuring of taxes	20	-	695
Profit before income tax		**3,126**	**10,965**
Income tax expense	33	(2,061)	(3,097)
Profit for the year		**1,065**	**7,868**
Profit is attributable to:			
Equity holders of the Company		1,006	7,427
Minority interest		59	441
Earnings per share for profit attributable to the equity holders of the Company (expressed in Roubles per share)			
- basic	32	1.43	9.53
- diluted	32	1.43	9.53

In millions of Russian Roubles	Note	2008	2007
Cash flows from operating activities			
Profit before income tax		3,126	10,965
Adjustments for:			
Depreciation of property, plant and equipment	8,30	2,269	2,067
Amortization of intangible assets	11,30	69	64
Loss less gains on disposals of property, plant and equipment	29	211	(196)
Impairment provision on intangible assets	11	121	-
Loss on write off property, plant and equipment	29	133	-
Gains from sale of available-for-sale investments	10, 29	(1,747)	-
Share of losses (profits) of associates and joint ventures	9	22	(43)
Gain on forgiveness and restructuring of tax debts	20	-	(695)
Finance income	31	(213)	(203)
Finance expense	31	692	903
Loss (gain) from sale and other disposals of subsidiaries	29	-	(92)
Provisions for tax liabilities and charges	28	(346)	264
Provisions for other liabilities and charges	21	285	-
Impairment of property, plant and equipment	8	679	-
Inventory provision	26	1,001	39
Impairment provision for receivables and loans	27	558	54
Warranty provision	21	-	482
Impairment of investment in associates		56	-
Gain on disposal of associates	9	(85)	-
Foreign exchange translation differences	31	2,608	(31)
Operating cash flows before working capital changes		**9,439**	**13,578**
Decrease / (Increase) in trade and other receivables		1,430	(2,559)
Increase in inventories		(9,727)	(3,042)
Increase in trade and other payables		2,002	4,203
Decrease in taxes payable		(293)	(607)
Increase in other non-current liabilities		123	42
Cash generated from operations		**2,974**	**11,615**
Income taxes paid		(2,129)	(1,299)
Net cash from operating activities		**845**	**10,316**
Cash flows from investing activities			
Purchases of property, plant and equipment	8	(4,160)	(3,080)
Proceeds from sale of property, plant and equipment	8	374	150
Acquisition of subsidiaries, net of cash acquired	35	(150)	(472)
Acquisition of associates		(120)	-
Proceeds from sale of subsidiaries, net of cash disposed		-	179
Proceeds from sale of available-for-sale investments	10	2,203	325
Purchases of available-for-sale investments	10	(1,241)	(287)
Disposals of financial instruments	10	325	152
Development cost incurred and purchases of intangible assets	11	(538)	(242)
Loans issued		(2,542)	-
Loans repaid		1,796	992
Interest received	31	213	203
Net cash used in investing activities		**(3,840)**	**(2,080)**

In millions of Russian Roubles	Note	2008	2007
Cash flows from financing activities			
Proceeds from borrowings, net of repayments		6,954	926
Interest paid		(1,062)	(657)
Repayment of restructured taxes	20	(117)	(76)
Lease financing		(176)	-
Dividends paid to minority interests		(144)	(57)
Purchase of treasury shares	17	-	(6,541)
Net cash used in financing activities		**5,455**	**(6,405)**
Net increase in cash and cash equivalents		**2,460**	**1,831**
Cash and cash equivalents at the beginning of the year		**4,309**	**2,478**
Cash and cash equivalents at the end of the year	16	**6,769**	**4,309**

In millions of Russian Roubles	Note	Attributable to equity holders of the Company Share capital	Revaluation reserve for available-for-sale investments	Accumulated deficit	Total	Minority interest	Total Equity
Balance at 1 January 2007		**39,287**	**493**	**(8,796)**	**30,984**	**1,520**	**32,504**
Financial assets available-for-sale							
- Fair value gains less losses		-	1,065	-	**1,065**	-	**1,065**
- Income tax recorded in equity			(228)		**(228)**		**(228)**
Currency translation differences		-	-	(8)	**(8)**	-	**(8)**
Net income recognised directly in equity		-	837	(8)	**829**	-	**829**
Profit for the year		-	-	7,427	**7,427**	441	**7,868**
Total recognized income for 2007		**-**	**837**	**7,419**	**8,256**	**441**	**8,697**
Treasury shares	17	(3,926)	-	(2,615)	**(6,541)**	-	**(6,541)**
Dividends declared to minority shareholders		-	-	-	**-**	(178)	**(59)**
Balance at 31 December 2007		**35,361**	**1,330**	**(3,992)**	**32,699**	**1,783**	**34,482**
Financial assets available-for-sale							
- Fair value gains less losses		-	(3)	-	**(3)**	-	**(3)**
- Disposals		-	(1,747)	-	**(1,747)**	-	**(1,747)**
- Income tax recorded in equity			420	-	**420**	-	**420**
Currency translation differences		-	-	(3)	**(3)**	-	**(3)**
Net changes of items recognised directly in equity		-	(1,330)	(3)	**(1,333)**	-	**(1,333)**
Profit for the year		-	-	1,006	**1,006**	59	**1,065**
Total decrease in equity for 2008		**-**	**(1,330)**	**1,003**	**(327)**	**59**	**(268)**
Adjustment to property, plant and equipment, net of taxes	3	-	-	(648)	**(648)**	-	**(648)**
Dividends declared to minority shareholders		-	-	-	**-**	(87)	**(87)**
Balance at 31 December 2008		**35,361**	**-**	**(3,637)**	**31,724**	**1,755**	**33,479**

The accompanying notes on pages 7 to 50 are an integral part of these consolidated financial statements.

1 KAMAZ Group and its Operations

OAO KAMAZ (the “Company”) and its subsidiaries (together referred to as the “Group” or “KAMAZ Group”) primarily operate 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 2008. At 31 December 2008 44.38% of shares in KAMAZ were owned by an institutional investor. These shares are subject to certain restrictions on rights to vote and sell which were imposed by an individual who is also a key member of management of the Company. This institutional investor is referred to in the notes to these consolidated financial statements as the “significant shareholder”. The Russian Federation represented by the Federal Agent managing federal property (Rosimushestvo) is also one of the largest shareholders owing 37.78%. 10% of the shares are owned by Daimler AG. Other shares are distributed between financial investors and employees.

In May 2009 Rosimushestvo transferred its shares in the Company as a share capital injection to100% state-owned enterprise GC“Rostechnologii”. Refer to Note 37.

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.

Registered address. The Company’s registered address is 2 Avtozavodskiy pr., Naberezhnye Chelny, Republic of Tatarstan, Russia, 423827.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in these markets significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets the Russian Rouble have depreciated significantly against some major currencies. The official US Dollar exchange rate of the Central Bank of the Russian Federation (the “CBRF”) increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and to RR 31.29 at 30 June 2009.

International reserves of the Russian Federation have decreased from USD 556,813,000 thousand at 30 September 2008 to USD 427,080,000 thousand at 1 January 2009 and to USD 407 100 000 thousand at 19 June 2009. The commodities market was also impacted by the latest events on the financial markets. Oil prices decreased significantly in the fourth quarter of 2008 and continue to be volatile in 2009. The spot Free On Board price of Brent oil decreased from USD 98 at 29 September 2008 to USD 69 at 29 June 2009.

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.

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.

2 Operating Environment of the Group (Continued)

Recent volatility in global and Russian financial markets. While the Group does not have any exposure to the US sub-prime market, the ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market, have also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Third parties to whom the Group has lent money may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group’s business in the current circumstances.

Going Concern. These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities, when they fall due, for the foreseeable future. The global credit market crisis has had a negative effect on the Russian economy as well as the automotive industry. The volatility in the price of oil, the rapid decline of Russia’s GDP, the devaluation of the rouble and the slowdown of economic growth in the rest of the world have created a very challenging business environment.

The effects of the above economic conditions began impacting the Group in the fourth quarter of 2008 when the demand for trucks fell sharply. The Group's liquidity position, as well as its operating performance, were negatively affected by these economic and industry conditions and by other financial and business factors, many of which are beyond our control. Also as described more fully in Note 18 the Group has breached certain financial covenants under the terms of various loan agreements that may trigger cross-default provisions under other loan agreements. Because the covenant violations give the banks the right to demand early repayment of the loans, loans totalling RR 6,986 million have been reclassified as short-term liabilities in the accompanying balance sheet. If all of the lenders that may become entitled to demand early repayment of the loan should all at once require the settlements be effected, that may raise uncertainty about the Group’s ability to continue as a going-concern, and therefore realise assets and discharge liabilities in the normal course of business.

We are in active negotiations with our lenders to restructure our debts and throughout the process none of them have expressed their intent to accelerate repayment of the Group’s loans. Accordingly, we do not believe that this is a likely scenario. However, there is a risk this may occur and therefore we have assessed the Group’s ability to meet all of its obligations as they become due should this occur.

In assessing our ability to repay our short-term debt obligations and meet other liquidity needs, we have considered, among other things, the amounts and terms of our various credit facilities – both existing at December 31, 2008 and subsequently entered into during 2009, our forecasted cash flows (including various initiatives to reduce our operating expenses and working capital), our ability to streamline our investment expenditures, the Group’s financial position, the impact of the recent financial crisis on the operations of the Group and various forms of support from the Russian government (discussed below). In particular as at 25 June 2009 the Group had available credit limits totalling RR 15,850 million with Russian banks. The terms and conditions of these limits vary depending on the purpose and of use of these funds (refer to Note 18).

The Russian government’s response to the current economic environment includes direct support to certain key industries, including the automotive industry. For KAMAZ, this support includes placing additional government orders for trucks, support in raising long-term (up to 10 years) credit facilities in the amount of RR 9 billion to fund the Group’s capital investment program in 2009-2011, a deferral of payments under the tax restructuring agreement (Note 37) and provision of government guarantees of RR 4.6 billion on loans obtained from Russian banks (which allows the Group to free up additional collateral value, to subsidize interest rates on loans from exporters and borrowings used for technical upgrade and leasing operations).

Because of the actions identified above, we believe that the Group will be able to realise its assets and meet its obligations as they become due and continue as a going concern. Therefore these financial statements have been prepared on this basis.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated 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.

Change in presentation and accounting policies. The accounting policies adopted and methods of computation are consistent with those of the annual consolidated financial statements for the year ended 31 December 2007, as described in the annual consolidated financial statements of the Group for the year ended 31 December 2007, except for the following changes in presentation and accounting.

During 2008 the Group has revised classification of revenue in respect of spare parts, services and trade-in sales, and has changed respectively the comparative figures of Revenue (Note 25) for the year ended 31 December 2007.

A summary of changes in classification is as follows:

In millions of Russian Roubles	**Current year classification**	**Previous year classification**	**Change**
Trucks and assembly kits	63,315	62,290	1,024
Spare parts	14,712	14,951	(238)
Buses, truck trailers and truck mixers	10,540	10,540	-
Metallurgical products	3,542	3,542	-
Leasing income	748	748	-
Truck repair services	357	1,381	(1,024)
Other sales of goods	2,824	2,737	87
Other services	1,191	1,040	151
Total sales	**97,229**	**97,229**	**-**

In 2008 the Group has revised the classification of future finance charges in respect of current and long term portion of finance lease receivable (Note 12). The changes are as follows:

In millions of Russian Roubles	**Current year classification**	**Previous year classification**	**Change**
Minimum lease payments at 31 December 2007 due from 2 to 5 years	2,625	2,625	-
Less future finance charges due from 2 to 5 years	(739)	(401)	(338)
Total long-term finance lease receivables	**1,886**	**2,224**	**(338)**
Minimum lease payments at 31 December 2007 due within 1 year	2,558	2,558	-
Less future finance charges due within 1 year	(282)	(620)	338
Total short-term finance lease receivables	**2,276**	**1,938**	**338**
Total finance lease receivables	**4,162**	**4,162**	**-**

In 2008 the Company revised its accounting for certain properties. The revision resulted in a adjustment to decrease property, plant and equipment by RR 853 million at 1 January 2007, and an adjustment to retained earnings in 2008 of RR 648 million, net of deferred taxes of RR 205 million.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 recognized in the income statement. Management assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. An impairment loss recognized in prior years is adjusted if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized 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:

	Useful lives in years
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 capitalized 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 recognized 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).

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.

3 Summary of Significant Accounting Policies (Continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognized 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 recognized 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 recognized 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 recognized 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.

Intangible assets. The Group's intangible assets have definite useful lives and primarily include capitalized 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's ability and intention to complete or sell the project, and the 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:

	Useful lives in years
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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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). Restructured taxes are recognised in these consolidated financial statements as provision for future liabilities in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent assets". Changes in the balance sheet value are recorded in the income statement in the period in which they arise.

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.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” and recognized at inception at the present value of the future repayments, discounted using the market rate of interest for similar loans.

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 ”Uncertain tax position”.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized 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 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

The Company 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.

3 Summary of Significant Accounting Policies (Continued)

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 25. Substantially all of the Groups' assets are located in and capital expenditure is made in the Russian Federation.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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. KAMAZ Group entities estimate tax provision on the basis of the following: tax claims resulting from the completion of tax audits are recognised and other tax risks are also estimated with the involvement of internal tax experts and lawyers. Judgement is applied in this process. Tax assets are written down or liabilities are recorded for income tax positions that are determined as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. Other tax exposures higher than remote are disclosed, but no provision or liability is recognised in the financial statements. See also Notes 20, 21 and 33.

Deferred income tax asset recognition. The deferred tax asset at 31 December 2008 of RR 2,519 million (at 31 December 2007: RR 3,530 million) represents income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable, management makes judgments and applies estimates based on history of taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

If management assumptions are different, the taxable profits would not be available for utilization of deferred tax assets, deferred tax assets would be lower by RR 2,519 million (at 31 December 2007: RR 3,530 million) and income expense would be higher by the same amount.

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. 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 our best judgment 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.

Related party transactions. Disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies of the Russian Federation that are considered to be related parties for the Group. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgment is applied by management in determining the scope of operations with related parties to be disclosed in the consolidated financial statements. Refer to Note 7.

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).

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

The interest rate used for the 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 2008 was assumed to be equal to 19.8% per annum (2007: 9.5%). If applied interest rate were higher or lower by 10%, respective liabilities would be RR 382 million lower or RR 681 million higher (at 31 December 2007: RR 846 million lower or RR 1,444 million higher), respectively.

Useful lives of property, plant and equipment. Management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 8). 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.

If the actual useful lives of the property, plant and equipment were lower or higher by 10% from management's estimates, the carrying amount of the plant and equipment and depreciation expense at 31 December 2008 would be approximately RR 892 million (at 31 December 2007: RR 639 million) higher or RR 895 million (at 31 December 2007: RR 688 million) lower, respectively. The impact on the income statement would be RR 253 million loss (2007: RR 230 million of loss) or RR 207 million of income (2007: RR 188 million of income), respectively.

Impairment losses on finance lease receivables. The Group regularly reviews its finance lease receivables for impairment. In determining whether an impairment loss should be carried through profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a leasing portfolio before the decrease can be identified with an individual leasing contract in that portfolio. This evidence may include measurable data indicating that there has been an adverse change in the payment status of lessees in a company, or national or local economic conditions that correlate with defaults in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Two key assumptions used are net realisable value of the pledges and percent of collectability of the cash flows for overdue lease receivables. If the actual results higher or lower by 10% from management's estimates, the amount of lease receivable at 31 December 2008 would be approximately RR 79 million (at 31 December 2007: RR 7 million) higher or RR 67 million (at 31 December 2007: 4) lower. The impact on the income statement would be the same.

Provision for trade and other receivables. The Group regularly reviews its trade and other receivables to assess if any provision is required. In determining whether a provision should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from trade receivable. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. If recoverability of overdue receivables would higher or lower by 10% from management estimates, than the amount of trade and other receivables at 31 December 2008 would be approximately RR 49 million (at 31 December: 2007 RR 19 million) higher or RR 35 million lower (at 31 December: 2007 RR 17 million), respectively. The impact on the income statement would be the same.

Provision for inventory. Group reviews net realisable value of its finished goods using judgment about future selling prices and related selling costs. If estimated net realisable value were higher or lower by 10% from carrying value of finished goods at 31 December 2008 that would be RR 761 million (at 31 December: 2007 RR 3 million) higher or RR 322 million lower (at 31 December: 2007 RR 1 million), respectively. The impact on the income statement would be the same.

Group entities review inventory turnover variances from the established standards by category and investigate significant variances (Note 14). 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 2008 would be by RR 261 million (at 31 December 2007: 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 261 million (at 31 December 2007: RR 228 million) higher. The impact on the income statement would be the same.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Provisions for liabilities and charges. The Group has liabilities under contracts for purchase of equipment. The Group has decided to cancel some contracts as result of reconsideration of its investment program. Under the majority of these contracts the Group has a liability to compensate costs incurred. Judgment is used in identification of contacts to be cancelled and measurement of suppliers costs incurred in relation to respective contracts. If the estimation of costs incurred on these contracts were 10% higher or lower, the amount of respective liability recognized in financial statements at 31 December 2008 would be RR 22 million (at 31 December 2007: nil) higher or RR 22 million lower (at 31 December 2007: nil), respectively. The impact on the income statement would be the same.

Impairment test of property, plant and equipment. At 31 December 2008 the Group performed an impairment test of property, plant and equipment. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period and the expected market prices for trucks, assembly kits and spare parts for the same period according to the leading industry publications, which are broadly in line with 2007 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used of 17.8% is pre-tax and reflects specific risks relating to the relevant CGUs. The Group recognized impairment of property, plant and equipment in amount of RR 679 million (Note 8). If discount rate would be on 3% higher or lower, then the impairment of property, plant and equipment would be RR 6,239 million higher or RR 330 million lower.

Post-retirement benefit obligation. Post-retirement benefit obligations represent future constructive obligations to the Group's retired employees arising from the non-state pension plan adopted by the Group, a collective agreement between the Group and its employees and other constructive obligations to its retired employees related to their post-retirement benefits. Judgment is applied by the management to estimate the amount of these obligations. The methodology and assumptions used are reviewed regularly to reduce any differences between estimates and actual payment experience. Key assumptions used by management include size of payment, discount factor applied, turnover ratio, annuity factor and others. If key assumption factors would be 20% higher or lower, defined benefit obligations would be RR 149 million higher or RR 103 million lower, respectively.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRS became effective for the Group from 1 January 2008.

- 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 Interactions (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described, the new standards and interpretations did not affect the Group's financial statements.

6 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 2009 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 organization 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 for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. This does not have an impact on Group's consolidated financial statements as the Group does not have any puttable instruments.

6 New Accounting Pronouncements (Continued)

IAS 23, Borrowing costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). IAS 23 removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The revised IAS 23 would not have impact on the Group's accounts as the Group already capitalizes borrowing costs.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). 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. 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 (balance sheet) 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.

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 application of the standard is prospective and will affect only future acquisitions.

Vesting Conditions and Cancellations—Amendment to IFRS2, 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.

6 New Accounting Pronouncements (Continued)

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. 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 is currently assessing the impact of the amended standards on its consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in 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.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. This amendment will not have an impact on Group's consolidated financial statements as the Group does not apply hedge accounting.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

***IFRIC 17, Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009).** The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

6 New Accounting Pronouncements (Continued)

IFRS 1, First-time Adoption of International Financial Reporting Standards **(following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).** The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers **(effective for annual periods beginning on or after 1 July 2009)*.*** The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures **(issued in March 2009; effective for annual periods beginning on or after 1 January 2009).** The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

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

7 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. An entity's joint venture or key management personnel are also considered as related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Unless otherwise noted, transactions with related parties, including loans received from state owned banks, sales of products to government agencies and government owned companies are made on an arm's length basis. The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2008 and 2007 or had significant balances outstanding at 31 December 2008 and 31 December 2007 is detailed below:

	As of 31 December 2008		For the year ended 31 December 2008	
In millions of Russian Roubles	**Total assets**	**Total liabilities**	**Income**	**Expenses**
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	289	1,014	-	1,188
Unified social tax	-	145	-	3,711
VAT recoverable/payable	1,152	562	-	-
Other taxes	2,874	225	-	815
Restructured taxes	-	1,330	539	-
Deferred income	-	51	-	-
Long-term loans and borrowings	-	3,173	-	-
Short-term loans and borrowings	-	8,540	-	-
Interest expense	-	-	-	705
Trade and other receivables	374	-	-	-
Available-for-sale investments (Note 10)	1,241	-	-	-
Trade and other payables	-	554	-	-
Sales of goods	-	-	5,793	-
Purchases of goods	-	-	-	3,362
Gain on disposals of associates	-	-	85	-
Balances and transactions with shareholders with significant influence				
Cash and cash equivalent	2,260	-	-	-
Sales of available-for-sale investments (Note 10)	-	-	1,747	-
Other expenses	-	-	-	12
Balances and transactions with a subsidiary, 49% owned by a key member of management				
Sales of goods to subsidiary	-	-	1,916	-
Net profit earned by subsidiary	-	-	247	-
Balances and transactions with minority shareholders of subsidiaries				
Dividends accrued	-	-	-	121
Interest expenses	-	-	-	-
Balances and transactions with JV				
Trade and other receivables	136	-	-	-
Trade and other payables	-	399	-	-
Sales of goods	-	-	236	-
Purchases of goods	-	-	-	3,040
Balances and transactions with associates				
Trade and other receivables	92	-	-	-
Sales of goods	-	-	593	-
Purchases of goods	-	-	-	12

7 Balances and Transactions with Related Parties (Continued)

In millions of Russian Roubles	As of 31 December 2007 Total assets	Total liabilities	For the year ended 31 December 2007 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	-	3,797	-	-
Short-term loans and borrowings	-	4,782	-	-
Interest expense	-	-	-	399
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				
Available-for-sale investments (Note 10)	2,203	-	-	-
Interest income	-	-	76	-
Services rendered	-	-	-	12
Balances and transactions with a subsidiary, 49% owned by a key member of management				
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

In 2008, the amount of remuneration of the Board of Directors (11 people) and Management Board members (9 people) comprised salaries, discretionary bonuses and other short-term benefits totalling RR 178 million (year ended 31 December 2007: RR 211 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 capitalization of the company and is limited to a maximum of RR 150 million. Due to significant decrease of capitalization of the Company in 2009 no remuneration accrual was made during 2008 (2007: RR 36 million). The total balance accrued at 31 December 2007 was RR 72 million.

Details of cash and cash equivalents, operated by shareholders with significant influence, are presented in Note 16.

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

At 31 December 2008 Company had guarantees issued to its balances and transactions with a subsidiary, 49% owned by a key member of management, amounting to RR 3,049 million (31 December 2007: RR 2,647 million).

In 2007 the Group sold a land plot and premises to Tatarstan Minsitry of Finance. In 2008 the receivable for this deal was partially settled by purchase of 50% share in OAO KIP-Master - refer to Note 35. The remaining receivable as at 31 December 2008 in amount RR 160 million was agreed to be settled by lease payments operating lease of premises by KAMAZ during the next 3 years.

8 Property, Plant and Equipment

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

In millions of Russian Roubles	Land	Buildings	Plant and equipment	Other	Assets under construc-tion	Total
Cost						
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**
Additions through business combinations (Note 35)	-	776	-	39	32	847
Additions	-	-	-	-	4,817	4,817
Disposals	(18)	(356)	(209)	(161)	(21)	(765)
Write-off	-	-	-	-	(133)	(133)
Adjustment to property, plant and equipment (Note 3)	-	(853)	-	-	-	(853)
Impairment of fixed assets	-	(456)	(222)	(1)	-	(679)
Transfers	28	1,171	1,728	568	(3,495)	-
Balance at 31 December 2008	**1,652**	**18,355**	**11,966**	**2,195**	**3,560**	**37,728**
Accumulated Depreciation						
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)**
Depreciation expense for the year 2008	-	(741)	(1,226)	(302)	-	(2,269)
Disposals	-	37	80	63	-	180
Balance at 31 December 2008	**-**	**(2,908)**	**(4,275)**	**(1,064)**	**-**	**(8,247)**
Net Book Value						
Balance at 31 December 2007	**1,642**	**15,869**	**7,540**	**925**	**2,360**	**28,336**
Balance at 31 December 2008	**1,652**	**15,447**	**7,691**	**1,131**	**3,560**	**29,481**

Interest capitalized during 2008 within the cost of acquired property, plant and equipment totaled RR 252 million (2007: RR 191 million). Interest rate used to determine the amount of borrowing costs eligible for capitalization was 8.4% 2008 (2007: 8.3%).

Impairment losses relate to certain items of property, plant and equipment that were recognised as functionally obsolete in the respective financial year. In 2008, impairment losses include RR 679 million identified as a result of the testing at the level of cash generating units.

9 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.

In millions of Russian Roubles	2008	2007
Carrying amount at 1 January	**727**	**218**
Fair value of net assets of associates and joint ventures acquired	120	472
Share of results of associates and joint ventures, after tax	(22)	43
Reclassification from subsidiary to associate / (from associate to subsidiary)	(261)	(6)
Impairment of goodwill	(56)	-
Carrying amount at 31 December	**508**	**727**

9 Investment in Associates and Joint Ventures (Continued)

a) Investment in Associates

The Group has shares in 17 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 2008 and 31 December 2007 is set out below:

In millions of Russian Roubles	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 2008									
ZF KAMA	49.99%	29	(17)	818	(813)	55	-	1,767	(34)
Bikam	49%	25	-	25	-	25	-	-	-
Vinacomin Motor Industry Company	37.64%	22	2	112	(55)	43	(42)	307	6
KazAvtoSbor	40%	20	-	-	-	51	-	-	-
Centrul Auto KAMAZ	40%	10	3	29	(4)	1	-	82	9
Magadanskiy autocenter KAMAZ	25%	5	3	66	(58)	10	-	306	14
Astrakhanskiy autocenter KAMAZ	22.94%	-	-	5	(3)	-	-	13	-
Other	20-50%	6	6	101	(82)	27	(27)	664	1
Total		**117**	**(3)**	**1,156**	**(1,015)**	**212**	**(69)**	**3,139**	**(4)**
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**

b) Investment in Joint Ventures

As at 31 December 2008 the Group has interests in the following jointly controlled entities: Cummins-KAMA, 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 2008 and 31 December 2007 is set out below:

In millions of Russian Roubles	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 2008									
CUMMINS KAMA	50%	254	(22)	1,205	(702)	97	(92)	1,519	(43)
Federal Mogul Powertrain Production	50%	120	12	215	(1)	27	(1)	-	24
Knorr-Bremse KAMA	50%	17	(9)	86	(75)	24	(1)	192	(18)
Total		**391**	**(19)**	**1,506**	**(778)**	**148**	**(94)**	**1,711**	**(37)**
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**

9 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.

In September 2008 the Group increased its share in OOO "KIP-Master" from 50% to 100%. Corresponding investment was reclassified from associate to subsidiary companies. At the date of acquisition of this additional stake the net assets of OOO "KIP-Master" were RR 650 million (Note 35).

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

a) Available-for-sale investments

In millions of Russian Roubles	2008	2007
Name		
Related parties promissory notes	1,241	-
KAMAZ-Capital (11.2% of share capital)	-	2,203
Other	5	8
Total	**1,246**	**2,211**

At 31 December 2007 OAO KAMAZ-Capital held 33.2% of the Company's share capital. The Company holds an investment in OAO KAMAZ-Capital representing 11.2% of its shares. This investment was acquired in exchange for 26,323 thousand shares of the Company (3.72% of Company share capital) in 2005. In December 2007 the Company transferred these shares to a trust operated by the significant shareholder. On 15 April 2008 these shares were sold to the significant shareholder for 83.7 RR per share for a total amount of RR 2,203 million. Gain from the sale of this available-for-sale investment in the amount of RR 1,747 million was recognised in the income statement.

Related parties promissory notes comprise promissory notes of Sberbank with interest rate of 11-13.25 % per annum.

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 recognised at fair value through profit or loss of the Group as of 31 December 2008 and 31 December 2007.

In millions of Russian Roubles	Corporate bonds	Corporate shares	Total
31 December 2008			
Medium sized companies	7	-	7
Small companies	-	12	12
Total current amounts	**7**	**12**	**19**

In millions of Russian Roubles	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**

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

In millions of Russian Roubles	2008	2007
Bonds due: - within 1 year	-	32
- between 2 and 5 years	7	204
Total	**7**	**236**

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

b) Financial instruments at fair value through profit or loss (Continued)

None of bonds were past due.

Effective interest rates attached to the bonds were as follows:

In millions of Russian Roubles	2008	2007
Effective interest rate:		
8-10%	6	138
10-12%	1	53
12-14%	-	45
Total	**7**	**236**

11 Intangible Assets

Intangible assets comprise the following:

In millions of Russian Roubles	Development costs	Other Intangible Assets	Total
Cost			
Balance at 31 December 2006	**359**	**61**	**420**
Additions	187	55	242
Balance at 31 December 2007	**546**	**116**	**662**
Additions	369	169	538
Write-off	(83)	(38)	(121)
Balance at 31 December 2008	**832**	**246**	**1,079**
Accumulated Amortisation			
Balance at 31 December 2006	**(60)**	**(34)**	**(94)**
Amortisation expense	(49)	(15)	(64)
Balance at 31 December 2007	**(109)**	**(49)**	**(158)**
Amortisation expense	(58)	(11)	(69)
Balance at 31 December 2008	**(167)**	**(60)**	**(227)**
Net Book Value			
Balance at 31 December 2007	**437**	**67**	**504**
Balance at 31 December 2008	**665**	**186**	**852**

Development costs capitalized comprise the following projects:

In millions of Russian Roubles	Expected useful life	2008	2007
New cab family	7-10 years	129	-
Heavy truck family (KAMAZ-6520)	7 years	122	88
Engines Euro--5	5-10 years	98	40
Buses KAMAZ-NEFAZ	7 years	64	76
All-wheel-drive truck family	5 years	50	30
Long-haul truck (KAMAZ-6520)	7 years	37	32
Gas engines	5-10 years	30	25
Engines Euro-3, Euro-4	5-10 years	28	49
Light truck family	7 years	26	16
Modernized cargo family	7 years	23	21
Light truck family (KAMAZ-4308)	7 years	12	13
Heavy truck family (KAMAZ-6XXX)	7 years	11	10
Engines Euro-2	5-10 years	-	2
Others	3-7 years	35	35
Total		**665**	**437**

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

12 Finance Lease Receivables

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

In millions of Russian Roubles	**Due within 1 year**	**Due between 2 and 5 years**	**Total**
Minimum lease payments at 31 December 2007	2,558	2,625	5,183
Less future finance charges	(282)	(739)	(1,021)
Present value of minimum lease payments at 31 December 2007	**2,276**	**1,886**	**4,162**
Minimum lease payments at 31 December 2008	2,623	1,930	4,553
Less future finance charges	(230)	(588)	(818)
Less impairment provision	(99)	(73)	(172)
Present value of minimum lease payments at 31 December 2008	**2,294**	**1,269**	**3,563**

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 26.8% in 2008 (2007: 21.3%). The fair value of finance lease receivables as at 31 December 2008 is not significantly different to their carrying value.

At 31 December 2008 lease balances are as following:

In million of Russian Roubles	**2008**	**2007**
Current and not impaired	2,890	3,776
Past due but not impaired (less than 30 days overdue)	217	246
Individually impaired		
- 30 days to 90 days overdue	215	159
- 90 days to 120 days overdue	254	2
- more than 120 days overdue	159	-
Total individually impaired	628	161
Impairment loss provision	(172)	(21)
Total lease balances	**3,563**	**4,162**

The fair value of collateral for past due but not impaired and individually impaired balances comprised RR 1,032 million (2007: RR 453 million).

13 Other Non-Current Assets

Other non-current assets consist of the following:

In millions of Russian Roubles	31 December 2008	31 December 2007
Advances issued for equipment	257	334
Long term receivables	216	330
(less impairment provision for long term receivables)	-	(36)
Long term receivables, net	216	294
Other	70	72
Total non-current assets	**543**	**700**

Long term receivables as at 31 December 2007 principally comprised receivables for sale of land and industrial buildings to Tatarstan Ministry of Land and Property Affairs totalling RR 146 million with initial conditions of regular instalments during 3 years. The fair value of these receivables was determined at initial recognition using a discount rate of 7.8% applied for financial instruments with the same credit risk and maturity. In the first quarter of 2008 management re-negotiated the conditions of payment with Tatarstan Ministry of Land and Property Affairs and payment was settled in exchange for a non-cash asset. Refer to Note 35.

At 31 December 2008 other non-current assets included RR 110 million of advances for property, plant and equipment denominated in Euros.

14 Inventories

In millions of Russian Roubles	2008	2007
Raw materials and consumables	7,354	6,043
(Less net realizable value provision)	(680)	(620)
Raw materials and consumables, net	6,674	5,423
Work in progress	3,196	2,920
Finished goods	12,864	4,953
(Less net realizable value provision)	(964)	(4)
Finished goods, net	11,900	4,949
Total inventory	**21,770**	**13,292**

15 Trade and Other Receivables

In millions of Russian Roubles	2008	2007
Trade receivables	4,265	3,843
(less impairment provision for trade accounts receivable)	(554)	(185)
Trade receivables, net	3,711	3,658
Advances issued and prepayments	1,786	2,135
(less impairment provision for advances issued and prepayments)	(52)	(22)
Advances issued and prepayments, net	1,734	2,113
Other receivables	666	837
(less impairment provision for other receivables)	(32)	(65)
Other receivables, net	634	772
Loans issued	657	-
VAT recoverable	1,152	2,133
Other prepaid taxes	1,932	1,239
Total trade and other receivables	**9,820**	**9,915**

The Group's receivables include RR 657 million loans issued to its dealers. Loans bear interest of 13 – 14 % per annum.

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

15 Trade and other receivables (Continued)

Analysis of trade receivables is as following:

In millions of Russian Roubles	**2008**	**2007**
Current and not impaired	3,218	3,133
Past due but not impaired		
- less than 30 days overdue	353	198
- 30 days to 60 days overdue	275	137
- 60 days to 90 days overdue	128	190
Total past due but not impaired	756	525
Individually impaired		
- 90 days to 120 days overdue	90	4
- 120 days to 365 days overdue	33	36
- more than 1 year overdue	168	145
Total individually impaired	291	185
Impairment loss provision	(554)	(185)
Total trade receivables	**3,711**	**3,658**

Accounts receivable denominated in foreign currency:

In millions of Russian Roubles	**2008**	**2007**
USD	303	38
Euros	118	465
Other CIS currencies	330	321
Total	**751**	**824**

16 Cash and Cash Equivalents

In millions of Russian Roubles	**2008**	**2007**
Term deposits	5,077	306
Cash in bank	1,351	3,940
Bank promissory notes	341	63
Total cash and cash equivalents	**6,769**	**4,309**

As at 31 December 2008 term deposits included a non interest-bearing investment account amounting to RR 2,260 million deposited with a significant shareholder.

Term deposits amounting to RR 2,569 million are deposits in Citibank and Gazprombank, deposits totalling RR 248 million are allocated in Sberbank and other banks.

Deposits bear interest in the 2008 of 1-15 % per annum (2007: 1.5-11% per annum). The other cash balances are not interest-bearing.

Cash balances denominated in foreign currency:

In millions of Russian Roubles	**2008**	**2007**
USD	126	101
Euros	36	66
Other CIS currencies	95	65
Total	**257**	**232**

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.

17 Share Capital

In millions of Russian Roubles	Number of outstanding shares (in thousands)	Ordinary shares Nominal amount
At 31December 2006	**785,748**	**39,287**
Share buy-back	(78,518)	(3,926)
At 31 December 2007	**707,230**	**35,361**
At 31 December 2008	**707,230**	**35,361**

Total amount of authorised ordinary shares is 707,230 thousand (2007: 707,230 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 Company by no more than 10% of share capital or 78,575 thousand shares through the purchase of own shares and their futher 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: Company 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).

18 Borrowings

The Group's borrowings mature as follows:

In millions of Russian Roubles	2008	2007
Borrowings due: - within 1 year	18,960	8,312
- between 2 and 5 years	1,424	3,111
- after 5 years	2,023	1,327
Total borrowings	**22,407**	**12,750**

Long-term borrowings

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

	Carrying value		Fair value	
In millions of Russian Roubles	**2008**	**2007**	**2008**	**2007**
Ministry of Finance of RF	2,370	1,557	1,457	1,279
Sberbank	455	309	364	309
AK Bars Bank	289	515	240	515
ALFA Bank	51	-	45	-
Raiffeisenbank	29	-	24	-
Vneshtorgbank	8	1,415	6	1,415
Absolut bank	-	200	-	200
Kanematsu	-	181	-	181
Bank Zenit	-	37	-	37
Other	245	224	197	224
Total long-term borrowings	**3,447**	**4,438**	**2,333**	**4,160**

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.

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

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

	2008	2007
Ministry of Finance (in Yen)	1 %	1 %
Kanematsu (in Yen), 6-months repricing period	-	Yen LIBOR + 3 %
VTB (in Euros), 6-months repricing period	-	EURIBOR + 3.6 %
Other	8%-16%	7%-14%

18 Borrowings (Continued)

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

	31 December 2008		31 December 2007		
% per annum	Russian Roubles	Yens	Russian Roubles	Euros	Yens
Ministry of Finance (in Yen)	-	6.6%	-	-	6.6%
Kanematsu (in Yen)	-	-	-	-	3.1%
VTB (in Euros)	-	-	-	7.98%	-
Other credits (in RR)	8%-16%	-	7%-14%	-	-

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

In millions of Russian Roubles	2008	2007
Borrowings denominated in:		
- Yens	2,370	1,738
- Russian Roubles	1,015	1,556
- Euros	-	1,117
- Other CIS currencies	62	27
Total long-term borrowings	**3,447**	**4,438**

Short-term borrowings

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

In millions of Russian Roubles	2008	2007
Current portion of long-term borrowings :		
Syndicated loan	5,097	-
COMMERZBANK (EURASIJA) SAO	1,474	-
Ak Bars Bank	962	871
EBRD	790	824
Kanematsu	232	29
Absolut bank	150	-
ALFA Bank	146	305
Ministry of Finance of Russian Federation	97	70
Bank Zenit	31	245
Vneshtorgbank	-	379
Other lenders	176	21
Subtotal current portion of long-term borrowings:	9,155	2,744
Short-term borrowings:		
Sberbank	3,403	3,009
Gazprombank	2,260	-
Vneshtorgbank	1,798	419
ING Bank (EURASIA) ZAO	663	-
AvtoVazBank	500	-
Akibank	455	-
Uralsib	154	-
Domestic bonds	21	1,500
Bank Zenit	10	-
Ak Bars Bank	-	23
Other lenders	375	501
Subtotal short-term borrowings	9,639	5,452
Interest payable	166	116
Total short-term borrowings	**18,960**	**8,312**

Current portion of long-term loans as at 31 December 2008 is RR 9,155 million (2007: RR 2,744 million). Under the terms of its agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios, financial indebtedness and cross-default provisions.

18 Borrowings (Continued)

Under the terms of agreements with EBRD, Absolut bank and syndicated loan the Group did not comply with certain covenants attached to those loans. The breach of covenants under the above-mentioned loans triggered cross-default provisions under both the long term loan agreements with Commerzbank, Kanematsu, VTB and ING Bank totaling RR 6,632 and short term loan agreements totalling RR 2,829 million. These banks have the right to require early repayment of the whole amount of these loans. Due to breach of covenants and cross-default provisions, long-term loans totalling RR 6,632 million were classified as short-term in the balance sheet.

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 Domestic bonds were puttable at the option of holders on 25 September 2008. Bonds in total amount RR 1,491 million were redeemed at the time of the put option. The coupon rate was reset at 11.25%.

The interest rates for short-term loans were 2.34-18% per annum at 31 December 2008 (2007: 7-17% per annum).

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

In millions of Russian Roubles	2008	2007
Borrowings denominated in:		
- Russian Roubles	8,998	6,944
- Euros	7,295	410
- US Dollars	2,280	824
- Yens	331	99
- Other CIS currencies	56	35
Total short-term borrowings	**18,960**	**8,312**

At 31 December 2008 Group's approved credit limits with Russian banks totalled RR 15,700 million; the unused portion was RR 8,173 million. These limits are denominated in Russian Roubles with interest rates ranging from 14% to 19%. Some of the agreements also permit the Group to borrow in US Dollars at interest rates ranging from 8.5% to 13.5% and Euros at interest rate ranging from 10% to 14.5%. Of the RR 15,700 million of approved credit, RR 6,700 million are for terms less than one year, and RR 9,000 million are for terms greater than one year. In 2009 the Group increased the amount of approved short-term credit limits to RR 6,850 million.

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 2008 and 31 December 2007.

19 Other Taxes Payable

Taxes payable within one year comprise the following:

In millions of Russian Roubles	2008	2007
Value-added tax	562	171
Unified social tax	145	200
Personal income tax	85	87
Property tax	41	23
Tax penalties and interest	2	8
Other taxes	98	52
Total	**933**	**541**

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.

20 Restructured Taxes (Continued)

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:

In millions of Russian Roubles	2008	2007
Carrying amount at 1 January	**1,987**	**1,664**
Tax restructuring (reclassification from current taxes payable)	-	933
Gain from restructuring, including forgiveness of penalties	-	(695)
Payments	(117)	(76)
Interest expense	174	161
Effect of changes of discount rate	(714)	-
Carrying amount at 31 December	**1,330**	**1,987**
Current portion of tax restructured	157	101
Long-term portion of tax restructured	1,173	1,886

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 19.84% (2007: 9.5%).

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

In millions of Russian Roubles	2008	2007
- within 1 year	157	101
- between 2 and 5 years	576	707
- after 5 years	597	1,179
Total	**1,330**	**1,987**

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. This agreement was further amended in 2009, see Note 37.

21 Provisions for Liabilities and Charges

Provisions for liabilities and charges changed in the following manner:

In millions of Russian Roubles	Warranty provision	Taxes other than on income, fines and penalties	Other liabilities and charges	Total
Carrying value at 31 December 2006	**295**	**882**	**-**	**1,177**
Accruals 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**
Accruals charged to profit and loss	-	56	285	341
Utilised	(247)	(402)	-	(649)
Carrying value at 31 December 2008	**251**	**800**	**285**	**1,336**
Current portion 2007	332	1,146	-	1,478
Current portion 2008	251	800	285	1,336

Warranty. The Group provides warranties in respect of automotive trucks for a period of 12 months or 75,000 km of mileage and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 251 million (2007: RR 498 million) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

21 Provisions for Liabilities and Charges (Continued)

Taxes other than on income, fines and penalties: The Group has recorded provisions of RR 800 million (2007: RR 1,146 million). The balance at 31 December 2008 is expected to be either fully utilised or released by the end of 2012. Provision for tax liabilities relates to tax contingencies resulting from uncertain interpretation of tax legislation.

Other liabilities and charges: The Group recognized a provision for other liabilities and charges of RR 285 million (2007: nil) in relation to cancellation penalties for contracts previously entered into for equipment purchase.

22 Trade and Other Payables

In millions of Russian Roubles	**2008**	**2007**
Trade payables	11,384	6,816
Advances received	1,642	3,526
Wages and salaries payable	1,412	2,097
Other	581	596
Trade and other payables	**15,019**	**13,035**

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:

In millions of Russian Roubles	**2008**	**2007**
Euros	404	272
USD	159	112
Other CIS currencies	157	50
Total	**720**	**434**

23 Finance Lease Payables

Significant increase of non-current and current finance lease payables relates to purchase of airplane by KamAviaTrans, a Group subsidiary. As at 31 December 2008 they comprise RR 533 and 24 million respectively.

Minimum lease payments under finance leases and their present values are as follows:

In millions of Russian Roubles	**Due within 1 year**	**Due between 2 and 5 years**	**Due more than 5 years**	**Total**
Minimum lease payments at 31 December 2007	5	14	-	19
Less future finance charges	-	-	-	-
Present value of minimum lease payments at 31 December 2007	**5**	**14**	**-**	**19**
Minimum lease payments at 31 December 2008	94	295	498	887
Less future finance charges	(46)	(35)	(155)	(236)
Present value of minimum lease payments at 31 December 2008	**48**	**260**	**343**	**651**

24 Post-Retirement Benefit Obligation

Payments to state pension fund were RR 2,711 million for 2008 (2007: RR 2,386 million). At 31 December 2008 defined benefit liabilities recognised in the balance sheet as other non-current liabilities were RR 107 million (31 December 2007: RR 47 million), unrecognised amount of defined benefit liabilities was RR 340 million (31 December 2007: RR 332 million). The difference in the amount of RR 233 million (31 December 2007: RR 285 million) between the benefit obligation and the liability recognised is primarily due to the deferral of past service costs that are expensed over the remaining estimated periods of service.

25 Revenue

In millions of Russian Roubles	2008	2007
Trucks and assembly kits	62,142	63,315
Spare parts	15,209	14,712
Buses, truck trailers and truck mixers	9,500	10,540
Metallurgical products	3,176	3,542
Finance lease income	766	748
Truck repair services	385	357
Other sales of goods	3,641	2,824
Other services	1,529	1,191
Total	**96,348**	**97,229**

Sales of goods include RR 567 million (2007: RR 215 million) and purchase of the materials include RR 3,260 million (2007: RR 1,476 million) settled using bills of exchange.

In millions of Russian Roubles	2008	2007
Domestic sales		
Trucks and assembly kits	46,760	46,252
Spare parts	12,363	11,000
Buses, truck trailers and truck mixers	8,902	9,532
Leasing income	766	748
Other sales	8,302	7,766
Total domestic sales	**77,093**	**75,298**
Export sales		
Trucks and assembly kits	15,382	17,063
Spare parts	2,846	3,712
Buses, truck trailers and truck mixers	598	1,008
Other sales	429	148
Total export sales	**19,255**	**21,931**
Total	**96,348**	**97,229**

26 Cost of Sales (Excluding Impairment of Property, Plant and Equipment)

Cost of sales includes the following items:

In millions of Russian Roubles	2008	2007
Materials and components used	64,832	57,758
Labour costs	12,428	10,899
Fuel and energy	3,527	3,687
Services	2,475	1,790
Depreciation of property, plant and equipment	1,951	1,808
Inventory provision	1,020	102
Provisions for other liabilities charges	285	-
Warranty accruals	-	482
Other costs	674	292
Changes in inventory of finished goods and work in progress	(8,024)	(1,217)
Total	**79,168**	**75,601**

27 Distribution Costs

Distribution costs comprise:

In millions of Russian Roubles	2008	2007
Labour costs	1,645	1,318
Transportation expenses	813	813
Material consumed	839	708
Other services	702	468
Impairment provision for receivables	558	54
Advertising	273	268
Depreciation of property, plant and equipment	85	51
Insurance	82	69
Customs duty	43	49
Other distribution costs	271	382
Total	**5,311**	**4,180**

28 General and Administrative Expenses

General and administrative expenses include the following items:

In millions of Russian Roubles	2008	2007
Labour costs	3,282	2,884
Taxes other than income tax	815	659
Services	878	772
Insurance	238	305
Depreciation of property, plant and equipment	233	208
Bank services	130	89
Consulting and information services	209	101
Business trip costs	152	169
Material consumed	128	122
Amortization of intangible assets	69	64
Other expenses	166	244
Provision (benefit) for taxes other than income tax	(346)	264
Total	**5,954**	**5,881**

29 Other Operating Income and Expenses

Other operating income comprises:

In millions of Russian Roubles	2008	2007
Foreign exchange gains	408	-
Reimbursement of leasing expenses	113	65
Reimbursement of damages	114	-
Gain on disposals of associates	85	-
Gain on disposal of inventory	73	16
Gain on disposal of property, plant and equipment	-	196
Gain on sale and other disposals of subsidiaries	-	92
Other operating income	128	109
Total	**921**	**478**

29 Other Operating Income and Expenses (Continued)

Other operating expenses comprise:

In millions of Russian Roubles	**2008**	**2007**
Social expenditures and charity	996	839
Loss on disposal of property, plant and equipment	211	-
Loss on write-off of property, plant and equipment	133	55
Loss on acquisition of associates	56	-
Loss on sale and other disposals of subsidiaries	7	-
Foreign exchange losses	-	77
Other operating expenses	66	60
Total	**1,469**	**1,031**

30 Expenses by Nature

Materials and components in:

In millions of Russian Roubles	**2008**	**2007**
Cost of sales (excluding Impairment of property, plant and equipment)	64,832	57,758
Distribution costs	839	708
General and administrative expenses	128	122
Total	**65,799**	**58,588**

Wages and salaries in:

In millions of Russian Roubles	**2008**	**2007**
Cost of sales (excluding Impairment of property, plant and equipment)	12,428	10,899
General and administrative expenses	3,282	2,884
Distribution costs	1,645	1,318
Total	**17,355**	**15,101**

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

In millions of Russian Roubles	**2008**	**2007**
Cost of sales (excluding Impairment of property, plant and equipment)	1,951	1,808
General and administrative expenses	233	208
Distribution costs	85	51
Total depreciation of property, plant and equipment	**2,269**	**2,067**
Amortization of intangible assets	69	64
Total	**2,338**	**2,131**

Impairment and write-off of assets in:

In millions of Russian Roubles	**2008**	**2007**
Cost of sales (excluding Impairment of property, plant and equipment)	1,305	102
Impairment of property, plant and equipment	679	-
Distribution costs	558	54
Research and development costs	83	-
Other operating expenses	171	55
Total	**2,796**	**211**

31 Finance Income and Costs

Finance income comprises of the following:

In millions of Russian Roubles	**2008**	**2007**
Interest income on promissory notes and loans issued	213	203
Foreign exchange gains	-	31
Total	**213**	**234**

Finance cost comprises the following:

In millions of Russian Roubles	**2008**	**2007**
Foreign exchange loss	2,608	-
Interest on loans and borrowings	1,365	828
Less interest capitalized	(252)	(191)
Interest expenses	1,113	637
Amortisation of the discount on restructured loans	112	102
Bank services	85	-
Interest expense on finance leases where the Group is the lessee	5	3
Amortisation of the discount on restructured taxes	174	161
Effect of changes of discount rate on restructured taxes	(714)	-
Total	**3,383**	**903**

32 Earnings per Share

Earnings per share are calculated as follows:

	2008	**2007**
Basic earnings per share:		
Profit attributable to equity holders of the Company (RR million)	1,006	7,427
Weighted average number of ordinary shares in issue (thousands)	707,230	779,204
Basic earnings per share (Roubles per share)	**1.43**	**9.53**
Diluted earnings per share:		
Weighted average number of ordinary shares in issue (thousands)	707,230	779,204
Diluted earnings per share (Roubles per share)	**1.43**	**9.53**

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).

33 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	**2008**	**2007**
Current tax	1,063	845
Additional payments for previous periods	127	-
Deferred tax	1,078	1,588
Provisions (benefit) for tax exposures	(207)	664
Income tax expense for the year	**2,061**	**3,097**

33 Income Taxes (Continued)

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

In millions of Russian Roubles	2008	2007
Profit before tax	**3,126**	**10,965**
Theoretical tax charge at statutory rate (2008: 24%; 2007: 24%)	751	2,632
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductable expenses	793	826
Impairment of deferred tax asset	492	581
Additional payments for previous periods	127	-
Provisions (benefit) for tax exposures	(207)	664
Previous years' losses utilization	-	(1,606)
Effect of the change in the tax rate from 24% to 20%	105	-
Income tax expense for the year	**2,061**	**3,097**

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect with 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

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 4).

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 20% (2007: 24%).

33 Income Taxes (Continued)

Deferred tax movements for the year ended 31 December 2008 are as follows:

In millions of Russian Roubles	**1 January 2008**	**Charged/ (credited) to profit or loss**	**Recog-nised in equity**	**Effect of the change in the tax rate**	**Write-off of deferred income tax assets**	**31 December 2008**
Tax effect of taxable temporary differences						
Property, plant and equipment	(1,808)	213	-	266	-	(1,329)
Investments	(431)	11	420	-	-	-
Loans and borrowings	(426)	(214)	-	107	-	(533)
Taxes payable and restructured taxes	(327)	(129)	-	76	-	(380)
Finance lease receivables	(195)	(29)	-	37	-	(187)
Accounts payable	(65)	(35)	-	17	-	(83)
Accounts receivable	-	(210)	-	35	-	(175)
Inventory	(21)	(272)	-	49	-	(244)
Gross deferred tax liability	**(3,273)**	**(665)**	**420**	**587**	**-**	**(2,931)**
Tax effect of deductible temporary differences and tax loss carried forward						
Property, plant and equipment	3,650	5	205	(589)	(328)	2,943
Accounts payable	196	(72)	-	(21)	-	103
Provisions	129	15	-	(24)	-	120
Intangible assets	111	1	-	(19)	-	93
Inventory	81	204	-	(27)	(122)	136
Accounts receivable	67	35	-	(10)	(42)	50
Tax loss carry forward	17	(4)	-	(2)	-	11
Gross deferred tax asset	**4,251**	**184**	**205**	**(692)**	**(492)**	**3,456**
Net deferred tax asset	**978**	**(481)**	**625**	**(105)**	**(492)**	**525**

33 Income Taxes (Continued)

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

In millions of Russian Roubles	**1 January 2007**	**Charged/ (credited) to profit or loss**	**Recognised in equity**	**Disposed subsidiaries**	**Write-off of deferred income tax assets**	**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	(33)	-	-	(581)	17
Gross deferred tax asset	**6,019**	**(1,084)**	**-**	**(103)**	**(581)**	**4,251**
Net deferred tax asset	**2,897**	**(1,007)**	**(228)**	**(103)**	**(581)**	**978**

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

A deferred tax asset in the amount of RR 2,519 million (2007: RR 3,530 million) and a deferred tax liability in the amount of RR 1,994 million (2007: RR 2,552 million) have been recorded in the consolidated balance sheet after offsetting of the gross amounts presented above.

The Group has not recorded deferred tax liabilities in respect of taxable temporary differences of RR 3,568 million (2007: RR 1,192 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.

The current portion of deferred tax liability is RR 26 million as at 31 December 2008 (2007: RR 311 million).

Income tax payable includes profit tax payable related to uncertain tax position in the amount of RR 961 million as at 31 December 2008 (2007: RR 1,170 million).

34 Contingencies and Commitments

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 2008 and 2007 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.

34 Contingencies and Commitments (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 2008, total liabilities recorded for uncertain tax positions that are determined by management as more likely than not to result in additional taxes amounted to RR 1,762 million (2007: RR 2,316 million).

In addition, the Group estimates its uncertain tax positions other than remote that are determined by management as not likely to result in additional taxes of approximately RR 2,446 million (2007: RR 3,106 million). No provision has been recognised in relation to such uncertain tax positions.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax position will be sustained.

Contractual commitments. The Group has contractual commitments for the acquisition of property, plant and equipment as at 31 December 2008 totalling RR 2,332 million (2007: RR 1,926 million). As the Group recognized provision for other liabilities and charges of RR 220 million under purchase contracts of equipment (Note 4, 21) the primary sum was decreased by RR 800 million to the amount of such contractual commitments.

Guarantees. The Group received guarantees for the following liabilities:

		2008		2007	
In millions of Russian Roubles	**Notes**	**Guarantees received**	**Related liability**	**Guarantees received**	**Related liability**
Russian Federation Ministry of Finance (EBRD loan – nominated in US Dollars)	18	2,071	669	1,731	697
Tatarstan Ministry of Finance (Kanematsu loan – nominated in Japanese Yens)	18	603	232	404	210
Tatarstan Ministry of Finance (EBRD loan – nominated in US Dollars)	18	376	121	314	127
Total guarantees		**3,050**	**1,022**	**2,449**	**1,034**

34 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had the following assets pledged as collateral as at 31 December 2008 and 31 December 2007:

		2008		2007	
In millions of Russian Roubles	**Notes**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Inventory	14	15,100	6,558	6,459	3,891
Property, plant and equipment	8	3,262	3,999	3,092	3,011
Shares of subsidiary at net asset value and Company's bills of exchange at nominal value		2,695	1,776	2,477	1,128
Total		**19,862**	**12,333**	**12,028**	**8,030**

At 31 December 2008 and 31 December 2007 12,000 thousand shares of OAO KAMAZ-Metallurgiya representing a controlling stake (52%) with total nominal value of RR 1,200 million were pledged as collateral for a loan issued by the Russian Federation Ministry of Finance.

Loan covenants. The covenants attached to some loans include provision of financial statements and other information about the Group's business to the lender. The EBRD, Syndicated loan, ING, Commerzbank and Absolut bank loan agreements included also a number of financial covenants. The details of a technical breach of covenants attached to these loans 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.

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.

35 Business Acquisition

In June 2008 the Group transferred RR 200 million to OAO "Airport Begishevo" for increasing share capital by issue of new shares. Begishevo began operating in June 2008. On 4 August 2008 additional issue of shares was registered in total number of 200 thousands amounting to RR 200 million.

In the first quarter of 2008 Management re-negotiated the conditions of payment of long term receivables for sale of land and industrial buildings to Tatarstan Ministry of Land and Property Affairs and agreed that the payment will be settled in exchange for a non-cash asset – 50% shares of OOO "KIP-Master". These shares were acquired in September 2008 in total amount of RR 370 million. After acquisition the share of the Group in OOO "KIP-Master" amounted to 100%.

The fair value of assets and liabilities arising from additional investments in subsidiaries are as follows:

In millions of Russian Roubles	**OAO "Airport Begishevo"**	**OOO KIP-Master**	**Total**
Cash and cash equivalents	50	2	52
Property, plant and equipment	150	697	847
Other assets	-	61	61
Other liabilities	-	(110)	(110)
	200	**650**	**850**

The impact of the acquisitions above on the 2008 income statement are not material.

36 Financial Risk Management

Financial risk factors

The risk management function within the Group is carried out in respect of financial risks (credit, market, 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 main risk management techniques in the Group are insurance, provisioning, regulation of transactions (development of regulatory documents), establishing limits on transactions 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 15, 16) 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.

36 Financial Risk 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 2008:

	Monetary financial assets		**Monetary financial liabilities**		
In millions of Russian Roubles	**Cash and cash equivalents**	**Accounts receivable**	**Accounts payable**	**Borrowings**	**Net balance sheet position**
Russian Roubles	6,512	11,356	(13,645)	(10,013)	(5,734)
US Dollars	126	303	(159)	(2,280)	(2,079)
Euros	36	118	(404)	(7,295)	(7,532)
Yen	-	-	-	(2,701)	(2,701)
Other CIS currencies	95	330	(157)	(118)	150
Total	**6,769**	**12,107**	**(14,365)**	**(22,407)**	**(17,896)**

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

	Monetary financial assets		**Monetary financial liabilities**		
In millions of Russian Roubles	**Cash and cash equivalents**	**Accounts receivable**	**Accounts payable**	**Borrowings**	**Net balance sheet position**
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)**

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 reasonable 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.

In millions of Russian Roubles	**2008**	**2007**
Pre-tax impact on profit or loss and on equity of:		
US Dollar strengthening / weakening by 10%	208	80
Euro strengthening / weakening by 10%	753	115
Yen strengthening / weakening by 10%	270	184

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

36 Financial Risk Management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) 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.

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.

In millions of Russian Roubles	On demand and less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
31 December 2008					
Fixed interest rate	1,024	7,945	1,018	30	10,017
Fixed interest rate , Yen	-	97	377	1,993	2,467
EURIBOR based interest rates	663	6,686	-	-	7,349
LIBOR based interest rates,USD	-	2,265	-	-	2,265
LIBOR based interest rates ,Yen	-	232	-	-	232
MOSPRIME based interest rates	-	48	29	-	77
Total	**1,687**	**17,273**	**1,424**	**2,023**	**22,407**

In millions of Russian Roubles	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	3,958	1,555	28	8,562
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**	**5,291**	**3,111**	**1,327**	**12,750**

At 31 December 2008, 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 111 million (2007: RR 64 million) lower. If interest rates had been 10% higher, with all other variables held constant, interest expense would have been RR 111 million (2007: RR 64 million) higher.

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

	2008				2007			
In % p.a.	**RR**	**USD**	**Euros**	**Yen**	**RR**	**USD**	**Euros**	**Yen**
Assets								
Cash and cash equivalents	1-14%	-	-	-	1.5-11%	2.9-3.5%	2.4-3.5%	-
Liabilities								
Borrowings	2.34-18%	USD LIBOR +1 to +4.75%	EURIBOR +2.65% to +3.7%	1%p.a. Yen LIBOR +3% ;	7-14%	USD LIBOR +1	EURIBOR +2.65% to +3.7%	1%p.a. Yen LIBOR +3% ;

36 Financial Risk 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:

In millions of Russian Roubles	31 December 2008	31 December 2007
Cash and cash equivalents (Note 16)	**6,769**	**4,309**
-BBB- to A-	2,377	2,647
-BB- to BB+	1,346	724
-B- to B+	2,358	695
-CCC+	2	142
-Other	686	101
Quoted bonds (Note 10)	**7**	**236**
Promissory notes (related party) (Note 10)	**1,241**	**-**
Long term receivables - unrated (Note 13)	**216**	**366**
Finance lease receivables - unrated (Note 12)	**3,563**	**4,162**
Group 1 – Current finance lease receivables	2,294	2.276
Group 2 – Non-current finance lease receivables	1,269	1.886
Trade receivables (Note 15)	**3,711**	**3,658**
Group 1 – companies under state control	493	416
Group 2 – dealers	650	1,267
Group 3 – other customers	2,568	1,975
Other receivables and promissory notes receivable – unrated (Note 15)	**634**	**772**
Total maximum exposure to credit risk	**16,141**	**13,503**

All of the financial assets of the Group, except for RR 19 million (2007: RR 344 million) in bonds and shares, categorised as assets at fair value through profit or loss and for RR 1,246 million (2007: RR 2,211 million) investment in equity stakes categorised as available for sale investments, are loans, receivables and cash.

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 2008 was RR 6,887 million (2007: RR 6,981 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.

36 Financial Risk 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% (2007: 5%) of the total trade accounts receivable of the Group.

The Group's cash and cash equivalents are distributed among 35 banks (2007: 39 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. The Group monitors the following financial ratios in order to ensure that no liquidity difficulties arise:

	Current ratio	Target ratio
Net debt/EBITDA	1,8	not more than 2.5
EBIT/Interest expense	5,7	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. At 31 December 2008 the Group had available credit limits totaling to RR 8,173 million (2007: RR 1,200 million) with Russian banks.

The analysis below represents management's assessment of the repayment schedule of monetary assets and liabilities of the Group in case all borrowings where the Group breached the covenants are classified as current as of 31 December 2008. Nevertheless, management believes that this scenario is unlikely and that the borrowings will be repaid in accordance with the initial contractual terms. The table below is based on the earliest possible repayment dates. Foreign currency cash flows are translated using spot exchange rates as of 31 December 2008 and 31 December 2007.

In millions of Russian Roubles	**Demand and less than 3 month**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
31 December 2008					
Cash and cash equivalents rates	6,769	-	-	-	6,769
Trade receivables	3,706	4	1	-	3,711
Finance lease receivables	574	1,720	1,269	-	3,563
Other receivables and loans issued	1,291	-	-	-	1,291
Long term receivables	-	-	286	-	286
Available-for-sale investments	-	-	1,246	-	1,246
Other financial assets	12	-	7	-	19
Total monetary financial assets	**12,352**	**1,724**	**2,809**	**-**	**16,885**
Borrowings	(1,688)	(17,106)	(1,424)	(2,023)	(22,241)
Trade payables	(10,538)	(796)	(50)	-	(11,384)
Finance lease payables	(12)	(36)	(260)	(343)	(651)
Other non-current liabilities	-	-	-	(107)	(107)
Other payables	(537)	(44)	-	-	(581)
Future interest payments	(534)	(1,787)	(1,578)	(2,563)	(6,462)
Total monetary financial liabilities	**(13,309)**	**(19,769)**	**(3,312)**	**(5,036)**	**(41,426)**
Net balance of payments at 31 December 2008	**(957)**	**(18,045)**	**(503)**	**(5,036)**	**(24,541)**

Refer also to Going Concern disclosure in the Note 2.

36 Financial Risk Management (Continued)

Financial risk factors (Continued)

(c) Liquidity risk (Continued)

In millions of Russian Roubles	**Demand and less than 3 month**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
31 December 2007					
Cash and cash equivalents rates	4,309	-	-	-	4,309
Trade receivables	3,625	33	-	-	3,658
Finance lease receivables	569	1,707	1,886	-	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	(6,535)	(276)	-	-	(6,811)
Finance lease payables	(1)	(4)	(14)	-	(19)
Other non-current liabilities	-	-	-	(47)	(47)
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)**

The Group did not have any derivative financial instruments issued/held during the year ended 31 December 2008 and 31 December 2007.

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 equity holders 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 equity holders, return capital to equity holders, 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 49,590 million.

The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

In millions of Russian Roubles	**31 December 2008**	**31 December 2007**
Long-term borrowings	3,447	4,438
Short-term borrowings	18,960	8,312
Less: cash and cash equivalents	(6,769)	(4,309)
Less: financial assets at fair value through profit and loss	(19)	(344)
Net debt	**15,619**	**8,097**
Equity	33,971	34,482
Total net debt and equity	49,590	42,579
Gearing ratio	**31%**	**19%**

The Group management constantly monitors profitability ratios, market share price and debt/capitalization ratio. The targeted gearing ratio is 30%. In the current economic environment the gearing ratio may exceed the 30% target from time-to-time.

37 Events After the Balance Sheet Date

In April 2009 the Group signed an agreement on establishment of joint venture for trucks production in India with respective investment in the amount of RR 148 million.

In 2009 the Group was granted a further deferral of payments under the tax restructuring agreement that resulted in a decrease of the tax restructuring liability by RR 404 million using discounted rate applied at 31 December 2008 (Note 20).

30 June 2009 the Group acquired 49% stake in OAO Leasing company KAMAZ for RR 21 million brining the total ownership to 100%.

In May 2009 one of the largest shareholders of the Company, Rosimushestvo, owing 37.78% of the Company's shares, transferred all these shares to another government entity, Rostechnologii.