KAMAZ Group

International Financial Reporting Standards Condensed Consolidated Interim Financial Information

30 June 2008

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Selected Notes to the Condensed Consolidated Interim Financial Information

PRICEWATERHOUSECOOPERS

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of OAO KAMAZ

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of OAO KAMAZ and its subsidiaries (the "Group") as of 30 June 2008 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six months then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, 'Interim financial reporting'. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

28 October 2008

KAMAZ Group
Condensed Consolidated Interim Balance Sheet as at 30 June 2008

In millions of Russian Roubles (RR)	Note	30 June 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	29,281	28,336
Intangible assets	9	587	504
Investment in associates and joint ventures		799	727
Available-for-sale investments	8	5	2,211
Finance lease receivables	10	1,876	2,224
Deferred income tax assets		3,508	3,530
Other non-current assets	11	651	700
Total non-current assets		**36,707**	**38,232**
Current assets			
Inventories	12	18,971	13,292
Trade and other receivables	13	12,948	9,915
Current income tax prepayment		189	303
Finance lease receivables	10	2,409	1,938
Financial instruments at fair value through profit or loss		391	344
Cash and cash equivalents	14	6,019	4,309
Total current assets		**40,927**	**30,101**
TOTAL ASSETS		**77,634**	**68,333**
EQUITY			
Share capital	15	35,361	35,361
Revaluation reserve for available-for-sale financial assets	8	-	1,330
(Accumulated deficit)		(65)	(3,992)
Equity attributable to the Company's shareholders		**35,296**	**32,699**
Minority interest		**1,976**	**1,783**
TOTAL EQUITY		**37,272**	**34,482**
LIABILITIES			
Non-current liabilities			
Borrowings	16	4,888	4,438
Deferred income tax liabilities		2,265	2,552
Restructured taxes	17	1,637	1,886
Provisions for liabilities and charges	18	198	166
Finance lease payables	20	496	14
Post-retirement benefit obligation	21	112	47
Total non-current liabilities		**9,596**	**9,103**
Current liabilities			
Borrowings	16	8,390	8,312
Trade and other payables	19	17,702	13,035
Finance lease payables	20	23	5
Current income tax payable		1,816	1,234
Other taxes payable		1,021	541
Restructured taxes	17	130	101
Provisions for liabilities and charges	18	1,636	1,478
Deferred income		48	42
Total current liabilities		**30,766**	**24,748**
TOTAL LIABILITIES		**40,362**	**33,851**
TOTAL EQUITY AND LIABILITIES		**77,634**	**68,333**

Approved and signed on 28 October 2008.

S.A. Kogogin
General Director

G. Sh. Imanova
Deputy General Director

In millions of Russian Roubles (RR)	**Note**	**Six months ended 30 June 2008**	**Six months ended 30 June 2007**
Revenue	22	51,372	44,462
Cost of sales	23	(40,710)	(34,424)
Gross profit		**10,662**	**10,038**
Distribution costs	24	(2,337)	(1,920)
General and administrative expenses	25	(3,149)	(2,826)
Research and development costs		(57)	(56)
Share of incomes of associates and joint ventures		32	46
Other operating income	26	1,965	456
Other operating expenses	26	(934)	(654)
Operating profit		**6,182**	**5,084**
Finance income	27	145	220
Finance costs	27	(285)	(352)
Gain on forgiveness and restructuring of taxes	17	-	250
Profit before tax		**6,042**	**5,202**
Income tax expense		(1,837)	(1,747)
Profit for the period		**4,205**	**3,455**
Profit is attributable to:			
Equity holders of the Company		3,940	3,213
Minority interest		265	242
Earnings per share for profit attributable to the equity holders of the Company (expressed in RR per share)			
- basic	28	5.57	4.09
- diluted	28	5.57	4.09

In millions of Russian Roubles (RR)	Note	Six months ended 30 June 2008	30 June 2007
Cash flows from operating activities			
Profit before income tax		6,042	5,202
Adjustments for:			
Depreciation of property, plant and equipment	7	1,084	1,054
Amortization of intangible assets	9	29	36
Loss (gain) on disposals of property, plant and equipment		108	(334)
Loss on write off of intangible assets	9	43	-
Gain on disposal of available for sale investments	26	(1,750)	-
Share of incomes of associates and joint ventures		(32)	(46)
Gain on forgiveness and restructuring of tax debts	17	-	(250)
Interest income	27	(65)	(102)
Interest expense	27	285	352
Provisions for tax liabilities and charges	18	96	-
Net realizable value Inventory provision	23	37	91
Impairment provision for receivables and loans	24	9	40
Warranty provision	18	195	313
Goodwill impairment		35	-
Foreign exchange gain	27	(80)	(118)
Currency translation difference		(13)	(2)
Operating cash flows before working capital changes		**6,023**	**6,236**
Increase in trade and other receivables		(2,310)	(1,906)
Increase in inventories		(5,716)	(2,389)
Increase in accounts payable		4,609	5,156
Increase (decrease) in taxes payable		275	(860)
Increase in other non-current liabilities		56	26
Cash generated from operations		**2,937**	**6,263**
Income taxes paid		(983)	(330)
Net cash from operating activities		**1,954**	**5,933**
Cash flows from investing activities			
Purchases of property, plant and equipment	7	(1,689)	(1,685)
Proceeds from sale of property, plant and equipment	7	270	70
Acquisition of subsidiaries	30	(150)	-
Acquisition of associates		(76)	(257)
Proceeds from sale of available-for-sale investments	8	2,203	-
Disposals (purchases) of financial instruments		(47)	46
Purchases of available-for-sale investments	8	-	(461)
Development cost incurred and purchases of intangible assets	9	(155)	(72)
Loans issued		(1,117)	(25)
Loans repaid		560	-
Interest received	27	65	102
Net cash used in investing activities		**(136)**	**(2,282)**

In millions of Russian Roubles (RR)	Note	Six months ended 30 June 2008	30 June 2007
Cash flows from financing activities			
Proceeds from borrowings		8,177	5,935
Repayment of borrowings		(7,617)	(6,342)
Interest paid		(397)	(305)
Repayment of restructured taxes	17	(50)	(21)
Lease financing		(100)	-
Dividends paid to minority shareholders		(121)	(59)
Net cash used in financing activities		**(108)**	**(792)**
Net increase in cash and cash equivalents		**1,710**	**2,859**
Cash and cash equivalents at the beginning of the period	14	**4,309**	**2,478**
Cash and cash equivalents at the end of the period	14	**6,019**	**5,337**

In millions of Russian Roubles (RR)		Attributable to shareholders of the Company				Minority interest	Total Equity
	Note	Share capital	Accumulated deficit	Revaluation reserve for available-for-sale financial assets	Total		
Balance at 1 January 2007		**39,287**	**(8,796)**	**493**	**30,984**	**1,520**	**32,504**
Fair value gains net of tax on available-for-sale financial assets		-	-	804	804	-	804
Currency translation differences		-	(2)	-	(2)	-	(2)
Net income recognised directly in equity		-	(2)	804	802	-	802
Profit for the six months 2007		-	3,213	-	3,213	242	3,455
Total recognized income for the period ended 30 June 2007		**-**	**3,211**	**804**	**4,015**	**242**	**4,257**
Dividends declared to minority shareholders		-	-	-	**-**	(59)	(59)
Balance at 30 June 2007		**39,287**	**(5,585)**	**1,297**	**34,999**	**1,703**	**36,702**
Balance at 1 January 2008		**35,361**	**(3,992)**	**1,330**	**32,699**	**1,783**	**34,482**
Fair value gains net of tax on available-for-sale financial assets	8	-	-	(1,330)	(1,330)	-	(1,330)
Currency translation differences		-	(13)	-	(13)	-	(13)
Net income recognised directly in equity		-	(13)	(1,330)	(1,343)	-	(1,343)
Profit for the six months 2008		-	3,940	-	3,940	265	4,205
Total recognized income for the period ended 30 June 2008		**-**	**3,927**	**(1,330)**	**2,597**	**265**	**2,862**
Dividends declared to minority shareholders		-	-	-	**-**	(72)	(72)
Balance at 30 June 2008		**35,361**	**(65)**	**-**	**35,296**	**1,976**	**37,272**

1 KAMAZ Group and its Operations

This condensed consolidated interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting" for the six months ended 30 June 2008 for OAO KAMAZ (the "Company") and its subsidiaries (together referred to as the "Group" or "KAMAZ Group").

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

There was no ultimate controlling party of the Company at 30 June 2008. During 2006, 2007 and 2008 the Company was in process of reorganizing its shareholders' structure. At 30 June 2008 the majority of shares in KAMAZ was owned by an institutional investor subject to certain restrictions on rights to vote and sell the shares imposed by Management of the Company, acting as an individual. This investor is referred to in the notes to this financial information as a significant shareholder due to its relationship with Management of the Company. The Russian Federation represented by the Federal Agent managing federal property (Rosimushestvo) is also one of the largest shareholders with a stake of 37.78% in share capital. Other shares are distributed between financial investors and employees.

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

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

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with IAS 34, 'Interim financial reporting'. This condensed consolidated interim financial information does not contain all the information required to be presented in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2007 prepared in accordance with International Financial Reporting Standards ('IFRS').

Except as discussed below, the 31 December 2007 consolidated balance sheet data have been derived from audited financial statements.

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

Consistency of 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.

Taxes on income in the interim periods are accrued using the weighted average effective tax rate that would be applicable to expected total annual earnings.

As at the end of 2007 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 22) for the 6 months ended 30 June 2007.

Summary of changes is as follows:

In millions of Russian Roubles (RR)	**Current year classification**	**Previous year classification**	**Change**
Trucks and assembly kits	28,552	28,096	456
Spare parts	6,831	6,496	335
Buses, truck trailers and truck mixers	4,913	4,913	
Metallurgical products	1,773	1,773	
Truck repair services	205	996	(791)
Leasing income	409	409	-
Other sales of goods	1,010	1,010	-
Other services	769	769	-
Total sales	**44,462**	**44,462**	**-**

3 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. Refer to Notes 17, 18 and 29. KAMAZ Group entities calculated tax provision on the basis of the following assumptions: tax claims resulting from the completion of the tax audits were recorded and other tax risks were also estimated with the involvement of tax specialists and lawyers. Tax provisions were accrued when probability of cash outflows exceeded 50%.

If the probability of cash outflows is less than 50% the related possible tax claims are disclosed. Were Management assessment of these risks not correct and possible risks would be reconsidered as probable the amount of provision at 30 June 2008 would be by RR 3,290 million (at 31 December 2007: RR 3,106 million) higher. If Management has overestimated the probability of risks then no provision would be recognised in the consolidated balance sheet and total liabilities at 30 June 2008 would be by RR 2,439 million (at 31 December 2007: RR 2,316) lower.

Deferred income tax asset recognition. Deferred tax asset at 30 June 2008 of RR 3,508 million (at 31 December 2007: RR 3,530 million) represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. 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 in the future Management makes judgments and applies estimation based on history of taxable profits and expectations of future income that are believed to be reasonable under the circumstances. Were Management assumptions to be different from actual outcome and taxable profits would not be available for utilization of deferred tax assets, total recognized deferred tax assets would be by RR 3,508 million (at 31 December 2007: RR 3,530 million) lower.

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 their best judgement of the eventual outcome of these claims management recognised the benefit of these tax losses as follows: RR 534 million in 2005, RR 515 million in 2006 and RR 1,606 million in 2007.

Interest rates affecting fair values of liabilities. Interest rates used for calculation of the carrying values of the restructured tax liabilities and borrowings were determined for KAMAZ Group entities at the date of the agreements on restructuring based on the cost of long-term Rouble borrowings taking into account the restructuring period (Notes 16 and 17).

Interest rate used for fair valuation of the borrowing denominated in the Japanese Yen obtained from the Ministry of Finance which was restructured in December 2005 was estimated to be 6.62% p.a.The interest rate used for fair valuation of the provision for restructured taxes and penalties in the first half of 2008 was assumed to be equal to 12.23% per annum (2007: 9.5%).

Useful lives of property, plant and equipment. The Group's Management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 7). This estimate is based on projected product lifecycles and past experience of usage of the similar equipment. Management will increase the depreciation charge where useful lives are less than previously estimated lives and consider whether the change in the useful life is an impairment indicator. Were the actual useful lives of the property, plant and equipment lower or higher by 10% from Management's estimates, the depreciation charge of the plant and equipment for the first half of 2008 would be by RR 120 million (six months ended 30 June 2007: RR 117 million) higher or RR 98 million (six months ended 30 June 2007: RR 96 million) lower, respectively.

Inventory obsolescence. Group entities review inventory turnover variances from the established standards by category and investigate significant variances (Note 12). 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 would be by RR 212 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 would be by RR 212 million (at 31 December 2007 : RR 228 million) higher.

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRS became effective for the Group from 1 January 2008. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2007, unless otherwise described below.

- 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 are not expected to significantly affect the Group's financial statements.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 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 organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective 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.

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.

5 New accounting pronouncements (Continued)

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.

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.

5 New accounting pronouncements (Continued)

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

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, with earlier application permitted). 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: Dislosures (issued in October 2008; effective from 1 July 2008, with no retrospective application). The amendment permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the forseeable future. The Group is currently assessing the impact of the amended standards on its consolidated financial statements.

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

6 Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. 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 six months ended 30 June 2008 and 2007 or had significant balances outstanding at 30 June 2008 and 31 December 2007 is detailed below:

	As of 30 June 2008		For the six months ended 30 June 2008	
In millions of Russian Roubles (RR)	**Total assets**	**Total liabilities**	**Income**	**Expenses**
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	189	1,816	-	1,651
Unified social tax	-	230	-	1,957
VAT recoverable/payable	1,513	524	-	-
Other taxes	2,038	267	-	332
Restructured taxes	-	1,766	170	-
Deferred income	-	48	-	-
Long-term loans and borrowings	-	3,035	-	-
Short-term loans and borrowings	-	1,405	-	-
Interest expense	-	-	-	180
Trade and other receivables	1,483	-	-	-
Trade and other payables	-	1,542	-	-
Sales of goods	-	-	2,552	-
Purchases of goods	-	-	-	1,477
Balances and transactions with shareholders with significant influence				
Cash and cash equivalent	2,203	-	-	-
Other receivables	12	-	-	-
Sales of investment	-	-	1,750	-
Balances and transactions with a subsidiary which is under significant influence of a member of key management personnel of the Group, acting as an individual				
Sales of goods to subsidiary	-	-	1,517	-
Net profit earned by subsidiary	-	-	312	-
Balances and transactions with JV				
Trade and other payables	-	26	-	-
Sales of goods	-	-	1	-
Purchases of goods	-	-	-	136
Balances and transactions with associates				
Trade and other receivables	28	-	-	-
Trade and other payables	-	251	-	-
Sales of goods	-	-	258	-
Purchases of goods	-	-	-	889

6 Balances and Transactions with Related Parties (Continued)

In millions of Russian Roubles (RR)	As of 31 December 2007 Total assets	Total liabilities	For the six months ended 30 June 2007 Income	Expenses
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	303	1,234	-	1,589
Unified social tax	-	200	-	1,396
VAT recoverable/payable	2,133	171	-	-
Other taxes	1,239	170	-	569
Restructured taxes	-	1,987	250	35
Deferred income	-	42	-	-
Long-term loans and borrowings	-	3,281	-	-
Short-term loans and borrowings	-	3,877	-	-
Interest expense	-	-	-	136
Trade and other receivables	969	-	-	-
Trade and other payables	-	213	-	-
Sales of goods	-	-	2,902	-
Purchases of goods	-	-	-	1,827
Balances and transactions with shareholders with significant influence				
Interest income	-	-	47	-
Services rendered	-	-	-	1
Balances and transactions with minority shareholders of subsidiaries				
Interest expenses	-	-	-	12
Balances and transactions with JV				
Trade and other payables	-	17	-	-
Purchases of goods	-	-	-	84
Balances and transactions with associates				
Trade and other receivables	146	-	-	-
Trade and other payables	-	191	-	-
Sales of goods	-	-	961	-
Purchases of goods	-	-	-	513

In the first half of 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 159 million (six months ended 30 June 2007: RR 108 million).

On 23 August 2005 the Board of Directors approved a long-term remuneration scheme for the members of the Management Board of KAMAZ, to be paid in addition to recurring annual compensation. The total amount of remuneration to be paid after 23 August 2009 is dependent upon the increase in the market capitalisation of the company and is limited to a maximum of RR 150 million. The amount of remuneration accrued during the first half of 2008 was RR 21 million (six months ended 30 June 2007: RR 17 million). The total balance accrued at 30 June 2008 was RR 93 million (31 December 2007: RR 72 million).

Details of cash and cash equivalents, operated by shareholders with significant influence, are presented in Note 14.

Long-term and short-term loans are issued by Sberbank, Vneshtorgbank and Ministry of Finance of Russian Federation. Terms and conditions are disclosed in Note 16.

At 30 June 2008 KAMAZ had guarantees issued to a subsidiary which is under significant influence of a member of key management personnel of the group, acting as an individual, amounting to RR 3,746 million (31 December 2007: RR 2,647 million).

7 Property, Plant and Equipment

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

In millions of Russian Roubles (RR)	Land	Buildings	Plant and equipment	Other	Assets under construction	Total
Cost						
Balance at 31 December 2006	1,738	17,298	9,126	1,462	2,546	32,170
Additions	-	-	-	1	1,516	1,517
Disposals	(27)	(143)	(52)	(72)	-	(294)
Transfers	-	92	378	164	(634)	-
Balance at 30 June 2007	**1,711**	**17,247**	**9,452**	**1,555**	**3,428**	**33,393**
Balance at 31 December 2007	1,642	18,073	10,669	1,750	2,360	34,494
Additions	-	-	-	-	2,406	2,406
Disposals	(1)	(222)	(131)	(69)	(48)	(471)
Transfers	22	147	1,368	220	(1,757)	-
Balance at 30 June 2008	**1,663**	**17,998**	**11,906**	**1,901**	**2,961**	**36,429**
Accumulated Depreciation						
Balance at 31 December 2006	-	(1,501)	(2,163)	(589)	-	(4,253)
Depreciation expense for the six months ended 30 June 2007	-	(383)	(550)	(121)	-	(1,054)
Disposals	-	27	7	8	-	42
Balance at 30 June 2007	**-**	**(1,857)**	**(2,706)**	**(702)**	**-**	**(5,265)**
Balance at 31 December 2007	-	(2,204)	(3,129)	(825)	-	(6,158)
Depreciation expense for the six months ended 30 June 2008	-	(369)	(561)	(154)	-	(1,084)
Disposals	-	16	48	30	-	94
Balance at 30 June 2008	**-**	**(2,557)**	**(3,642)**	**(949)**	**-**	**(7,148)**
Net Book Value						
Balance at 31 December 2007	**1,642**	**15,869**	**7,540**	**925**	**2,360**	**28,336**
Balance at 30 June 2008	**1,663**	**15,441**	**8,264**	**952**	**2,961**	**29,281**

Interest capitalized during six months ended 30 June 2008 within the cost of acquired property, plant and equipment totalled RR 105 million (six months ended 30 June 2007: RR 90 million). Interest rate used to determine the amount of borrowing costs eligible for capitalization was 8.0% in 2008 (2007: 7.8%).

8 Available-for-sale Investments

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
Name		
KAMAZ-Capital (11.2% of share capital)	-	2,203
Other	5	8
Total available-for-sale investments	**5**	**2,211**

At 31 December 2007 OAO KAMAZ-Capital held 33.2% of OAO KAMAZ's share capital. The investment in OAO KAMAZ-Capital represents 11.2% of its shares. This investment was acquired in exchange for 26,323 thousand shares of OAO KAMAZ (3.72% of OAO KAMAZ share capital) in 2005. In December 2007 the Group transferred these shares to trust management operated by a significant shareholder. On 15 April 2008 these shares were sold to one of the significant shareholders for 83.7 RR per share for a total amount of RR 2,203 million.

9 Intangible Assets

Intangible assets comprise the following:

In millions of Russian Roubles (RR)	Development costs	Other Intangible Assets	Total
Cost			
Balance at 31 December 2006	**359**	**61**	**420**
Additions	47	25	72
Balance at 30 June 2007	**406**	**86**	**492**
Balance at 31 December 2007	**546**	**116**	**662**
Additions	107	48	155
Write off	(43)	-	(43)
Balance at 30 June 2008	**610**	**164**	**774**
Accumulated Amortisation			
Balance at 31 December 2006	**(60)**	**(34)**	**(94)**
Amortisation expense	(33)	(3)	(36)
Balance at 30 June 2007	**(93)**	**(37)**	**(130)**
Balance at 31 December 2007	**(109)**	**(49)**	**(158)**
Amortisation expense	(19)	(10)	(29)
Balance at 30 June 2008	**(128)**	**(59)**	**(187)**
Net Book Value			
Balance at 31 December 2007	**437**	**67**	**504**
Balance at 30 June 2008	**482**	**105**	**587**

Development costs capitalized comprise the following projects:

In millions of Russian Roubles (RR)	Expected useful life	30 June 2008	31 December 2007
Engines Euro-3, Euro-4, Euro-5	5-10 years	123	119
Heavy truck family (KAMAZ-6520)	7 years	127	105
Buses KAMAZ-NEFAZ	7 years	85	87
Long-haul truck (KAMAZ-6520)	7 years	37	33
All-wheel-drive truck family	5 years	26	25
Light truck family (KAMAZ-4308)	7 years	12	13
Others	3-7 years	72	55
Total development costs		**482**	**437**

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

10 Finance Lease Receivables

Information on minimum finance lease payments and their present value is set out:

In millions of Russian Roubles (RR)	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	(620)	(401)	(1,021)
Present value of minimum lease payments at 31 December 2007	**1,938**	**2,224**	**4,162**
Minimum lease payments at 30 June 2008	2,768	2,609	5,377
Less future finance charges	(359)	(733)	(1,092)
Present value of minimum lease payments at 30 June 2008	**2,409**	**1,876**	**4,285**

The Group provides leasing facilities to the buyers of trucks and buses. The common terms of leasing agreements include 30% advance payment and 2 or 3 years lease period. Effective interest rate for finance lease receivables is 19% in 2008 (2007: 21%). There is no unguaranteed residual value accruing to the lessor.

11 Other Non-Current Assets

Other non-current assets consist of the following:

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
Long term receivables	170	330
(less impairment provision for long term receivables)	-	(36)
Long term receivables, net	170	294
Advances issued for equipment	405	334
Other	76	72
Total non-current assets	**651**	**700**

Long term receivables as at 30 June 2008 principally comprise receivables for sale of land and industrial buildings to Tatarstan Ministry of Land and Property Affairs totalling RR 143 mln 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 agreed that the payment would be settled in exchange for a non-cash asset (Note 33).

12 Inventories

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
Raw materials and consumables	8,657	6,043
(Less net realizable value provision)	(655)	(620)
Raw materials and consumables, net	8,002	5,423
Work in progress	3,405	2,920
Finished goods	7,570	4,953
(Less net realizable value provision)	(6)	(4)
Finished goods, net	7,564	4,949
Total inventory	**18,971**	**13,292**

13 Trade and Other Receivables

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
Trade receivables	5,126	3,843
(less impairment provision for trade accounts receivable)	(143)	(185)
Trade receivables, net	4,983	3,658
Advances issued and prepayments	2,867	2,135
(less impairment provision for advances issued and prepayments)	(22)	(22)
Advances issued and prepayments, net	2,845	2,113
Other receivables	947	837
(less impairment provision for other receivables)	(79)	(65)
Other receivables, net	868	772
Loans issued	701	-
VAT recoverable	1,513	2,133
Other prepaid taxes	2,038	1,239
Total trade and other receivables	**12,948**	**9,915**

The Group's receivables include RR 701 mln loans issued to its dealers. Loans bear interest of 13 – 14 % per annum.

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

Accounts receivable denominated in foreign currencies:

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
EURO	760	465
USD	8	38
Other CIS currencies	503	321
Total	**1,271**	**824**

14 Cash and cash equivalents

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
Cash in bank	3,913	3,940
Term deposits	2,078	306
Bank promissory notes	28	63
Total cash and cash equivalents	**6,019**	**4,309**

As at 30 June 2008 term deposits included a non interest-bearing investment account amounting to RR 1,500 mln deposited with a significant shareholder, and cash at bank included RR 703 mln on trust manager account, operated by significant shareholder.

Deposits bear interest in the first half of 2008 of 1-11% 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 (RR)	30 June 2008	31 December 2007
EURO	189	66
USD	54	101
Other foreign currency	139	65
Total	**382**	**232**

Term deposits include deposits with original maturity term of up to three months.

15 Share Capital

In millions of Russian Roubles (RR)	Number of outstanding shares (in thousands)	Ordinary shares Nominal amount
At 1 January 2007	**785,748**	**39,287**
At 30 June 2007	**785,748**	**39,287**
At 1 January 2008	**707,230**	**35,361**
At 30 June 2008	**707,230**	**35,361**

The total amount of authorised ordinary shares as at 30 June 2008 is 707,230 thousand (30 June 2007: 785,748 thousand shares) with a nominal value of RR 50 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

The extraodinary shareholders' meeting held on 6 August 2007 approved the decision to decrease the share capital of OAO KAMAZ by no more than 10% of share capital or 78,575 thousand shares through the purchase of own shares and their 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: OAO KAMAZ repurchased 78,518 thousand shares (9.99% of share capital), of which 77,895 thousand shares were from a significant shareholder. As a result, by the end of 2007 the Company's registered share capital comprised 707,230 thousand shares with nominal value equal to RR 35,361 million.

16 Borrowings

The Group's borrowings mature as follows:

In millions of Russian Roubles (RR)		**30 June 2008**	**31 December 2007**
Borrowings due:	- within 1 year	8,390	8,312
	- between 2 and 5 years	3,550	3,111
	- after 5 years	1,338	1,327
Total borrowings		**13,278**	**12,750**

Long-term borrowings

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

In millions of Russian Roubles (RR)	**Carrying value**		**Fair value**	
	30 June 2008	**31 December 2007**	**30 June 2008**	**31 December 2007**
Ministry of Finance of RF	1,566	1,557	877	1,279
Vneshtorgbank	1,172	1,415	1,172	1,415
Commerzbank (Eurasija)	780	-	780	-
AK Bars Bank	413	515	413	515
Sberbank	297	309	297	309
Absolut bank	150	200	150	200
Kanematsu	154	181	154	181
ALFA Bank	154	-	154	-
Akibank	53	-	53	-
Bank Zenit	-	37	-	37
Other	149	224	149	224
Total long-term borrowings	**4,888**	**4,438**	**4,199**	**4,160**

The loan from the Ministry of Finance of the Russian Federation was restructured in 2005 until the end of 2034 with a fixed interest rate of 1% per annum.

The loan from Kanematsu was issued at floating interest rate.

16 Borrowings (Continued)

Long-term borrowings (Continued)

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

	30 June 2008	31 December 2007
Ministry of Finance (in Yen)	1 %	1 %
Kanematsu (in Yen), 6-months repricing period	Yen LIBOR + 3 %	Yen LIBOR + 3 %
VTB (in Euros), 6-months repricing period	EURIBOR + 3.6 %	EURIBOR + 3.6 %
Commerzbank (Eurasija) (in US dollars)	USD LIBOR +1.75%	-
Other	7%-16%	7%-14%

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

	30 June 2008				31 December 2007		
% per annum	Russian Roubles	Euros	Yens	US dollars	Russian Roubles	Euros	Yens
Ministry of Finance (in Yen)	-	-	6.6%	-	-	-	6.6%
Kanematsu (in Yen)	-	-	3.1%	-	-	-	3.1%
VTB (in Euros)	-	8.14%	-	-	-	7.98%	-
Commerzbank (Eurasija) (in US dollars)	-	-	-	4.6%	-	-	-
Other credits	7%-16%	-	-	-	7%-14%	-	-

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

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
Borrowings denominated in:		
- Russian Roubles	1,322	1,556
- Yen	1,720	1,738
- Euros	1,023	1,117
- US Dollars	780	-
- Other CIS currencies	43	27
Total long-term borrowings	**4,888**	**4,438**

16 Borrowings (Continued)

Short-term borrowings

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

In millions of Russian Roubles (RR)	**30 June 2008**	**31 December 2007**
Domestic bonds	1,500	1,500
ING Bank Evraziya	1,173	-
AK Bars Bank	990	894
Vneshtorgbank	892	798
EBRD	708	824
Sberbank	501	3,009
ALFA Bank	437	305
Narodniy Bank	397	-
Commerzbank Eurasija	393	-
Bank Zenit	187	245
Gazprombank	120	-
Ministry of Finance of Russian Federation	70	70
Kanematsu	25	29
Other lenders	828	522
Interest payable	169	116
Total short-term borrowings	**8,390**	**8,312**

Current portion of long-term loans as at 30 June 2008 is RR 3,294 million (31 December 2007: RR 2,744 million).

EBRD loan is payable until 2011. However, in 2007-2008 the Company did not comply with limitation of the free cash flows to debt service ratio set in the EBRD agreement. Although subsequent to the balance sheet date the Management has negotiated the above covenant breaches with the EBRD and received a confirmation that EBRD has no intention to accelerate the loan repayment as a consequence of this breach, the related loan has been reclassified as short-term in accordance with IAS 1.

The interest rates for short-term loans were 5.08-17 % per annum at 30 June 2008 (2007: 7 – 17 % per annum).

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

In millions of Russian Roubles (RR)	**30 June 2008**	**31 December 2007**
Borrowings denominated in:		
- Russian Roubles	5,152	6,944
- US Dollars	2,274	824
- Euros	427	410
- Yen	95	99
- Other CIS currencies	442	35
Total short-term borrowings	**8,390**	**8,312**

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 short-term borrowings approximates their carrying amount at 30 June 2008 and 31 December 2007.

17 Restructured Taxes

Restructured taxes represent a provision 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).

In the first half of 2007 the gain on penalties forgiveness within tax restructuring was recognised in the amount of RR 250 mln under decrees of the Government of the Russian Federation issued during 2002 and 2001. Forgiveness of penalties was granted in 2007 subject to compliance with payment schedule.

Movements in the liabilities for restructured taxes are as follows:

In millions of Russian Roubles (RR)	
Carrying amount at 1 January 2007	**1,664**
Tax restructuring (reclassification from current taxes payable)	92
Gain from restructuring, including forgiveness of penalties	(250)
Settlement	(21)
Unwinding of the discount	35
Effect of changes of discount rate	-
Carrying amount at 30 June 2007	**1,520**
Carrying amount at 1 January 2008	**1,987**
Tax restructuring (reclassification from current taxes payable)	-
Gain from restructuring, including forgiveness of penalties	-
Settlement	(50)
Unwinding of the discount	77
Effect of changes of discount rate	(247)
Carrying amount at 30 June 2008	**1,767**
Current portion of tax restructured	130
Long-term portion of tax restructured	1,637

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 12.23 % (2007: 9.5 %).

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

In millions of Russian Roubles (RR)	**30 June 2008**	**31 December 2007**
- within 1 year	130	101
- between 2 and 5 years	671	707
- after 5 years	966	1,179
Total	**1,767**	**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.

18 Provisions for Liabilities and Charges

Provisions for liabilities and charges changed in the following manner:

In millions of Russian Roubles (RR)	Warranty provision	Taxes other than on income, fines and penalties	Total
Carrying value at 31 December 2006	**295**	**882**	**1,177**
Accruals charged to profit and loss	313	-	313
Utilised	(109)	-	(109)
Carrying value at 30 June 2007	**499**	**882**	**1,381**
Carrying value at 31 December 2007	**498**	**1,146**	**1,644**
Accruals charged to profit and loss	195	96	291
Utilised	(101)	-	(101)
Carrying value at 30 June 2008	**592**	**1,242**	**1,834**
Current portion	394	1,242	1,636
Non-current portion	198	-	198

Warranty. The Group provides warranties in respect of trucks for a period of 18 months or 100,000 km of mileage and undertakes to repair or replace items that fail to perform satisfactorily. As of 30 June 2008 a provision of RR 592 million (31 December 2007: RR 498 million) has been recognised for expected warranty claims based on past experience of the level of repairs and returns. At 30 June 2008 RR 394 million of warranty provision is expected to be either fully utilised or released within the next 12 months period ended 30 June 2009 (31 December 2007: RR 332 million by the end of 2008) and be disclosed in the financial statements within current liabilities.

Taxes other than on income, fines and penalties: At 30 June 2008 the Group has recorded provisions of RR 1,242 million (31 December 2007: RR 1,146 million). The balance at 30 June 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.

19 Trade and Other Payables

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
Trade payables	9,219	6,816
Wages and salaries payable	1,923	2,097
Advances received	6,211	3,526
Other	349	596
Trade and other payables	**17,702**	**13,035**

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

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

In millions of Russian Roubles (RR)	30 June 2008	31 December 2007
EURO	240	272
USD	184	112
Other CIS currencies	142	50
Total	**566**	**434**

20 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 30 June 3008 they comprise RR 486 and 21 million respectively.

21 Post-retirement benefit obligation

Payments to state pension fund were RR 1,446 million for six months ended 30 June 2008 (six months ended 30 June 2007: RR 1,018 million). Accrued expenses for non-state defined benefit pension plan were RR 86 million. At 30 June 2008 defined benefit liabilities recognised in balance sheet as other non-current liabilities were RR 112 million (31 December 2007: RR 47 million), unrecognised amount of defined benefit liabilities was RR 443 million (31 December 2007: RR 332 million).

22 Revenue

In millions of Russian Roubles (RR)	**Six months ended 30 June 2008**	**Six months ended 30 June 2007**
Trucks and assembly kits	33,475	28,552
Spare parts	7,459	6,831
Buses, truck trailers and truck mixers	5,692	4,913
Metallurgical products	1,829	1,773
Truck repair services	137	205
Leasing income	406	409
Other sales of goods	1,473	1,010
Other services	901	769
Total sales	**51,372**	**44,462**

In millions of Russian Roubles (RR)	**Six months ended 30 June 2008**	**Six months ended 30 June 2007**
Domestic sales		
Trucks and assembly kits	24,862	20,206
Spare parts	6,095	4,458
Buses, truck trailers and truck mixers	5,340	4,411
Leasing income	406	409
Other sales	4,295	3,705
Total domestic sales	**40,998**	**33,189**
Export sales		
Trucks and assembly kits	8,613	8,346
Spare parts	1,363	2,373
Buses, truck trailers and truck mixers	352	502
Other sales	46	52
Total export sales	**10,374**	**11,273**
Total sales	**51,372**	**44,462**

23 Cost of Sales

Cost of sales includes the following items:

In millions of Russian Roubles (RR)	**Six months ended 30 June 2008**	**Six months ended 30 June 2007**
Materials and components used	32,413	26,392
Labour costs	6,688	4,685
Fuel and energy	2,356	1,638
Depreciation of property, plant and equipment	942	916
Services	971	827
Warranty accruals	195	313
Provision for inventories	37	91
Other costs	245	217
Changes in inventory of finished goods and work in progress	(3,137)	(655)
Total	**40,710**	**34,424**

23 Cost of Sales (Continued)

Purchase of materials includes RR 750 million settled using bills of exchange for six months ended 30 June 2008 (six months ended 30 June 2007: nil).

24 Distribution Costs

Distribution costs comprise:

In millions of Russian Roubles (RR)	**Six months ended** 30 June 2008	**Six months ended** 30 June 2007
Labour costs	804	551
Transportation expenses	559	325
Material consumed	368	309
Other services	284	228
Advertising	100	86
Insurance	42	32
Depreciation of property, plant and equipment	32	27
Customs duty	24	23
Impairment provision for receivables	9	40
Other distribution costs	115	299
Total	**2,337**	**1,920**

25 General and Administrative Expenses

General and administrative expenses include the following items:

In millions of Russian Roubles (RR)	**Six months ended** 30 June 2008	**Six months ended** 30 June 2007
Labour costs	1,658	1,292
Taxes other than income tax	332	569
Services	438	285
Provision for taxes other than income tax	96	-
Depreciation of property, plant and equipment	110	113
Amortization of intangible assets	29	36
Business trip costs	78	92
Material consumed	60	53
Insurance	127	131
Bank services	48	55
Consulting and information services	73	48
Other expenses	100	152
Total	**3,149**	**2,826**

26 Other Operating Income and Expenses

Other operating income in the first half of 2008 comprises principally a gain from sale of shares of OAO KAMAZ-Capital to a significant shareholder. Proceeds from this sale totalled RR 2,203 million, and the related gain on disposal was RR 1,750.
In the first half of 2007 other operating income principally related to sale of land and industrial buildings to Tatarstan Ministry of Land and Property Affairs with instalment payment of debt for 3 years. Gain on sale was RR 420 million.

Increase in other operating expenses relates to increases in social and charitable expenditures and losses on disposal of fixed asssets.

27 Finance Income and Costs

Finance income comprises of the following:

In millions of Russian Roubles (RR)	Six months ended 30 June 2008	Six months ended 30 June 2007
Interest income on promissory notes and loans issued	65	102
Foreign exchange gains	80	118
Total finance income	**145**	**220**

Finance cost comprises the following:

In millions of Russian Roubles (RR)	Six months ended 30 June 2008	Six months ended 30 June 2007
Interest on loans and borrowings	498	354
Less interest capitalized	(105)	(90)
Interest expenses	393	264
Unwinding of the discount and effect of changes of discount rate on restructured taxes	(170)	35
Unwinding of discount on restructured loans	57	51
Interest expense on finance leases where the Group is the lessee	5	2
Total finance cost	**285**	**352**

28 Earnings per Share

Earnings per share are calculated as follows:

	Six months ended 30 June 2008	Six months ended 30 June 2007
Basic earnings per share:		
Profit attributable to equity holders of the Company (RR million)	3,940	3,213
Weighted average number of ordinary shares in issue (thousands)	707,230	785,748
Basic earnings per share (Roubles per share)	**5.57**	**4.09**
Diluted earnings per share:		
Weighted average number of ordinary shares in issue (thousands)	707,230	785,748
Diluted earnings per share (Roubles per share)	**5.57**	**4.09**

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 15).

29 Contingencies, Commitments and Operating Risks

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.

29 Contingencies, Commitments and Operating Risks (Continued)

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%.

At 30 June 2008, total liabilities recorded for uncertain tax positions amounted to RR 2,439 million (31 December 2007: RR 2,316 million). With this exception, the Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition, the Group estimates that it has possible obligations from exposure to other than remote tax risks at 30 June 2008 of RR 3,290 million (31 December 2007: RR 3,106 million).

Contractual commitments. The Group has contractual commitments for the acquisition of property, plant and equipment as at 30 June 2008 totalling RR 1,855 million (31 December 2007: RR 1,926 million).

Guarantees. As at 30 June 2008 and 31 December 2007, the Group had not issued guarantees (irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations).

The Group received guarantees for the following liabilities:

In millions of Russian Roubles (RR)	**Notes**	**30 June 2008** Guarantees received	**30 June 2008** Related liability	**31 December 2007** Guarantees received	**31 December 2007** Related liability
Tatarstan Ministry of Finance (Kanematsu loan)	16	406	179	404	210
Russian Federation Ministry of Finance (EBRD loan)	16	1,654	599	1,731	697
Tatarstan Ministry of Finance (EBRD loan)	16	300	109	314	127
Total guarantees		**2,360**	**887**	**2,449**	**1,034**

Assets pledged and restricted. The Group had the following assets pledged as collateral as at 30 June 2008 and 31 December 2007:

In millions of Russian Roubles (RR)	**Notes**	**30 June 2008** Asset pledged	**30 June 2008** Related liability	**31 December 2007** Asset pledged	**31 December 2007** Related liability
Property, plant and equipment	7	3,671	3,539	3,092	3,011
Inventory	12	7,217	3,785	6,459	3,891
Shares of subsidiaries		2,435	1,128	2,477	1,128
Total		**13,323**	**8,452**	**12,028**	**8,030**

At 30 June 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 majority part of loans comprise obligatory provision of financial statements and other information about the Group's business to the lender. The EBRD loan agreement included financial covenants such as to maintain asset value, debt/asset ratio, interest coverage ratio at a certain level, and to limit dividends as a percentage of net profit for the year and amount of debt/guarantees issued by the Company. The details of technical breaches of covenants attached to the EBRD loan are disclosed in Note 16.

29 Contingencies, Commitments and Operating Risks (Continued)

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 (the early repayment could be made only after receipt of written permission given by the bank) and AK Bars Bank (early repayment is forbidden for some loan agreements).

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, Management believes that there are no significant liabilities for environmental damage.

Operating environment of the Group.

The 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 and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in market prices as witnessed during 2008. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks 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.

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 the 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.

30 Business Acquisition

In June 2008 KAMAZ transfered RR 200 mln to OAO “Airport Begishevo” for increasing share capital by issue of new shares.

The assets and liabilities arising from additional investments in Begishevo are as follows:

In millions of Russian Roubles (RR)	**30 June 2008**
Cash and cash equivalents	50
Property, plant and equipment	150
Total	**200**

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 mln.

31 Financial Risks Management

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 those 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.

Market risk. The Group takes on exposure to market risks. Market risks arise from changes in commodity prices and 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 against limits on a monthly basis. However, the use of this approach does not prevent losses in the event of significant market movements.

Foreign exchange 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 (see Notes 13, 14) and liabilities (refer to Notes 16 and 19) give rise to foreign exchange exposure. The Group sets limits on these exposures by currency and in total. Compliance with the limits is monitored monthly.

Cash flows and fair value 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.

32 Seasonality

The sale of vehicles, automotive components and assembly kits is subject to insignificant seasonal fluctuations.

33 Events After the Balance Sheet Date

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

The Domestic bonds (in RR) of OOO KAMAZ Finance with initial coupon rate 8.5% were puttable at the option of holders on 25 September 2008 (see Note 16). Bonds in total amount RR 1,491 mln were redeemed at the time of the put option.The coupon rate was reset at 11.25%.

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 exhange for a non-cash asset – 50% shares of OOO “KIP-Master” (see Note 11). These shares were acquired in September 2008 of total amount of RR 370 mln. After acquisition the share of the Group in OOO “KIP-Master” amounted to 100%. Assets ana liabilities of the subsidiary at the date of acquisition amounted to RR 891 mln and RR 80 mln respectively.