KAMAZ Group

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2006

Contents

Notes to the Consolidated Financial Statement

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KAMAZ Group:

We have audited the accompanying consolidated financial statements of OJSC KAMAZ and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
19 December 2007

In millions of Russian Roubles (RR)	Note	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	7	27,917	28,142
Intangible assets	10	326	220
Investment in associates and joint ventures	8	218	171
Available-for-sale investments	9	1,193	889
Finance lease receivables	11	1,279	878
Deferred tax assets	30	5,145	5,607
Other non-current assets		36	18
Total non-current assets		**36,114**	**35,925**
Current assets			
Inventory	12	10,688	9,719
Trade and other receivables	13	9,863	8,126
Current income tax prepayment		118	41
Finance lease receivables	11	1,757	1,198
Financial instruments at fair value through profit or loss	9	496	433
Cash and cash equivalents	14	2,478	1,102
Total current assets		**25,400**	**20,619**
TOTAL ASSETS		**61,514**	**56,544**
EQUITY			
Share capital and share premium	16	39,287	57,784
Revaluation reserve for available-for-sale financial assets	9	493	92
(Accumulated deficit)		(8,796)	(31,151)
Equity attributable to the Company's shareholders		**30,984**	**26,725**
Minority interest		**1,520**	**1,260**
TOTAL EQUITY		**32,504**	**27,985**
LIABILITIES			
Non-current liabilities			
Borrowings	17	4,452	4,077
Deferred tax liabilities	30	2,248	2,085
Restructured taxes	19	1,450	192
Provisions for liabilities and charges	20	34	32
Other non-current liabilities		16	42
Total non-current liabilities		**8,200**	**6,428**
Current liabilities			
Borrowings	17	7,368	9,098
Trade and other payables	21	9,198	5,821
Current income tax payable		839	866
Other taxes payable	18	2,006	5,255
Restructured taxes	19	214	72
Provisions for liabilities and charges	20	1,143	978
Deferred income		42	41
Total current liabilities		**20,810**	**22,131**
TOTAL LIABILITIES		**29,010**	**28,559**
TOTAL EQUITY AND LIABILITIES		**61,514**	**56,544**

Approved and signed on 19 December 2007.

S.A. Kogogin
General Director

G. Sh. Imanova
Deputy General Director

In millions of Russian Roubles (RR)	Note	2006	2005
Revenue	22	71,012	50,818
Cost of sales	23	(57,072)	(41,798)
Gross profit		**13,940**	**9,020**
Selling expenses	24	(2,967)	(2,410)
General and administrative expenses	25	(4,811)	(3,965)
Research and development costs		(130)	(110)
Other operating income	27	84	577
Other operating expenses	27	(679)	(625)
Operating profit		**5,437**	**2,487**
Finance income	28	527	319
Finance cost	28	(1,547)	(1,728)
Gain on forgiveness and restructuring of taxes and borrowings	17,19	1,216	2,739
Share of losses in associates and joint ventures	8	(5)	(28)
Profit before tax		**5,628**	**3,789**
Income tax expense	30	(1,488)	(1,047)
Profit for the year		**4,140**	**2,742**
Profit is attributable to:			
The Company's shareholders		3,851	2,698
Minority interest		289	44

Earnings per share for profit attributable to the equity holders of the Company (expressed in Roubles per share)

- basic	29	4.90	3.54
- diluted	29	4.90	3.53

In millions of Russian Roubles (RR)	Note	2006	2005
Cash flows from operating activities			
Profit before tax		5,628	3,789
Adjustments for:			
Depreciation of property, plant and equipment	7,26	2,159	2,344
Amortization of intangible assets	10,26	48	41
Gain on disposals of property, plant and equipment	27	(20)	(33)
Share of losses of associates and joint ventures	8	5	28
Losses on disposals of associates	8	28	13
Gain on forgiveness and restructuring of tax debts	19	(1,173)	(12)
Gain on forgiveness and restructuring of borrowings	17	(43)	(2,727)
Interest income	28	(103)	(126)
Interest expense	28	1,547	1,728
Gains from sale and other disposals of subsidiaries	27	-	(242)
Gains from sale of available-for-sale investments	27	(19)	-
Provisions for tax liabilities and charges	20	64	152
Net realizable value Inventory provision	23	75	15
Impairment provision for receivables and loans	24	22	134
Warranty provision	20	269	138
Foreign exchange gain	28	(424)	(193)
Negative goodwill	27,32	-	(179)
Non-cash transactions in investing activities	7	67	-
Non-cash transactions in financing activities		-	6
Operating cash flows before working capital changes		**8,130**	**4,876**
Increase in trade and other receivables		(2,337)	(1,240)
Increase in inventories		(1,044)	(1,044)
Increase in accounts payable		3,219	901
Decrease in taxes payable		(147)	(2,285)
(Decrease) increase in other non-current liabilities		(41)	11
Cash inflows from operating activities before tax and interest		**7,780**	**1,219**
Income taxes paid		(1,024)	(122)
Net cash provided from operating activities		**6,756**	**1,097**
Cash flows from investing activities			
Payments for purchases of property, plant and equipment	7	(1,882)	(1,278)
Proceeds from sale of property, plant and equipment	7	173	177
Acquisition of subsidiary, net of cash acquired	32	-	(99)
Purchases of associates	8	(66)	(28)
Proceeds from sale of subsidiaries, net of cash disposed	15	-	979
Proceeds from sale of available-for-sale investments	9	168	-
Proceeds from sale of associates	8	-	4
Purchases of financial instruments	9	(63)	(433)
Purchases of available-for-sale investments	9	-	(54)
Development cost incurred and purchases of intangible assets	10	(154)	(103)
Loans issued to related parties	6	(1,054)	-
Interest received	28	103	126
Net cash used in investing activities		**(2,775)**	**(709)**

In millions of Russian Roubles (RR)	Note	2006	2005
Cash flows from financing activities			
Proceeds from borrowings		21,734	34,081
Repayment of borrowings		(22,933)	(31,753)
Proceeds from sale of treasury shares	6,16	7	113
Interest paid		(1,207)	(2,186)
Repayment of restructured taxes	19	(177)	(38)
Dividends paid to minority shareholders of subsidiaries		(29)	(4)
Proceeds from issuance of shares of subsidiary to minority shareholders		-	41
Net cash (used in) provided from financing activities		**(2,605)**	**254**
Net increase in cash and cash equivalents		**1,376**	**642**
Cash and cash equivalents at the beginning of the year		**1,102**	**460**
Cash and cash equivalents at the end of the year	14	**2,478**	**1,102**

In millions of Russian Roubles (RR)		Attributable to shareholders of the Company							
	Note	Share capital	Share Premium	Treasury shares	Accumulated deficit	Revaluation reserve for available-for-sale financial assets	Total	Minority interest	Total equity
At 1 January 2005		**152,400**	**(94,475)**	**(6,695)**	**(27,860)**	**-**	**23,370**	**915**	**24,285**
Profit for 2005		-	-		2,698	-	**2,698**	44	**2,742**
Fair value gains net of tax on available-for-sale financial assets			-	-	-	92	**92**	-	**92**
Total recognised income		-	-	-	2,698	92	**2,790**	44	**2,834**
Disposals of treasury shares	16	-	-	6,554	(5,989)	-	**565**	-	**565**
Business combinations	32	-	-	-	-	-	**-**	305	**305**
Dividends declared to minority shareholders		-		-	-	-	**-**	(4)	**(4)**
Balance at 31 December 2005		**152,400**	**(94,475)**	**(141)**	**(31,151)**	**92**	**26,725**	**1,260**	**27,985**
Profit for 2006		-	-	-	3,851	-	**3,851**	289	**4,140**
Fair value gains net of tax on available-for-sale financial assets		-	-	-	-	401	**401**	-	**401**
Total recognized income		-	-	-	3,851	401	**4,252**	289	**4,541**
Disposals of treasury shares	16	-	-	141	(134)	-	**7**	-	**7**
Transfer of inflation loss	16	(113,113)	94,475	-	18,638	-	**-**	-	**-**
Dividends declared to minority shareholders		-	-	-	-	-	**-**	(29)	**(29)**
Balance at 31 December 2006		**39,287**	**-**	**-**	**(8,796)**	**493**	**30,984**	**1,520**	**32,504**

1 KAMAZ Group and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2006 for OAO KAMAZ (the "Company") and its subsidiaries (together referred to as the "Group" or "KAMAZ Group").

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

There was no ultimate controlling party of the Company at 31 December 2006. During 2005 and 2006 the Company was in the process of reorganizing its shareholder's structure. At 31 December 2006 the majority of shares in KAMAZ was owned by a group of investors subject to certain restrictions on rights to vote, and sell the shares imposed by Management of the Company, acting as individual. Among these investors were the Republic of Tatarstan and an institutional investor referred to in the notes to these financial statements as a significant shareholder due to this 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 34.01% 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 29 Avtozavodskoy pr., Naberezhnye Chelny, Republic of Tatarstan, Russia, 423800.

2 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 Group adopted IFRS for the first time with a transition date on 1 January 2005. The Group's Management decided to apply exemptions granted to first adopters under IFRS 1 (see Note 4). 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. Reconciliations and descriptions of the effect of the transition from Russian GAAP to IFRS on the Group's consolidated equity and its net income and cash flows are provided in Note 4.

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment. The Group decided to apply the exemption available to first time IFRS adopters and recorded property, plant and equipment in the opening IFRS balance sheet at deemed cost (fair value) calculated by professional appraisers. The difference between the fair value of property, plant and equipment and their carrying value under Russian Accounting Rules ("RAR") at 1 January 2005 is recorded in retained earnings at that date (see Note 4).

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

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

2 Summary of Significant Accounting Policies (Continued)

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 group at the lowest level for which there are separately identifiable cash inflows i.e. cash generating units. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. The management assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

The Group excluded from the opening balance sheet all intangible assets and other intangible items that do not meet criteria for recognition under IAS 38 at 1 January 2005. The difference between the IFRS and RAR carrying value of intangible assets at 1 January 2005 is included in accumulated deficit at that date (see Note 4).

Research and development costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when costs can be measured reliably and it is probable that the project will be successful considering Management ability and intention to complete or sell project, and project's commercial and technological feasibility. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit (3-5 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.

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.

2 Summary of Significant Accounting Policies (Continued)

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 liability recognized on those temporary differences arose from restructuring of borrowing and taxes (Notes 17 and 19).

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

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

2 Summary of Significant Accounting Policies (Continued)

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 selling expenses 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.

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

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

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

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

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

Financial liability (or a part of a financial liability) 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.

2 Summary of Significant Accounting Policies (Continued)

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

Low interest/interest-free loans received from the government and from any other counterparty are treated under IAS 39 and recognized at inception at the present value of the future amounts, 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. Policy in respect of provision for taxes other than on income, fines and penalties recognised in accordance with policy discussed in Note 2 '"Uncertain tax position".

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is 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 Central Bank of Russian Federation (CBRF) at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity investments are reported as part of the fair value gain or loss.

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

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

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

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

2 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.

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

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

Segment reporting. KAMAZ Group reports one business segment since the production and sale of vehicles, spare parts and related services are not subject to significantly different risks and returns as determined by current industry accounting practice. The Group has two secondary reportable geographical segments: exports and domestic markets. Information in respect of geographical segments is disclosed in note 22. Substantially all of the Groups' assets are located in and capital expenditure is made in the Russian Federation.

3 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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 20, 30 and 31. KAMAZ Group entities calculated tax provision on the basis of the following assumptions: tax claims resulting from the completion of the tax audits were recorded and other tax risks were also estimated with the involvement of tax specialists and lawyers. Tax provisions were accrued when probability of cash outflows exceeded 50%. If the probability of cash outflows is less than 50% the related possible tax claims are disclosed. Were Management assessment of these risks not correct and possible risks would be reconsidered as probable the amount of provision would be by RR 3,311 million higher. If Management overestimated the probability of risks than no provision would be recognised in consolidated balance sheet and total liabilities would be RR 1,388 million lower.

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

Property, plant and equipment valuation. Property, plant and equipment (Note 7) were valued by an independent appraiser using a variety of methods based on information available at 1 January 2005, including replacement cost, discounted cash-flows and market price methods. The most appropriate method was selected for each asset. Assumptions used in the discounted cash-flows models included a discount rate of 14.3% p.a., average growth rate of sales of 6.4% p.a. during 2005-2010, with no change in subsequent periods, and forecasts of price changes published by the Ministry of Economy and Development of the Russian Federation.

Summary of effects of change in assumptions of valuation:

In millions of Russian Roubles (RR)	**Applied assumption, % p.a.**	**Increase (decrease) in fair value of property plant and equipment**
Discount rate		
10% lower than applied discounted rate	12.9	4,134
10% higher than applied discounted rate	15.7	(3,251)
Growth rate		
10% higher than applied growth rate	7.0	1,061
10% lower than applied growth rate	5.8	(976)

Deferred income tax asset recognition. The net deferred tax asset at 31 December 2006 RR 5,145 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 (Note 30). 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 could be decreased by RR 5,145 million.

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 17 and 19).

Interest rate used for fair valuation of the borrowing denominated in the Japanese Yens 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 US Dollar loan obtained from ACB Rosbank and restructured in December 2005 was assumed to be equal to 8.5% p.a. The interest rate used for fair valuation of the taxes restructured in January 2006 was assumed to be equal to 10.3% p.a. For taxes restructured in 2002 and 2003, the Group used borrowing rates applicable for loans denominated in Roubles and issued by the Group in that period of 16% p.a.

Were applied interest rates higher or lower by 10% from Management estimates, the gain from restructured borrowings and taxes would be estimated RR 201 million higher or lower RR 239 mln, respectively.

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

Were the actual useful lives of the property, plant and equipment lower or higher by 10% from Management's estimates, the carrying amount of the plant and equipment would be estimated RR 409 million higher or RR 500 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 provided 100% of inventory with storage over six months the carrying amount of inventory would be by RR 190 million lower. If the Group were only to provided against stock with a storage period of more than twelve months than the carrying amount of inventory would be by RR 200 million higher.

4 First Time Adoption of IFRS

These financial statements are the Group's first annual financial statements that comply with IFRS. The Group's IFRS transition date is 1 January 2005. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of IFRSs effective for the year ended 31 December 2006 in preparing the opening IFRS balance sheet at 1 January 2005 and in subsequent periods up to the first IFRS reporting date. In preparing these consolidated financial statements, the Group has applied the mandatory exceptions and has elected to apply the following optional exemptions:

a) ***Fair value as deemed cost exemption.*** As at 1 January 2005 the Group revalued its property, plant and equipment to fair value as their deemed cost.

b) ***Cumulative translation differences exemption.*** The Group has elected to set the previous cumulative currency translation reserve to zero at 1 January 2005. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

c) ***Business Combination.*** The Group elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the transition date to IFRS. Rules for consolidation are different under RAR and IFRS. As a result, any business combinations that occurred prior to 1 January 2005 were accounted for as follows: the parent's net carrying amounts of assets and liabilities of the consolidated entities determined in accordance with IFRS were compared with the cost of the Group's investments in the consolidated entities and difference being a negative goodwill recognised in the retained earnings in the Group's IFRS transition balance sheet

d) ***Share-based payments.*** The Group did not apply IFRS 2 "Share-based payment" to equity instruments that (a) were granted on or before 7 November 2002 or (b) were granted after 7 November 2002 and vested before 1 January 2005.

Relevant exceptions from retrospective application, which are mandatory under IFRS 1, are:

a) ***Assets held for sale and discontinued operations.*** Management applies IFRS 5 retrospectively.

b) ***Estimates.*** An entity's estimates under IFRSs at the date of transition to IFRSs are consistent with estimates made for the same date under RAR (after adjustments to reflect any difference in accounting policies).

4 First Time Adoption of IFRS (Continued)

The effects of transition from Russian Accounting Rules ('RAR') to IFRS as at 1 January 2005, 31 December 2005, 31 December 2006 and for 2005 and 2006 are set out below:

In millions of Russian Roubles (RR)	**31 December 2006**	**31 December 2005**	**1 January 2005**
CONSOLIDATED EQUITY UNDER RAR	**50,520**	**47,336**	**46,166**
Impact caused by changes in the accounting policies			
(i) Consolidation of subsidiaries	1,717	2,739	3,257
(ii) Fixed assets: fair value as deemed cost exemption and subsequent difference in depreciation and gains/losses on disposals	(13,099)	(14,947)	(16,362)
(iii) Borrowings: gains on initial recognition and subsequent amortization of discount or premium	1,911	2,581	-
(iv) Provision for restructured taxes: gains on initial recognition and subsequent amortization of discount or premium	1,073	29	52
(v) Change in fair value of available-for-sale investments, net of tax	527	121	-
(vi) Provisions for liabilities and charges and other contingencies	(1,867)	(1,705)	(1,374)
(vii) Intangible assets	(8,992)	(9,579)	(8,230)
(viii) Finance leases	(1,020)	(851)	(374)
(ix) Treasury shares	-	(37)	(1,727)
(x) Deferred tax: recognition under the balance sheet liability method	3,045	3,869	4,432
(xi) Provisions for inventories	(658)	(583)	(568)
(xii) Accrued expenses	(269)	(759)	(829)
(xiii) Other	(384)	(229)	(158)
EQUITY UNDER IFRS	**32,504**	**27,985**	**24,285**

In millions of Russian Roubles (RR)	**2006**	**2005**
CONSOLIDATED PROFIT UNDER RAR	**1,407**	**321**
Impact caused by changes in the accounting policies		
(i) Consolidation of subsidiaries	722	1,155
(ii) Fixed assets: fair value as deemed cost exemption and subsequent difference in depreciation and gains/losses on disposals	1,848	1,415
(iii) Borrowings: gains on initial recognition and subsequent amortization of discount or premium	(670)	2,581
(iv) Provision for restructured taxes: gains on initial recognition and subsequent amortization of discount or premium	1,044	(23)
(v) Change in fair value of available-for-sale investments	-	-
(vi) Provisions for liabilities and charges and other contingencies	(162)	(331)
(vii) Intangible assets	587	(1,349)
(viii) Finance lease	(169)	(477)
(ix) Treasury shares	-	-
(x) Deferred tax: recognition under the balance sheet liability method	(727)	(534)
(xi) Provisions for inventories	(75)	(15)
(xii) Accrued expenses	490	70
(xiii) Other	(155)	(71)
IFRS PROFIT	**4,140**	**2,742**

4 First Time Adoption of IFRS (Continued)

The adjustments for the differences between RAR and IFRS are attributable to the following items:

(i) Consolidation of subsidiaries. The Company's Consolidated Russian statutory financial statements include only assets, liabilities, equity and income and expense items of some of the Group's subsidiaries. Under IFRS, the Group consolidated all subsidiaries in accordance with IAS 27 "Consolidated and Separate Financial Statements", consequently Group consolidated some subsidiaries under IFRS which were not consolidated under RAR.

(ii) Fixed Assets: fair value as deemed cost exemption. The Group has elected to measure fixed assets at fair value of RR 28,521 million at 1 January 2005. This fair value represents the deemed cost of assets and is the basis for future depreciation.

(iii) Borrowings: gains on initial recognition and amortization. In accordance with IFRS, loans were initially recognized at fair value net of transaction costs. The difference to transaction price was immediately recognized in profit and loss unless it qualifies for recognition as some other type of asset or liability in accordance with applicable IFRSs. Under RAR, such liabilities are carried at undiscounted amounts.

***(iv)* Provision for restructured taxes: gains on initial recognition and amortisation.** Under IFRS, long-term tax liabilities restructured by the Ministry of Finance on favourable market terms are recognised at present values. Under RAR, such liabilities are carried at undiscounted amounts.

(v) Change in fair value of available-for-sale investments. The Group recognized available-for-sale investments at fair value with changes in fair value recognized directly in equity until disposal or impairment. Under RAR available-for-sale investments recognized at cost.

(vi) Provisions for liabilities and charges and other contingencies. The Group has created provision for tax liabilities and warranty provision in accordance with IAS 37. These liabilities are not recognized under RAR.

(vii) Intangible assets. The Group recognized in its opening IFRS balance sheet only those intangible assets that met recognition criteria of IAS 38. Internally generated trademarks and development costs that did not meet those criteria were derecognized.

(viii) Finance lease. The Group sells trucks on lease terms. The timing of revenue and expenses recognition in IFRS related to lease agreements significantly differs from RAR rules, as under RAR income recognized as payment received.

(ix) Treasury shares. Treasury shares were recognized under IFRS as deduction from share capital of the Company. (Note 16). Under RAR treasury shares are recognized as investment.

(x) Deferred taxation: balance sheet liability method. This adjustment is required to record deferred tax calculated under balance sheet liability method in relation to all temporary differences specified in Note 30. Differences with RAR aroused mainly due to adjustments listed in this Note.

***(xi)* Provision for inventories**. In these consolidated financial statements, the Group made a provision to write down inventories to their net realizable values and eliminated unrealized intergroup profit on the inventory balances. Under RAR provision made only for items that are not expected to be sold or used in production.

***(xii)* Accrued expenses**. Following IFRS principles the expenses were recognized in the period. Under RAR some expenses recognized in the period when supporting documentation prepared.

(xiii) Other. These adjustments include some other immaterial adjustments.

Share capital under RAR at 31 December and 1 January 2005 was adjusted for the effect of hyperinflation in the amount of RR 113,113 million. Share premium in the amount of RR 94,475 million was recognized under IFRS at 31 December and 1 January 2005 and was not recognized under RAR.

The Group does not prepare consolidated cash flows in accordance with RAR.

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 2007 or later periods and which the Group has not early adopted.

IFRS 7 Financial Instruments - Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. The Amendment to IAS 1 introduces disclosures about entity's capital and capital Management methods. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

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.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The revised IAS 23 would not have impact on Group's accounts as Group already capitalizes borrowing costs.

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

Other new standards and interpretations. The Group does not plan to early adopt the following new standards and interpretation.

- IFRIC 7, *Applying the restatement approach under IAS 29* (effective for annual periods beginning on or after 1 March 2006).
- IFRIC 8, *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).
- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

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

6 Balances and Transactions with Related Parties

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

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

Russian Federation

The Russian Federation represented by the Federal Agent managing federal property is one of the largest shareholders and holds 34.01% of shares in the Company as at 31 December 2006. The Russian Federation does not prepare consolidated financial statements for public purposes. Following the General Shareholders' Meeting held in June 2006, members of the Board of Directors were as follows: four members were representatives of the Russian Federation, one member was a manager of the Company, one member was a leader of KAMAZ's trade union, one member was a mayor of Naberezhnye Chelny, two members were independent directors, and two members were representatives of other shareholders. Governmental economic and social policy significantly influences the financial position, results of operation and cash flows of the Group. Tax accruals and payments are made based on the requirements of Russian tax legislation. Tax restructuring is described in Note 19. Restructuring of loan to Minfin is described in Note 17.

Companies under state control

As of and for the year ended 31 December 2006 and 31 December 2005, respectively, the Group had the following balances, income and expense items attributable to related party transactions:

	As of 31 December 2006		For the year ended 31 December 2006	
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	118	839	-	924
Unified social tax	-	263	-	2,096
VAT recoverable/payable	2,253	583	-	-
Other taxes	733	1,160	-	752
Restructured taxes	-	1,666	1,173	158
Deferred income	-	42	-	-
Long-term loans and borrowings	-	2,269	-	-
Short-term loans and borrowings	-	1,903	-	-
Interest expense	-	-	-	395
Trade and other receivables	357	-	-	-
Trade and other payables	-	203	-	-
Sales of goods	-	-	3,159	-
Purchases of goods	-	-	-	552
Balances and transactions with shareholders with significant influence				
Loans issued (USD denominated at effective interest rate LIBOR plus 3.75% matured 23 October 2007). Fair value approximates carrying amount.	1,054	-	-	-
Interest income	-	-	17	-
Services rendered	-	-	-	26
Balances and transactions with JV				
Trade and other receivables	-	-	-	-
Trade and other payables	-	109	-	-
Sales of goods	-	-	2	-
Purchases of goods	-	-	-	42
Balances and transactions with associates				
Trade and other receivables	156	-	-	-
Trade and other payables	-	101	-	-
Sales of goods	-	-	1,915	-
Purchases of goods	-	-	-	904

6 Balances and Transactions with Related Parties (Continued)

	As of 31 December 2005		For the year ended 31 December 2005	
	Total assets	**Total liabilities**	**Income**	**Expenses**
Balances and transactions with the Russian Federation and companies under state control				
Current income tax	41	868	-	574
Unified social tax	-	1,156	-	1,671
VAT recoverable/payable	2,675	1,779	-	-
Other taxes	948	2,318	-	659
Restructured taxes	-	264	12	27
Deferred income	-	41	-	-
Long-term loans and borrowings	-	1,877	-	-
Short-term loans and borrowings	-	3,881	-	-
Interest expense	-	-	-	688
Trade and other receivables	180	-	-	-
Trade and other payables	-	61	-	-
Sales of goods	-	-	2,093	-
Purchases of goods	-	-	-	277
Balances and transactions with shareholders with significant influence				
Sale of 7,581 thousand of treasury shares (1% of KAMAZ share capital) at 15 RR per share	-	-	113	-
Services rendered	-	-	-	61
Balances and transactions with JV				
Trade and other receivables	-	-	-	-
Trade and other payables	-	47	-	-
Sales of goods	-	-	1	-
Purchases of goods	-	-	-	373
Balances and transactions with associates				
Trade and other receivables	820	-	-	-
Trade and other payables	-	29	-	-
Sales of goods	-	-	1,202	-
Purchases of goods	-	-	-	253

In 2006, the amount of remuneration of the Board of Directors and Management Board members comprised salaries, discretionary bonuses and other short-term benefits of RR 153 million (2005: RR 38 million). At the meeting on the 3 September 2004 the Board of Directors approved share options vesting upon the issuance to the Management Board with no time limit for exercising: 640 thousand shares held as treasury shares by the Group were granted for sale to the members of Management Board at USD 0.34 per share. These 640 thousand share options were exercised for the whole amount in February 2006.

One of the significant shareholders acts as a trustee for managing financial instruments at fair value through profit or loss in the amount of RR 331 million as at 31 December 2006 (2005: RR 320 million). These financial instruments mainly include domestic corporate and government bonds disclosed in Note 9 (b).

Transactions in respect of investment in KAMAZ capital are disclosed in Notes 9 and 16.

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 or deemed cost						
Balance at 1 January 2005	1,889	16,795	7,643	1,108	1,086	28,521
Additions through business combinations (Note 32)	-	410	163	14	9	596
Additions	-	-	-	-	1,513	1,513
Disposals	(38)	(101)	(12)	(138)	-	(289)
Transfers	5	106	1,037	254	(1,402)	-
Balance at 31 December 2005	**1,856**	**17,210**	**8,831**	**1,238**	**1,206**	**30,341**
Additions	-	-	-	-	2,154	2,154
Disposals	(118)	(32)	(89)	(86)	-	(325)
Transfers	-	120	384	310	(814)	-
Balance at 31 December 2006	**1,738**	**17,298**	**9,126**	**1,462**	**2,546**	**32,170**
Accumulated Depreciation						
Balance at 1 January 2005	-	-	-	-	-	-
Depreciation expense for the year 2005	-	(831)	(1,136)	(377)	-	(2,344)
Disposals	-	73	8	64	-	145
Balance at 31 December 2005	**-**	**(758)**	**(1,128)**	**(313)**	**-**	**(2,199)**
Depreciation expense for the year 2006	-	(761)	(1,097)	(301)	-	(2,159)
Disposals	-	18	62	25	-	105
Balance at 31 December 2006	**-**	**(1,501)**	**(2,163)**	**(589)**	**-**	**(4,253)**
Net Book Value						
Balance at 31 December 2005	**1,856**	**16,452**	**7,703**	**925**	**1,206**	**28,142**
Balance at 31 December 2006	**1,738**	**15,797**	**6,963**	**873**	**2,546**	**27,917**

Plant and equipment includes assets under finance leases, whose net book value totalled RR 312 million (2005: RR 351 million).

Interest capitalized during 2006 within the cost of acquired property, plant and equipment totaled RR 144 million (2005: RR 98 million). Interest rate used to determine the amount of borrowing costs eligible for capitalization is 8.7% in 2006 (2005: 12.4%).

8 Investment in Associates and Joint Ventures

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

In millions of Russian Roubles (RR)	2006	2005
Carrying amount at 1 January	**171**	**185**
Fair value of net assets of associates and joint ventures acquired	66	27
Share of results of associates and joint ventures, after tax	(5)	(28)
Reclassification from subsidiary to associate as the control was lost due to partial disposal	14	-
Sale of associates	(28)	(13)
Carrying amount at 31 December	**218**	**171**

a) Investment in Associates

The Group has shares in more than 20 associates, none of which is significant individually. A summary of the Group's share in associates and summarised financial information including total assets, liabilities, revenues, profit or loss at 31 December 2006 and 31 December 2005 are set out below:

In millions of Russian Roubles (RR)	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 2006									
Kemerovskiy autocenter KAMAZ	35%	7	3	194	(184)	9	-	1,736	9
Bashkirskiy autocenter KAMAZ	37%	(1)	-	73	(86)	11	-	187	-
Astrahanskiy autocenter KAMAZ	23%	1	-	12	(11)	2	-	26	(1)
ZF KAMA	49.9%	25	-	249	(229)	31		416	-
Zhezkazganskiy autocenter KAMAZ	25%	1	-	19	(17)	-	-	22	1
Other	20-50%	17	(12)	153	(140)	11	(1)	496	(39)
Total		**50**	**(9)**	**700**	**(667)**	**64**	**(1)**	**2,883**	**(30)**
For the year ended 31 December 2005									
RIAT	25%	27	9	273	(194)	85	(57)	1,351	35
ZF KAMA	49.9%	25	(2)	65	(35)	22	(1)	-	(3)
Magadanskiy autocenter KAMAZ	25%	1	-	81	(78)	4	(1)	137	-
Kemerovskiy autocenter KAMAZ	35%	3	2	131	(127)	5	-	1,072	5
Bashkirskiy autocenter KAMAZ	37%	(1)	-	15	(29)	11	-	42	(1)
Other	20-50%	11	(2)	143	(123)	-	-	324	(5)
Total		**66**	**7**	**708**	**(586)**	**127**	**(59)**	**2,926**	**31**

8 Investment in Associates and Joint Ventures (Continued)

b) Investment in Joint Ventures

As at 31 December 2006 the Group has interest in the following jointly controlled entities: KIP-Master (50% of share capital is owned by one of the Group's subsidiaries) and Cummins-KAMA (50% of share capital). During 2006 the Group has purchased additional 50%-stake in STFC where as at 31 December 2005 the Group owned 50%. A summary of the Group's share in joint ventures and summarised financial information including total assets, liabilities, revenues, profit or loss at 31 December 2006 and 31 December 2005 are set out below:

In millions of Russian Roubles (RR)	Interest	Share of net assets	Share of net profit/(loss)	Current assets	Current liabilities	Non-Current assets	Non-Current liabilities	Revenue	Profit/ (loss)
For the year ended 31 December 2006									
KIP-Master	48.3%	145	1	71	(219)	453	(3)	26	2
Zelenodolskiy autocenter KAMAZ	50%	14	-	5	(5)	27	-	25	(1)
CUMMINS KAMA	50%	9	3	26	(12)	5	-	50	7
Total		**168**	**4**	**102**	**(236)**	**485**	**(3)**	**101**	**8**
For the year ended 31 December 2005									
KIP-Master	48.3%	105	(35)	28	(23)	212	-	6	(73)
STFK	50%	-	-	117	(117)	1	-	466	-
Total		**105**	**(35)**	**145**	**(140)**	**213**	**-**	**472**	**(73)**

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 equal to zero. The unrecognised share of losses of these associates is RR 1 million for 2006 (2005: RR 1 million). Cumulatively, the unrecognised share of losses of these associates is RR 2 million (2005: RR 1 million).

During 2006 the Group sold its 25% interest in share capital of its associate RIAT for RR 1 million. Additional investments were made to KIP-Master of RR 60 million due to increase of share capital of the joint venture and purchase of an additional interest of 50% in STFK.

9 Available-for-sale Investments and Financial Instruments at Fair Value through profit or loss

a) Available-for-sale investments

In millions of Russian Roubles (RR)	**2006**	**2005**
Domestic corporate shares	1,193	886
Debt securities	-	3
Total available-for-sale investments	**1,193**	**889**

At 31 December the domestic corporate shares include:

In millions of Russian Roubles (RR)	**2006**	**2005**
Name		
KAMAZ-Capital (11.2% of share capital)	1,138	680
ACB AKI-Bank	-	149
Nasko Tatarstan	50	50
Other	5	7
Total	**1,193**	**886**

The investment in OAO KAMAZ-Capital represents 11.2% of its shares. The investment in OAO KAMAZ-Capital was acquired in exchange for 26,323 thousand shares of OAO KAMAZ (3.72% of OAO KAMAZ share capital) in 2005. The shares of OAO KAMAZ are listed on RTS and their fair value could be determined. The fair value of the investment into OAO KAMAZ-Capital is considered to be equal to the fair value of KAMAZ's shares invested into OAO KAMAZ-Capital by the Group, as all assets of OAO KAMAZ-Capital represent shares of OAO KAMAZ.

9 Available-for-sale investments and financial instruments at fair value through profit or loss (Continued)

a) Available-for-sale investments (Continued)

Investments in shares of other companies are carried at cost of RR 55 million (2005: RR 206 million). Shares of these companies are not listed on any stock exchange and it is impossible to obtain any reliable information about their performance or their value in current transactions from public sources.

In 2006, the Group sold its investment in shares of ACB AKI-Bank, previously carried at cost of RR 149 million because its fair value could not be reliably determined. The Group recognised a gain of RR 19 million on the sale (Note 27).

b) Financial instruments at fair value through profit or loss

The Group's financial instruments at fair value through profit or loss include government and corporate bonds denominated in Russian Roubles.

The bonds mature as follows:

In millions of Russian Roubles (RR)		**2006**	**2005**
Bonds due:	- within 1 year	113	27
	- between 2 and 5 years	383	406
Total		**496**	**433**

Coupon interest rates attached to the bonds are as follows

In millions of Russian Roubles (RR)	**2006**	**2005**
Coupon interest rate:		
8-10%	309	264
10-12%	87	60
12-14%	100	109
Total	**496**	**433**

10 Intangible Assets

Intangible assets comprise the following:

In millions of Russian Roubles (RR)	**Development costs**	**Other Intangible Assets**	**Total**
Cost			
Balance at 1 January 2005	**120**	**43**	**163**
Additions	97	6	103
Balance at 31 December 2005	**217**	**49**	**266**
Additions	142	12	154
Balance at 31 December 2006	**359**	**61**	**420**
Accumulated Amortisation			
Balance at 1 January 2005	-	(5)	(5)
Amortisation expense	(22)	(19)	(41)
Balance at 31 December 2005	**(22)**	**(24)**	**(46)**
Amortisation expense	(38)	(10)	(48)
Balance at 31 December 2006	**(60)**	**(34)**	**(94)**
Net Book Value			
Balance at 31 December 2005	**195**	**25**	**220**
Balance at 31 December 2006	**299**	**27**	**326**

10 Intangible assets (Continued)

Development costs capitalized comprise the following projects:

In millions of Russian Roubles (RR)	Expected useful life	2006	2005
Heavy truck family (KAMAZ-6520)	7 years	92	54
Engines Euro-3, Euro-4, Euro-5	5-10 years	86	50
Buses KAMAZ-NEFAZ	7 years	43	34
All-wheel-drive truck family	5 years	28	26
Long-haul truck (KAMAZ-6520)	7 years	11	7
Light truck family (KAMAZ-4308)	7 years	11	10
Others	3-7 years	27	14
Total development costs		**298**	**195**

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

11 Finance Lease Receivables

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

In millions of Russian Roubles (RR)	Due within 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2006	1,966	1,932	3,898
Less future finance charges	(209)	(653)	(862)
Present value of minimum lease payments at 31 December 2006	**1,757**	**1,279**	**3,036**
Minimum lease payments at 31 December 2005	1,326	1,247	2,573
Less future finance charges	(128)	(369)	(497)
Present value of minimum lease payments at 31 December 2005	**1,198**	**878**	**2,076**

The Group provides leasing facilities to the buyers of trucks and busses. 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 16% in 2006 (2005: 20%). The fair value of finance lease receivables as at 31 December 2006 is RR 3,094 million (2005: RR 2,116 million). Group has no unguaranteed residual value accruing to the lessor.

12 Inventory

In millions of Russian Roubles (RR)	2006	2005
Raw materials and consumables	4,618	3,688
(Less net realizable value provision)	(522)	(465)
Raw materials and consumables, net	4,096	3,223
Work in progress	2,103	1,998
Finished goods	4,552	4,543
(Less net realizable value provision)	(63)	(45)
Finished goods, net	4,489	4,498
Total inventory	**10,688**	**9,719**

13 Trade and Other Receivables

In millions of Russian Roubles (RR)	**2006**	**2005**
Trade receivables	3,448	3,147
(less impairment provision for trade accounts receivable)	(238)	(273)
Trade receivables, net	3,210	2,874
Promissory notes receivable	51	185
Advances issued and prepayments	1,897	969
(less impairment provision for advances issued and prepayments)	(13)	(12)
Advances issued and prepayments, net	1,884	957
Other receivables	753	545
(less impairment provision for other receivables)	(75)	(58)
Other receivables, net	678	487
Loans issued to related parties (Note 6)	1,054	-
VAT recoverable	2,253	2,675
Other prepaid taxes	733	948
Total trade and other receivables	**9,863**	**8,126**

The fair value of the trade and other receivables is not significantly different to its carrying value.

Accounts receivable denominated in foreign currency:

In millions of Russian Roubles (RR)	**2006**	**2005**
EURO	157	103
USD	32	30
Other foreign currency	73	95
Total	**262**	**228**

14 Cash and Cash Equivalents

In millions of Russian Roubles (RR)	**2006**	**2005**
Cash in bank	2,216	841
Term deposits	118	177
Bank promissory notes	144	84
Total cash and cash equivalents	**2,478**	**1,102**

Deposits bear interest in 2006 of 8-11% per annum (2005: 8-11% per annum). The other cash balances are not interest-bearing.

Cash balances denominated in foreign currency:

In millions of Russian Roubles (RR)	**2006**	**2005**
EURO	185	22
USD	92	117
Other foreign currency	67	37
Total	**344**	**176**

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

15 Disposal of Subsidiary

In February 2005, the Group sold OAO "Small Vehicle Plant" (ZMA), where the Group owned 74%, for RR 979 million, net of costs incurred by the Group in this transaction. A resolution to sell the company was made in 2004 and its assets were classified as Assets Held for Sale at 1 January 2005 at fair value less cost to sell in the amount of RR 979 million. The Group has not recorded any gain or loss from the sale of the subsidiary.

During 2005 the Group lost control over two subsidiaries where the court appointed the court liquidator: OAO Avtomehanicheskiy Zavod (100%-subsidiary) and NPPF KAMAZ-Monteko (Group owned 50.4% of share capital) were liquidated in 2006. As a result of write-off of liabilities of these subsidiaries the Group recognized a gain of RR 241 million (Note 27).

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

In millions of Russian Roubles (RR)	**OAO Avtomekhancheskiy Zavod**	**NPPF KAMAZ-Monteko**	**Total**
Cash and cash equivalents	-	-	-
Other current assets	38	6	44
Non-current assets	-	109	109
Current liabilities	(47)	(347)	(394)
Net assets	**(9)**	**(232)**	**(241)**

16 Share Capital and Share Premium

In millions of Russian Roubles (RR)	**Number of outstanding shares (in thousands)**	**Ordinary**			**Treasury Shares**		
		Nominal amount	**Hyperinflation adjustment**	**Share Premium**	**Nominal amount**	**Hyperinflation adjustment**	**Total**
At 1 January 2005	**785,748**	**39,287**	**113,113**	**(94,475)**	**(1,727)**	**(4,968)**	**51,230**
Disposal of treasury shares	-	-	-	-	1,691	4,863	6,554
At 31 December 2005	**785,748**	**39,287**	**113,113**	**(94,475)**	**(36)**	**(105)**	**57,784**
Transfer of inflation loss	-	-	(113,113)	**94,475**	-	-	(18,638)
Disposal of treasury shares	-	-	-	-	36	105	141
At 31 December 2006	**785,748**	**39,287**	**-**	**-**	**-**	**-**	**39,287**

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Roubles at 31 December 2002 is RR 39,287 million (2005: RR 39,287 million). During 2006 the Company made a legally effective resolution to transfer to retained earnings the accumulated loss on the restatement of the capital contributions and to state the share capital at its nominal registered amount.

Total amount of authorised ordinary shares is 785,748 thousand (2005: 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.

As at 1 January 2005 34,544 thousand of ordinary shares were owned by subsidiaries of the Group. These ordinary shares carried voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group were effectively controlled by the Management of the Group. In August 2005 26,323 thousand of these shares were invested in share capital of OAO KAMAZ-Capital, where the Group received 11.2% of share capital; 7,491 thousand shares were sold to one of the significant shareholders in 2005 and 90 thousand shares in 2006. 640 thousand shares were distributed in 2006 as share option to the members of the Management Board (Note 6).

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

17 Borrowings

The Group's borrowings mature as follows:

In millions of Russian Roubles (RR)		2006	2005
Borrowings due:	- within 1 year	7,368	9,098
	- between 2 and 5 years	3,186	2,370
	- after 5 years	1,266	1,707
Total borrowings		**11,820**	**13,175**

Long-term borrowings

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

In millions of Russian Roubles (RR)	Carrying value 2006	2005	Fair value 2006	2005
Ministry of Finance of RF	1,551	1,727	1,459	1,727
Domestic bonds	1,500	1,500	1,500	1,500
Vneshtorgbank	561	-	561	-
AC Bars Bank	305	-	305	-
Kanematsu	241	303	241	303
Sberbank	157	150	157	150
Bank Zenit	58	-	58	-
ACB Rosbank	-	359	-	359
Other	79	38	79	38
Total long-term borrowings	**4,452**	**4,077**	**4,360**	**4,077**

The loan from the Ministry of Finance of the Russian Federation and the loan from ACB Rosbank were restructured in December 2005. The gain from forgiveness and restructuring of those loans recognized in 2005 amounted to RR 2,388 million and RR 339 million, respectively. The loan from the Russian Federation Ministry of Finance was restructured until the end of 2034 with a fixed interest rate of 1% per annum. The loan from ACB Rosbank was restructured until the end of 2030 with a fixed interest rate of 2% per annum. In 2006 the loan from ACB Rosbank was settled with a gain of RR 43 million between the carrying amount of the loan and amount negotiated with the lender.

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

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

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

	2006	2005
Ministry of Finance (in Yen)	6.6 %	6.6 %
Kanematsu (in Yen), 6-months repricing period	Yen LIBOR + 3 %	Yen LIBOR + 3 %
Domestic bonds (in RR)	8.5%	8.5 %
EBRD (in USD), 6-months repricing period	LIBOR + 4 %	LIBOR + 4 %
ACB Rosbank (in USD)	-	8.5%
Other	10-12%	12-14%

17 Borrowings (Continued)

Long-term borrowings (Continued)

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

	31 December 2006			**31 December 2005**		
% per annum	Russian Roubles	US dollars	Yens	Russian Roubles	US dollars	Yens
Ministry of Finance (in Yen)	-	-	6.6%	-	-	6.6%
Kanematsu (in Yen)	-	-	3.1%	-	-	3.1%
Domestic bonds (in RR)	8.6%	-	-	8.6%	-	-
EBRD (in USD)		9.4%	-		9.5%	-
ACB Rosbank (in USD)	-	-	-	-	8.5%	-
Other credits (in RR)	7.6-12.5%	-	-	5.6 –14%	-	-

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

In millions of Russian Roubles (RR)	**2006**	**2005**
Borrowings denominated in:		
- Russian Roubles	2,136	1,688
- Yens	1,792	2,030
- US Dollars	-	359
- Euros	524	-
Total long-term borrowings	**4,452**	**4,077**

Short-term borrowings

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

In millions of Russian Roubles (RR)	**2006**	**2005**
Syndicated loan	2,706	-
EBRD	1,061	1,355
Vneshtorgbank	1,063	1,838
Sberbank	768	2,000
Ak Bars Bank	325	1,434
Bank Zenit	339	745
Ministry of Finance of Russian Federation	72	43
Kanematsu	31	64
ACB Rosbank	-	154
Other lenders	867	1,357
Interest payable	136	108
Total short-term borrowings	**7,368**	**9,098**

Current portion of long-term loans as at 31 December 2006 is RR 1,134 million (2005: RR 1,616 million).

During 2005 year OAO KAMAZ had a number of guarantees issued for its group subsidiaries. This resulted in a technical breach of a covenant, imposed within a loan agreement from the EBRD, which set limits upon the total amount of the guarantees issued by the Company. In addition, during 2005-2006 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 written confirmation that EBRD has no intention to accelerate the loan repayment as a consequence of this technical breach, the related loan has been reclassified as short-term in accordance with IAS 1.

In October 2006 the Group received a syndicated loan amounting to Euro 40 million and USD 50 million at an interest rate of LIBOR+1.5% with maturity date at 28 October 2007 with repricing period of three months.

The interest rates for short-term loans were 7.6 to 12% per annum at 31 December 2006 (2005: 8-14% per annum).

17 Borrowings (Continued)

Short-term borrowings (Continued)

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

In millions of Russian Roubles (RR)	**2006**	**2005**
Borrowings denominated in:		
- Russian Roubles	3,201	7,445
- US Dollars	2,412	1,538
- Euros	1,651	-
- Yen	104	115
Total short-term borrowings	**7,368**	**9,098**

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 31 December 2006 and 31 December 2005.

18 Other Taxes Payable

Taxes payable within one year comprise the following:

In millions of Russian Roubles (RR)	**2006**	**2005**
Tax penalties and interest	1,036	2,095
Value-added tax	583	1,779
Unified social tax	263	1,156
Personal income tax	69	64
Property tax	28	31
Other taxes	27	130
Total	**2,006**	**5,255**

19 Restructured Taxes

Restructured taxes represent a liability for the expected outflows under decrees of the Government of the Russian Federation issued during 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 has been derecognised and a new liability for restructured taxes was recorded with a corresponding gain totalling RR 1,173 included in the income statement in 2006.

Movements in the liabilities for restructured taxes are as follows:

In millions of Russian Roubles (RR)	**2006**	**2005**
Carrying amount at 1 January	**264**	**287**
Tax restructuring	2,592	**-**
Gain from restructuring, including forgiveness of penalties	(1,173)	(12)
Settlement	(177)	(38)
Unwinding of the discount	158	27
Carrying amount at 31 December	**1,664**	**264**
Current portion of tax restructured	214	72
Long-term portion of tax restructured	1,450	192

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 10% p.a. (2005: 16% p.a.).

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

19 Restructured Taxes (Continued)

In millions of Russian Roubles (RR)	2006	2005
- within 1 year	214	72
- between 2 and 5 years	610	192
- after 5 years	840	-
Total	**1,664**	**264**

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.

20 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 1 January 2005	166	666	832
Accruals charged to profit and loss	138	152	290
Utilized	(112)	-	(112)
Carrying value at 31 December 2005	**192**	**818**	**1,010**
Accruals charged to profit and loss	269	64	333
Utilized	(166)	-	(166)
Carrying value at 31 December 2006	**295**	**882**	**1,177**
Current portion	261	882	1,143
Non-current portion	34	-	34

Warranty. The Group provides warranties in respect of automotive trucks for a period of 18 months or 100,000 km of mileage and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 295 million (2005: RR 192 million) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns. At 31 December 2006 RR 260 million of warranty provision is expected to be either fully utilised or released by the end of 2007 (2005: RR 160 million by the end of 2006) and be disclosed in the financial statements within current liabilities.

Taxes other than on income, fines and penalties: The Group has recorded provisions of RR 882 million (2005: RR 818 million). The balance at 31 December 2006 is expected to be either fully utilised or released by the end of 2010. Provision for tax liabilities relates to tax contingencies resulting from uncertain interpretation of tax legislation.

21 Trade and Other Payables

In millions of Russian Roubles (RR)	2006	2005
Trade payables	4,830	3,580
Wages and salaries payable	1,201	796
Advances received	2,817	959
Bills of exchange payable	22	96
Other	328	390
Trade and other payables	**9,198**	**5,821**

The fair value of the 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 (RR)	2006	2005
EURO	184	130
USD	212	184
Other currencies	215	245
Total	**611**	**559**

22 Revenue

In millions of Russian Roubles (RR)	**2006**	**2005**
Trucks and assembly kits	42,825	29,855
Spare parts	11,729	9,919
Buses, truck trailers and truck mixers	8,905	5,299
Metallurgical products	2,376	1,978
Truck repair services	1,334	906
Leasing income	561	338
Other sales of goods	2,374	1,972
Other services	908	551
Total sales	**71,012**	**50,818**

Sales of goods include RR 6,505 million (2005: RR 9,045 million) and purchase of the materials include RR 5,116 million (2005: RR 8,183 million) settled using bills of exchange.

In millions of Russian Roubles (RR)	**2006**	**2005**
Domestic sales		
Trucks and assembly kits	28,750	21,243
Spare parts	8,296	7,729
Buses, truck trailers and truck mixers	8,047	4,840
Leasing income	561	338
Other sales	6,907	5,339
Total domestic sales	**52,561**	**39,489**
Export sales		
Trucks and assembly kits	14,075	8,612
Spare parts	3,433	2,190
Buses, truck trailers and truck mixers	858	459
Other sales	85	68
Total export sales	**18,451**	**11,329**
Total sales	**71,012**	**50,818**

23 Cost of Sales

Cost of sales includes the following items:

In millions of Russian Roubles (RR)	**2006**	**2005**
Materials and components used	42,791	30,648
Labour costs	7,120	5,685
Fuel and energy	2,982	2,553
Depreciation of property, plant and equipment	1,955	2,166
Services	1,735	1,215
Warranty accruals	269	138
Net realizable value provision for inventories	75	15
Other costs	242	202
Changes in inventory of finished goods and work in progress	(97)	(824)
Total cost of sales	**57,072**	**41,798**

24 Selling Expenses

Selling expenses comprise:

In millions of Russian Roubles (RR)	**2006**	**2005**
Labour costs	931	636
Transportation expenses	622	523
Material consumed	361	264
Other services	355	276
Advertising	183	160
Insurance	60	56
Depreciation of property, plant and equipment	45	38
Customs duty	39	31
Impairment provision for receivables and loans	22	134
Other selling expenses	349	292
Total selling expenses	**2,967**	**2,410**

25 General and Administrative Expenses

General and administrative expenses include the following items:

In millions of Russian Roubles (RR)	**2006**	**2005**
Labour costs	2,257	1,718
Taxes other than income tax	752	659
Services	672	552
Provision for taxes other than income tax	64	152
Depreciation of property, plant and equipment	159	140
Amortization of intangible assets	48	41
Business trip costs	128	91
Material consumed	115	76
Insurance	281	80
Bank services	62	51
Consulting and informational services	84	78
Other expenses	189	327
Total general and administrative expenses	**4,811**	**3,965**

26 Expenses by Nature

Materials and components in:

In millions of Russian Roubles (RR)	**2006**	**2005**
Cost of sales	42,791	30,648
Selling expenses	361	264
General and administrative expenses	115	76
Total	**43,267**	**30,988**

Wages and salaries in:

In millions of Russian Roubles (RR)	**2006**	**2005**
Cost of sales	7,120	5,685
Selling expenses	931	636
General and administrative expenses	2,257	1,718
Total	**10,308**	**8,039**

Payments to state pension fund were RR 1,612 million in 2006 (2005: RR 1,285 million).

26 Expenses by Nature (Continued)

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

In millions of Russian Roubles (RR)	**2006**	**2005**
Cost of sales	1,955	2,166
Selling expenses	45	38
General and administrative expenses	159	140
Total depreciation of property, plant and equipment	**2,159**	**2,344**
Amortization of intangible assets	48	41
Total depreciation and amortization	**2,207**	**2,385**

27 Other Operating Income and Expenses

Other operating income comprises:

In millions of Russian Roubles (RR)	**2006**	**2005**
Gain on disposal of property, plant and equipment	20	33
Foreign exchange gains	45	123
Gain on sale of available-for-sale investments	19	-
Negative goodwill	-	179
Gain on sale and other disposals of subsidiaries	-	242
Total other operating income	**84**	**577**

Other operating expenses comprise:

In millions of Russian Roubles (RR)	**2006**	**2005**
Social expenditures and charity	620	579
Other operating expenses	59	46
Total other operating expenses	**679**	**625**

28 Finance Income and Costs

Finance income comprises of the following:

In millions of Russian Roubles (RR)	**2006**	**2005**
Interest income on promissory notes and loans issued	103	126
Foreign exchange gains	424	193
Total finance income	**527**	**319**

Finance cost comprises the following:

In millions of Russian Roubles (RR)	**2006**	**2005**
Interest on loans and borrowings	1,091	1,687
Unwinding of the discount on restructured tax liabilities	158	27
Unwinding of the discount on restructured loans	282	-
Interest expense on finance leases where the Group is the lessee	16	14
Total finance cost	**1,547**	**1,728**

29 Earnings per Share

Earnings per share are calculated as follows:

	2006	2005
Basic earnings per share:		
Profit attributable to equity holders of the Company (RR million)	3,851	2,698
Weighted average number of ordinary shares in issue (thousands)	785,687	762,961
Basic earnings per share (Roubles per share)	**4.90**	**3.54**
Diluted earnings per share:		
Weighted average number of ordinary shares in issue (thousands)	785,694	763,601
Diluted earnings per share (Roubles per share)	**4.90**	**3.53**

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, excluding ordinary shares held as treasury shares (Note 16).

Diluted earnings per share are calculated for Management share option granted in 2004 and exercised in February 2006 (Note 16, 6).

30 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles (RR)	2006	2005
Current tax	920	573
Deferred tax	568	474
Income tax expense for the year	**1,488**	**1,047**

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

In millions of Russian Roubles (RR)	2006	2005
Profit before tax	**5,628**	**3,789**
Theoretical tax charge at statutory rate (2006: 24%; 2005: 24%)	1,351	909
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	137	79
Taxable income not recognized under IFRS	-	102
Negative goodwill	-	(43)
Income tax expense for the year	**1,488**	**1,047**

Non-deductable expenses mainly consist of social expenses and other general and administrative expenses not included in the tax base in accordance with tax legislation. Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at a rate of 24% (2005: 24%).

30 Income Taxes (Continued)

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

In millions of Russian Roubles (RR)	1 January 2006	Charged/ (credited) to profit or loss	Recognised in equity	31 December 2006
Tax effect of taxable temporary differences				
Property, plant and equipment	(1,923)	45	-	(1,878)
Accounts payable	-	(160)	-	(160)
Inventory	(130)	(16)	-	(146)
Loans and borrowings	(628)	160	-	(468)
Taxes payable and restructured taxes	(10)	(250)	-	(260)
Investments	(133)	8	(58)	(183)
Gross deferred tax liability	**(2,824)**	**(213)**	**(58)**	**(3,095)**
Tax effect of deductible temporary differences and tax loss carried forward				
Property, plant and equipment	4,901	(483)	-	4,418
Finance lease receivable	223	45	-	268
Accounts receivable	122	(8)	-	114
Inventory	88	12	-	100
Intangible assets	823	(72)	-	751
Accounts payable	53	53	-	106
Provisions	31	24	-	55
Tax loss carry forwards	105	75	-	180
Gross deferred tax asset	**6,346**	**(355)**	**-**	**5,992**
Net deferred tax asset	**3,522**	**(568)**	**(58)**	**2,897**

Deferred tax movements for the year ended 31 December 2005 are as follows:

In millions of Russian Roubles (RR)	1 January 2005	Charged/ (credited) to profit or loss	Available -for-sale invest-ments	Business combina-tions	Disposal of subsidi-aries	31 December 2005
Tax effect of taxable temporary differences						
Property, plant and equipment	(2,232)	543	-	(125)	(109)	(1,923)
Inventory	(132)	1	-	1	-	(130)
Loans and borrowings	-	(628)	-	-	-	(628)
Taxes payable and restructured taxes	(15)	5	-	-	-	(10)
Investments	(5)	4	(135)	3	-	(133)
Gross deferred tax liability	**(2,384)**	**(75)**	**(135)**	**(121)**	**(109)**	**(2,824)**
Tax effect of deductible temporary differences and tax loss carried forward						
Property, plant and equipment	5,495	(594)	-	-	-	4,901
Finance lease receivable	114	109	-	-	-	223
Accounts receivable	47	74	-	1	-	122
Inventory	99	(10)	-	(1)	-	88
Intangible assets	894	(71)	-	-	-	823
Accounts payable	44	9	-	-	-	53
Provisions	27	4	-	-	-	31
Tax loss carry forwards	25	80	-	-	-	105
Gross deferred tax asset	**6,745**	**(399)**	**-**	**-**	**-**	**6,346**
Net deferred tax asset	**4,361**	**(474)**	**(135)**	**(121)**	**(109)**	**3,522**

30 Income Taxes (Continued)

Deferred tax asset related to land totalled RR 3,118 million as at 31 December 2006 (2005: RR 3,754 million). The Group has no intention to sell the land owned in the foreseeable future, but the deferred tax asset in respect of land is recognised based on the assumption that its carrying value will be recovered through sale, as required by IFRS.

The Group has not recorded deferred tax liabilities in respect of taxable temporary differences of RR 1,711 million (2005: RR 167 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

The current portion of deferred tax is RR 311 million as at 31 December 2006 (2005: RR 302 million).

Income tax payable includes profit tax payable related to uncertain tax position in the amount of RR 506 million as at 31 December 2006 (2005: RR 505).

31 Contingencies, Commitments and Operating Risks

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

At 31 December 2006 and 2005 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.

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.

At 31 December 2006, total liabilities recorded for uncertain tax positions amounted to RR 1,388 million (2005: RR 1,323 million). With this exception, the Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition, the Group estimates that it has potential obligations from exposure to other than remote tax risks of RR 3,311 million (2005: RR 1,815 million).

Contractual commitments. The Group has contractual commitments for the acquisition of property, plant and equipment as at 31 December 2006 totalled RR 290 million (2005: RR 323 million).

Guarantees. As at 31 December 2006 and 31 December 2005, the Group had not issued guarantees (irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations).

31 Contingencies, Commitments and Operating Risks (Continued)

The Group received guarantees for the following liabilities:

In millions of Russian Roubles (RR)	Notes	2006 Guarantees received	Related liability	2005 Guarantees received	Related liability
Tatarstan Ministry of Finance (Kanematsu loan)	17	410	272	454	367
Russian Federation Ministry of Finance (EBRD loan)	17	1,856	898	2,029	1,147
Tatarstan Ministry of Finance (EBRD loan)	17	337	163	368	208
Total guarantees		**2,603**	**1,333**	**2,851**	**1,722**

Assets pledged and restricted. The Group had the following assets pledged as collateral as at 31 December 2006 and 31 December 2005:

In millions of Russian Roubles (RR)	Notes	2006 Asset pledged	Related liability	2005 Asset pledged	Related liability
Property, plant and equipment	7	3,822	5,022	3,712	5,143
Inventory	12	4,082	1,983	7,854	4,721
Shares of subsidiaries, own bills of exchange issued		2,117	2,706	2,736	732
Total		**10,021**	**9,711**	**14,302**	**10,596**

At 31 December 2006 12,000 thousand shares of KAMAZ-Metallurgical Plant amounting RR 1,200 million were pledged for loan issued by Russian Federation Ministry of Finance, the bill of exchange of OAO KAMAZ for RR 917 million were pledged to Alfabank as collateral for loan.

Loan covenants. The covenants attached to majority part of loans comprise of obligatory provision of financial statements and other information about the Group's business to the lender. The only EBRD loan agreements and syndicated loan included also financial covenants such as to maintain the 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 breach of covenants attached to EBRD loan are disclosed in Note 17.

Loan commitments. In most of the cases the Group could early repay its debts after notification of the borrower without penalties. The exceptions are the loans borrowed from VTB (the early repayment could be made only after receipt of written permission given by the bank) and AC 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. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not freely convertible in most countries outside of the Russian Federation, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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

31 Contingencies, Commitments and Operating Risks (Continued)

Global liquidity issues. The last few months have seen sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond 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.

32 Business Combinations

On 13 July 2005 the Group acquired 51.9% of the share capital of OAO Tuymazinskiy Zavod Autobetonovozov. The acquired subsidiary contributed revenue of RR 354 million and loss of RR 22 million to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, Group revenue for 2005 would have been RR 50,785 million, and profit for 2005 would have been RR 2,922 million.

The details of the assets acquired, liabilities assumed and negative goodwill arising thereon are as follows:

In millions of Russian Roubles (RR)	**Note**	**Attributed fair value**
Cash and cash equivalents		1
Property, plant and equipment		597
Other assets		251
Borrowings		(49)
Trade and other payables		(141)
Other liabilities		(122)
Fair value of net assets of subsidiary		**537**
Less: minority interest		(258)
Fair value of acquired interest in net assets of subsidiary		**279**
Negative goodwill arising from the acquisition	27	(179)
Total acquisition cost		**100**
Less: cash and cash equivalents of subsidiary acquired		(1)
Outflow of cash and cash equivalents on acquisition		**99**

The purchase consideration comprises cash and cash equivalents paid of RR 100 million, there are no other costs or deferred consideration directly attributable to the business combination.

Fair values of assets and liabilities acquired are based on discounted cash flows models. The valuation of property, plant and equipment and identifiable intangible assets was performed by an independent professional appraiser. Major factors that contributed to negative goodwill are significant discount applied to shares held by minority shareholders of OAO Tuymazinskiy Zavod Autobetonovozov, low liquidity of these shares and low dividend payments.

It was impracticable to disclose pre-acquisition IFRS carrying value of assets and liabilities of OAO Tuymazinskiy Zavod Autobetonovozov, because the acquiree did not prepare IFRS financial statements before the acquisition.

During 2005 the Group established new subsidiaries: KAMAZ-Engineering (Group’s interest in share capital – 76%), Leasing Company KAMAZ (the Group owns 51%), Zelenodolskiy autocenter KAMAZ (the Group owned 51%, before reclassification as associate). The resulting increase of minority interest balance of RR 47 million was recognized in equity in 2005.

33 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 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.

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 17 and 21) 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.

34 Events After the Balance Sheet Date

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 Rouble per share. On 9 November 2007 the Board of Directors approved the Report on results of share buy-back program: OAO KAMAZ repurchased 78,518 thousand shares (9.99% of share capital), of which 77,895 thousand shares are from significant shareholders. As a result by the end of 2007 the Company share capital will comprise of 707,230 thousand shares with nominal value equal to RR 35,362 million.