NIZHNEKAMSKNEFTEKHIM GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004

CONTENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES
To the Shareholders of OAO Nizhnekamskneftekhim

1. We have prepared consolidated financial statements for the year ended 31 December 2004 which give a true and fair view of the financial position of the OAO Nizhnekamskneftekhim ("the Company") and its subsidiaries ("the Group") at the end of the period and of the results of operations and cash flows for the period then ended. Management is responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards ("IFRS") and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management considers that, in preparing the consolidated financial statements set out on pages 5 to 29, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate IFRS have been followed.

3. The names of the directors during the year ended 31 December 2004, and their other positions in Group companies or government were as follows:

Name	Position in Group companies or Government
Robert R. Musin	Chairman of the Board, Chairman of the Supervision Committee of OAO AK Bars Bank, Representative of the State
Vladimir M. Busygin	General Director, OAO Nizhnekamskneftekhim
Rustam M. Akhmetov	Deputy General Director for economics, OAO Nizhnekamskneftekhim
Khamit K. Gilmanov	First Deputy General Director of OAO Nizhnekamskneftekhim – Chief Engineer
Sergey G. Dyakonov	Adviser to the President of the Republic of Tatarstan, Representative of the State
Nail U. Maganov	First Deputy General Director, OAO Tatneft
Leonid V. Maltsev	Deputy General Director for production, OAO Nizhnekamskneftekhim
Ilsur R. Metshin	Mayor of Nizhnekamsk City and Nizhnekamsk Region, Representative of the State
Vladimir V. Presnyakov	Deputy General Director of OAO Tatar-American Investments & Finance
Rinat K. Sabirov	Advisor to the Prime Minister of the Republic of Tatarstan
Rustem N. Sulteyev	First Deputy General Director of OAO Tatar-American Investments & Finance
Nurislam Z. Syubayev	Adviser to the General Director of OAO Tatneft
Farid Kh. Tuktarov	Deputy Minister for Economics and Industry of the Republic of Tatarstan, Representative of the State
Eduard A. Tulchinsky	Director of Isoprene Rubber Plant
Ravil T. Shiyapov	Director of Butyl Rubber Plant, OAO Nizhnekamskneftekhim
Vasiliy N. Shouysky	Chairman of the Labour Union Committee, OAO Nizhnekamskneftekhim
Rafinat S. Yarullin	General Director, OAO Tatneftekhiminvestholding

4. Details of the shares held by directors in Group companies during the year ended 31 December 2004 are disclosed in Note 14.

5. The consolidated financial statements, which are based on the statutory consolidated accounting reports approved by the shareholders on 22 April 2005, with adjustments and reclassifications for the purpose of presentation in accordance with International Financial Reporting Standards ("IFRS").

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Vladimir M. Busygin
General Director

25 July 2005

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AUDITORS' REPORT
To the Shareholders and Board of Directors of OAO Nizhnekamskneftekhim

(in millions of Russian roubles)

Consolidated Balance Sheet

	Notes	31 December 2004	31 December 2003
Assets			
Current assets			
Cash and cash equivalents	4	1,020	356
Accounts receivable and prepayments	5	5,377	3,391
Inventories	6	4,386	3,447
Other current assets		225	213
Total current assets		**11,008**	**7,407**
Non-current assets			
Restricted cash	4	386	385
Investments in associates	7	1,586	897
Non-current financial assets	7	651	990
Property, plant and equipment	8	23,207	20,917
Total non-current assets		**25,830**	**23,189**
Total assets		**36,838**	**30,596**
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities			
Borrowings	9	3,000	2,736
Accounts payable and accrued liabilities	10	4,860	2,626
Taxes payable	11	906	514
Total current liabilities		**8,766**	**5,876**
Non-current liabilities			
Borrowings	9	5,884	4,583
Deferred tax liability	18	935	1,252
Deferred income		158	191
Other non-current liabilities	14	229	-
Total non-current liabilities		**7,206**	**6,026**
Total liabilities		**15,972**	**11,902**
Minority interests	12	**1,059**	**293**
Shareholders' equity			
Share capital	13	6,332	6,332
Treasury shares	13	(1,378)	(459)
Other reserves		34	27
Retained earnings		14,819	12,501
Total shareholders' equity		**19,807**	**18,401**
Total liabilities, minority interests and shareholders' equity		**36,838**	**30,596**

Vladimir M. Busygin
General Director

Ilfar R. Yakhin
Chief Accountant

25 July 2005

The accompanying notes set out on pages 9 to 29 are an integral part of these consolidated financial statements.

(in millions of Russian roubles)

Consolidated Statement of Income

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Revenues			
Product sales		37,164	26,138
Processing fees		459	687
Transportation recharges		393	325
Other income		604	273
Total revenues		**38,620**	**27,423**
Operating expenses			
Direct processing expenses	15	(30,610)	(21,756)
Transportation, general and administrative expenses	16	(2,491)	(2,322)
Taxes other than on income	17	(771)	(614)
Social infrastructure and housing		(844)	(665)
Total operating expenses		**(34,716)**	**(25,357)**
Operating profit		**3,904**	**2,066**
Financial items, net			
Exchange gain, net		314	270
Interest income		66	112
Interest expense		(626)	(610)
Total financial items		**(246)**	**(228)**
Share of net profit of associates	7	**86**	**211**
Profit before taxation and minority interests		**3,745**	**2,049**
Income tax expense	18	(1,065)	(857)
Profit before minority interests		**2,680**	**1,192**
Minority interests	12	(41)	(14)
Net profit		**2,639**	**1,178**
Earnings (basic and fully diluted) per participating share (Russian roubles per share)	**13**	1.70	0.66

The accompanying notes set out on pages 9 to 29 are an integral part of these consolidated financial statements.

(in millions of Russian roubles)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Cash flows from operating activities			
Cash receipts from customers		38,027	26,009
Cash paid to suppliers and employees, and taxes other than on income		(33,369)	(22,468)
Interest paid		(631)	(638)
Income tax paid		(1,072)	(870)
Net cash from operating activities		**2,955**	**2,033**
Cash flows from investing activities			
Purchase of subsidiaries	19	(27)	(29)
Purchase of other non-current financial assets		-	(36)
Purchase of interests in associates	7	(1,660)	(167)
Proceeds from sale of interests in associates	7	1,039	-
Loans given		-	(146)
Proceeds from sale of promissory notes		157	-
Purchase of property, plant and equipment		(3,257)	(1,925)
Dividends and interest received		24	138
Net cash used in investing activities		**(3,724)**	**(2,165)**
Cash flows from financing activities			
Proceeds from long and short-term borrowings		5,738	5,537
Repayment of long and short-term borrowings		(4,264)	(4,731)
Dividends paid		(88)	(60)
Change in restricted cash		1	150
Proceeds from sale/ (purchase) of treasury shares	13	44	(800)
Net cash from financing activities		**1,431**	**96**
Net increase/(decrease) in cash and cash equivalents before the effects of exchange rate changes		**662**	**(36)**
Effect of exchange rate changes		2	12
Net increase/(decrease) in cash and cash equivalents		**664**	**(24)**
Cash and cash equivalents at the beginning of the year		356	380
Cash and cash equivalents at the end of the year		**1,020**	**356**

The accompanying notes set out on pages 9 to 29 are an integral part of these consolidated financial statements.

(in millions of Russian roubles)

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Treasury shares	Retained earnings	Currency translation reserve	Total shareholders' equity
Balance at 31 December 2002 as previously reported	**6,332**	**(53)**	**12,038**	**-**	**18,317**
Adjustment relating to deferred income tax (see Note 2)	-	-	(183)	-	(183)
Restated balance at 31 December 2002	**6,332**	**(53)**	**11,855**	**-**	**18,134**
Net income	-	-	1,178	-	1,178
Treasury shares purchases (see Note 13)	-	(406)	(432)	-	(838)
Currency translation adjustment				27	27
Dividends declared (re 2002 approved 19 April 2003 – see Note 13)	-	-	(100)	-	(100)
Balance at 31 December 2003	**6,332**	**(459)**	**12,501**	**27**	**18,401**
Net income	-	-	2,639	-	2,639
Treasury shares purchases (see Note 13)	-	(919)	307	-	(612)
Distribution to governmental authorities (see Note 13)			(515)		(515)
Currency translation adjustment	-	-	-	7	7
Dividends declared (re 2003 approved 23 April 2004 – see Note 13)	-	-	(113)	-	(113)
Balance at 31 December 2004	**6,332**	**(1,378)**	**14,819**	**34**	**19,807**

The accompanying notes set out on pages 9 to 29 are an integral part of these consolidated financial statements.

Note 1 Nizhnekamskneftekhim Group and its operations

OAO Nizhnekamskneftekhim (the "Company") was incorporated as an open joint stock company on 18 August 1993 (the "privatisation date") pursuant to approval by the State Property Management Committee of the Republic of Tatarstan, an autonomous republic within the Russian Federation. All assets and liabilities previously managed by the production association Nizhnekamskneftekhim were transferred to the Company at their book value at the privatisation date in accordance with the privatisation laws of the Republic of Tatarstan.

The Company's registered address is 423574, Nizhnekamsk, the Republic of Tatarstan, Russian Federation.

The Company and its subsidiaries listed in note 19 (the "Group") are principally engaged in the refining of oil for the subsequent production of petrochemicals within the Republic of Tatarstan and the Group employed an average of 25,345 and 25,710 employees during the years ended 31 December 2004 and 2003, respectively.

The main shareholders of the Company as at 31 December 2004 are OAO Svyazinvetsneftekhim (100% owned by Republic of Tatarstan) – 35.2% of the shares (31 December 2003 – 35.2%) and OAO TAIF – 7.2% (31 December 2003 – 10.0%). Additionally, 21.75% of the Company’s shares as at 31 December 2004 are accounted for as treasury shares as they are held by Group subsidiaries (7.25% - 31 December 2003) (See Note 13).

Management considers the Group to have a single main activity since all its manufacturing facilities are located in Nizhnekamsk and none of its main products or the associated assets are large enough to constitute a separate business segment. The Group’s primary format for reporting segment information is business segments, and its secondary format is geographic segments. Approximately 57% of total sales in the year ended 31 December 2004 (for the year ended 31 December 2003 – 60%) were made to customers in export markets. These export sales are invoiced and settled principally in US dollars.

The Company has its primary share listing on the RTS stock exchange, with a further listing of Level 1 American Depositary Receipts on the Berlin stock exchange.

Note 2 Basis of presentation of the financial statements

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”), in effect at the balance sheet date. Group companies maintain their accounting records in Russian Rouble (“RR”) and prepare their statutory financial statements in accordance with the Federal Law on Accounting apart from one Group subsidiary, which is incorporated in Finland. The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as described in Note 3. The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to realization of inventories, investments, provision for impairment of receivables and deferred taxation. Actual results could differ from these estimates.

Certain amounts have been reclassified in the comparative financial information as at and for the year ended 31 December 2003 to conform to the current period presentation. Direct processing expenses for the year ended 31 December 2003 were decreased by RR 978 million and reclassified as transportation, general and administrative expenses. Also other expenses totaling RR 799 million for the year ended 31 December 2003 have been reclassified to transportation, general and administrative expenses in the amount of RR 728 million and to interest expense in the amount of RR 71 million. Construction inventory totaling RR 905 million at 31 December 2003 has been reclassified from line raw materials to materials and supplies. Furthermore, prepayments and other accounts receivable totaling RR 1,036 million at 31 December 2003 have been reclassified from prepaid expenses and other current assets to accounts receivable. These changes have been made in order to present information regarding the Group’s activity in a format considered to be more useful to the users of the consolidated financial statements.

(in millions of Russian roubles)

Restatement of comparatives

The 2003 audited comparatives have been restated to correct for the Group's recognition of deferred tax assets and liabilities. The effect of this restatement resulted in a decrease of retained earnings in the amount of RR 534 million and an increase of deferred tax liability in the amount of RR 534 million as at 31 December 2003. The impact of the restatement on the 2003 audited comparatives is shown as follows:

	Previously reported	**Adjustme**	**Restated balance**
Shareholders equity at 31 December 2002	18,317	(183)	18,134
Income tax expense for the year ended 31 December 2003	506	351	857
Net profit for year ended 31 December 2003	1,529	(351)	1,178
Deferred tax liability at 31 December 2003	718	53	1,252
Shareholders equity at 31 December 2003	18,935	(534)	18,401

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). 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. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Recent accounting pronouncements

During the period December 2003 to December 2004, the International Accounting Standards Board ("IASB") revised 17 of its standards and issued five new standards. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration for and Evaluation of Mineral Resources", which is effective for periods commencing on or after 1 January 2006, but may be early adopted. The Group has not early adopted any of these revised and new standards in preparing the accompanying consolidated financial statements. As at the date of issue of these consolidated financial statements management of the Group is unable to assess the impact of adopting these revised and newly issued standards.

Note 3 Summary of significant accounting policies

3.1 Group accounting

Subsidiaries

Those business undertakings in which the Group, directly or indirectly, has an interest of usually more than one half of the voting rights or otherwise has power to exercise control over the operations, are defined as subsidiary undertakings ("subsidiaries") and have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date when such control ceases.

All transactions, balances and unrealised gains and losses on transactions within the Group have been eliminated in the consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

For subsidiaries that are not wholly owned, minority's interest is measured as its proportion of the fair value at the acquisition date of the assets and liabilities of the subsidiary, adjusted for its share of subsequent profits, losses and dividends.

Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control. 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.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

3.2 Investments

The Group classifies its investments into the following categories: trading, held-to-maturity or available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with a fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. During the year, the Group did not hold any investments classified as trading or held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and reviews such designation on a regular basis.

All purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

Since the majority of the Group's investments are not publicly traded and no reliable method of fair value estimation exists for those investments, these investments are excluded from fair value valuation.

Those financial assets that are excluded from fair valuation and that have a fixed maturity are measured at amortised cost using the effective interest rate method less impairment. Those that do not have a fixed maturity date are measured at cost less impairment.

Unquoted available-for-sale equity investments are reviewed for impairment losses at every balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash inflows. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the investment under assessment. When the level of information available to calculate the net present value of expected future cash inflows makes this exercise impracticable, management uses different valuation techniques (such as net assets test) to estimate whether there is objective evidence of impairment and to determine the likely amount of impairment, if any.

3.3 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and instruments with maturity at the date of inception of less than three months, which are considered by the Group at the time of deposit to have minimal fair value and default risks.

3.4 Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment, which 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 the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

3.5 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

3.6 Inventories

Inventories are recorded at the lower of cost or net realisable 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 realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.7 Property, plant and equipment and related government grants

All property, plant and equipment is carried at cost less accumulated depreciation. Assets under construction are carried at cost and depreciated from the time the asset is brought into use. As part of the application of IAS 29, "Financial Reporting in Hyperinflationary Economies", an independent appraisal of property, plant and equipment, assets under construction and equipment awaiting installation was completed in February 1998 and was effective as of 1 January 1997. The appraisal was performed in order to determine a basis for cost, because the historical accounting records for property, plant and equipment were not readily available. The independent appraisal used the depreciated replacement cost valuation method to determine the value of the Group's property, plant and equipment on the basis that the Group was a going concern and under the assumption of continued use.

At each balance sheet date an assessment is made as to whether there is any indication that the recoverable amount of the Group's property, plant and equipment and assets under construction differs from the carrying amount. When there is such an indication, an impairment provision or reversal, as applicable, is made which is included in the results of operations in the period in which the indication of impairment or reversal occurred. The Group's property, plant and equipment and assets under construction are assessed for impairment by reference to the higher of their net selling price or their value in use, based on future cash flow forecasts from continuing use of the asset discounted to net present value. The discount rates used are those considered appropriate to the Group in the economic environment in the Russian Federation at each balance sheet date.

Expenditures for maintenance, repair and minor renewals to maintain facilities are expensed as incurred. Major replacements and renewals are capitalised.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised as part of the cost of the asset during the period of time that is reasonably required to complete and prepare the asset for its intended use.

Gains and losses arising from the retirement or other disposal of property, plant and equipment are included in the consolidated statement of income as incurred.

(in millions of Russian roubles)

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings	33
Equipment	7 -20
Other	10

The Group maintains and constructs assets for social use by the local community. Social assets held by the Group at privatisation that have subsequently been transferred, or are planned to be transferred, to government authorities without consideration have not been recognised in the consolidated financial statements. The cost of social assets constructed subsequent to privatisation and those related to the maintenance, repair and minor renewal of such assets are expensed as incurred.

Government grants related to the acquisition of property, plant and equipment are recognised when there is reasonable assurance that they will be received and that the Group will comply with any associated conditions. The grants are included in non-current liabilities as deferred income, and are amortised on a straight-line basis over the estimated useful lives of the related assets.

3.8 Borrowings

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Interest costs on borrowings to finance the 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. All other borrowing costs are expensed.

3.9 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.10 Foreign currency transactions and translation

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at the balance sheet date, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of income.

At 31 December 2004, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 27.75 (31 December 2003 USD 1= RR 29.45). The official Euro to RR exchange rate at 31 December 2004, as determined by the Central Bank of the Russian Federation, was 37.81 (31 December 2003 - 36.82). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

The balance sheet of foreign subsidiaries are translated into RR at the exchange rate prevailing at the reporting date. Statements of income of foreign entities are translated at average exchange rates for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries are recognised as currency translation adjustment and included in shareholders' equity.

(in millions of Russian roubles)

3.11 Shareholders' equity

Share capital and treasury shares

Ordinary shares and non-redeemable preferred shares with discretionary dividends are both classified as equity. Where Group companies purchase the Company's equity share capital, the consideration paid including any attributable transaction costs is deducted from total shareholders' equity. Share capital is decreased by the nominal value of these treasury shares and the difference between the nominal value and purchase price is charged against retained earnings. Where such shares are subsequently sold, any consideration received is included in shareholders' equity. The gains (losses) arising from treasury share transactions are recognised as a movement in the consolidated statement of changes in shareholders' equity, net of associated costs including taxation.

Dividends

Dividends are recognised 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 proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Earnings (loss) per share

Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. Earnings per share is determined by dividing the net profit (loss) attributable to ordinary and preference shareholders by the weighted average number of participating shares outstanding during the reporting year.

3.12 Revenue recognition

Revenues are recognised when products are shipped or when title passes to the customer, as this is the date on which the risks and rewards of ownership are transferred to the customers. Revenues are stated net of VAT and similar compulsory payments collected on behalf of the authorities, and after deducting discounts and eliminating sales between Group companies.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of such consideration cannot be measured reliably, revenue is measured at the fair value of the goods or services provided.

3.13 Employee benefits

Social costs

The Group incurs employee costs related to the provision of benefits such as health services and kindergartens services. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to direct processing expense.

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included within personnel costs in direct processing expense.

Note 4 Cash and cash equivalents, and restricted cash

	31 December 2004	31 December 2003
RR denominated amounts	607	125
Euro denominated amounts	316	115
US dollar denominated amounts	97	116
Total cash and cash equivalents	**1,020**	**356**

Restricted cash amounts represent deposits with Citibank, related to the Group's loan agreement with Exim Bank (see Note 9) and 3 month US Treasury Bills purchased from such restricted cash. These deposits totalled USD 13.9 million (RR 386 million) and USD 13.1 million (RR 385 million) at 31 December 2004 and 2003, respectively.

(in millions of Russian roubles)

Note 5 Accounts receivable and prepayments

	31 December 2004	31 December 2003
Advances to suppliers	1,436	602
Receivables from domestic sales	1,171	718
Receivables from export sales (denominated in USD and Euro)	970	771
VAT receivable	723	738
Taxes paid in advance	145	108
Prepayments to customs	126	97
Other accounts receivable	806	357
Total accounts receivable and prepayments	**5,377**	**3,391**

A provision for impairment of RR 510 million at 31 December 2004 (31 December 2003 – RR 509 million) has been made against the receivables from domestic sales to reduce them to their estimated recoverable value. The increase in the provision of RR 1 million during the year ended 31 December 2004 (year ended 31 December 2003 – increase of RR 13 million) was recognised in the consolidated statement of income as a component of transportation, general and administrative expenses.

The VAT receivable included above is reclaimable from the state budget upon settlement of the related accounts payable balances or completion of the construction in progress and its transfer to fixed assets.

Other accounts receivable are stated net of provision for impairment of RR 232 million (31 December 2003 – RR 172 million). The increase in the provision of RR 60 million during the year ended 31 December 2004 was recognised in the consolidated statement of income as a component of transportation, general and administrative expenses.

Note 6 Inventories

	31 December 2004	31 December 2003
Finished goods and work in progress	1,767	1,386
Raw materials	1,317	843
Materials and supplies	1,302	1,218
Total inventories	**4,386**	**3,447**

RR 1,068 million and RR 946 million of work in progress and finished goods were pledged as security for borrowings at 31 December 2004 and 2003, respectively (see Note 9).

The carrying amount of inventory at net realizable value is RR 905 million at 31 December 2004 (RR 987 million – 31 December 2003). A provision of RR 28 million at 31 December 2004 (31 December 2003 - RR 18 million) has been made against raw materials to reduce the carrying amount to estimated net realisable value. The increase in the provision of RR 10 million was recognised in the consolidated statement of income as component of direct processing expenses.

Note 7 Investments in associates and non-current financial assets

Investments in associates

	Year ended 31 December 2004	Year ended 31 December 2003
Balance at 1 January	**897**	**536**
Additions	1,660	167
Disposal	(1,039)	-
Share of net profit for the year	86	211
Dividends	(18)	(17)
Balance at 31 December	**1,586**	**897**

(in millions of Russian roubles)

The Group has investments in the following associates that are accounted for under the equity method:

Associate	Ownership %, 2004	Ownership %, 2003	Share of net profit (loss) for year ended 31 December 2004
Karpov Plant	32.80	32.80	(7)
Spurt Bank	16.35	19.99	(4)
Nizhnekamsk Oil Refinery	25.00	25.00	28
Tatfundbank	7.37	5.20	7
AK Bars Bank	7.49	5.00	25
SP Elastokam	50.00	50.00	5
OAO Tatneftekhiminvest Holding	7.00	11.00	53
KB Intechbank	32.47	20.00	4
Others	Various	Various	(25)
Total			**86**

Significant influence is exercised over the associates listed above where the Group owns less than 20% through other means of influence such as common directorships and chairmanships, and significant transactions. Additionally, these associates are also majority owned by companies controlled by the Government of the Republic of Tatarstan.

In November 2004 AK Bars bank issued an additional 6,000,000 shares for RR 6,000 million, of which the Group acquired 1,500,000 shares for RR 1,500 million thereby increasing its stake to 19.96% of the bank. In December 2004 the Group sold 1,000,000 shares of its holdings in the bank to third parties for RR 1,000 million. The transaction resulted in a immaterial loss to the consolidated financial statements. As at 31 December 2004 the share transfer has been effectively completed, but the transaction has not been registered by the share registrar. Since all risks and rewards have passed to the buyer, it was accounted for as disposal in these consolidated financial statements.

In March 2004 the Group sold 3,600,000 shares of Spurt bank to third parties for RR 36 million at nominal share value. The loss on sale of these shares was not material.

In May 2004 the Group purchased 50,000 shares of Tatfundbank for RR 50 million increasing its stake to 7.37% as at 31 December 2004. (See Note 14).

In February 2004 the Group has acquired 125,000,000 shares of KB Intekhbank (limited liability company) for RR 100 million increasing its stake to 32.47% as at 31 December 2004.

Non-current financial assets

Description	Nature of operations	31 December 2004	31 December 2003
Nizhnekamskneftekhim & Company Limited Partnership (investment and loans)	Share management	-	244
Available-for-sale investments	Various	123	156
Loan to Tatneft-NKNK-Oil	Motor oil venture	339	386
Other non-current financial assets	Various	189	204
Total		**651**	**990**

Substantially all of the amount ascribed to Nizhnekamskneftekhim & Company Limited Partnership as at 31 December 2003 ("the Partnership") represents interest-free loans provided to the Partnership for share management operations. During 2004 the Partnership was liquidated and the Group received 155,310,424 shares as repayment for the loan, which were accounted as treasury shares (see Note 13).

(in millions of Russian roubles)

The loan to associate Tatneft-NKNK-Oil of RR 339 million bears interest rate of 7% per annum, which is less than market rate. The original maturity date of the loan was December, 2004, however, during 2004 the maturity was extended till 31 December 2007. The difference between amortized cost and fair value of the loan arising at the date of the term extension totalling RR 47 million was recorded within interest expense in the consolidated statement of income for the year ended 31 December 2004.

Note 8 Property, plant and equipment

	Buildings	Equipment	Assets under construction	Other	Total
At 1 January 2004					
Cost	29,538	37,596	3,235	1,962	72,331
Accumulated depreciation	(21,912)	(28,648)	-	(854)	(51,414)
Net book value at 1 January 2004	**7,626**	**8,948**	**3,235**	**1,108**	**20,917**
Depreciation for the year	(537)	(1,345)	-	(81)	(1,963)
Additions	-	-	4,642		4,642
Transfers	1,245	961	(2,369)	163	-
Disposals at cost	(232)	(79)	(310)	(11)	(632)
Accumulated depreciation on disposals	172	69	-	2	243
Net book value at 31 December 2004	**8,274**	**8,554**	**5,198**	**1,181**	**23,207**
At 31 December 2004					
Cost	30,551	38,478	5,198	2,114	76,341
Accumulated depreciation	(22,277)	(29,924)	-	(933)	(53,134)
Net book value at 31 December 2004	**8,274**	**8,554**	**5,198**	**1,181**	**23,207**

Property, plant and equipment are presented net of an impairment provision of RR 2,092 million at 31 December 2004 (RR 2,180 million at 31 December 2003).

Included in cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RR 28,722 million and RR 26,629 million at 31 December 2004 and 2003, respectively. Included in the additions above is capitalised interest of RR 52 million for the year ended 31 December 2004 at the effective rate of 5.9% (year ended 31 December 2003 – RR 89 million at the effective rate of 6.4%) (see Note 9).

RR 5,390 million and RR 6,045 million of property, plant and equipment at cost were pledged as security for borrowings at 31 December 2004 and 2003, respectively (see Note 9). According to a release agreement signed between the Group, Citibank International, Plc., (acting as security assignee) and Ex-Im Bank, the Middle Distillates Hydrotreating Unit ("MDH") was released from the pledge in 2004, and other assets including the polystyrol plant and cracking furnaces were pledged as collateral in its place.

Under decisions of the Government of the Republic of Tatarstan the Group intends to transfer the MDH unit, which had a carrying value of RR 3,372 million as at 31 December 2004 (RR 3,620 million as at 31 December 2003) as a contribution to the Charter capital of Nizhnekamsk Oil Refinery ("NOR"). NOR is currently controlled by OAO Tatneft, OAO Tatarstan-American Investments and Finance ("TAIF") and the Group. However, since the final division of ownership of NOR between the interested parties has yet to be determined, the assets have not yet been contributed. In September 2004 the Group has entered into a rent agreement with NOR whereby NOR rents the MDH unit from the Group. The rent agreement requires NOR to pay a monthly rent until such time as the ownership of NOR has been determined. Rent income has been recognized as other income in consolidated statement of income (see Note 14). The Group's management believes that the MDH unit will ultimately be contributed into charter capital of NOR.

OAO Tatneft, OAO TAIF, NOR and the Group are controlled by, or subject to significant influence from, the Government of the Republic of Tatarstan and, as discussed in note 14, the Group is in the process of multi-layered and wide-ranging discussions with the Government of the Republic of Tatarstan, OAO Tatneft, OAO TAIF, and other interested parties regarding an overall settlement of inter-entity liabilities and distribution of assets.

(in millions of Russian roubles)

Note 9 Borrowings

	31 December 2004	31 December 2003
Bonds payable	1,692	1,864
Other borrowings	7,192	5,455
Total borrowings	**8,884**	**7,319**
Less current portion of borrowings	(3,000)	(2,736)
Total non-current borrowings	**5,884**	**4,583**

Borrowings include amounts denominated in RR, USD and Euro:

	31 December 2004	31 December 2003
Borrowings in RR	3,387	2,956
Borrowings in USD	5,000	3,997
Borrowings in Euro	497	366
Total borrowings	**8,884**	**7,319**

Maturity of non-current borrowings:

	31 December 2004	31 December 2003
Due for repayment:		
Between one and two years	2,755	1,963
Between two and five years	3,129	2,620
Total non-current borrowings	**5,884**	**4,583**

Unsecured bonds payable

Included in borrowings are the following amounts for unsecured bonds payable denominated in Russian roubles:

Description	Coupon	
Issued 24 May 2002, maturing 24 May 2005	20% in year 1, 18.5% in year 2, 16.5% in year 3	1,500
Repurchased in 2002		(288)
Repurchased in 2003		(828)
Balance at 31 December 2004		**384**
Issued 2 September 2003, maturing 2 September 2007	10% in year 1, 9.5% in year 2, 10.5% in year 3	2,000
Repurchased in 2003		(432)
Repurchased in 2004		(202)
Unamortized discount		(58)
Balance at 31 December 2004		**1,308**
Total at 31 December 2004		**1,692**

Included in bonds payable the current portion is RR 384 million as at 31 December 2004 (RR 202 million – 31 December 2003).

(in millions of Russian roubles)

Other borrowings

The other borrowings received by the Group:

Name of the bank	Currency	Year of redemption	31 December 2004	31 December 2003
Eximbank	USD	2008	1,199	1,636
OAO Svyazinvestneftekhim	RR	2014	500	-
Citibank N.A.	USD	2009	639	-
Citibank N.A.	USD	2013	245	-
Sberbank RF Moscow	USD	2011	805	-
Commercebank Moscow	USD	2006	417	796
Sberbank RF Kazan	USD	2011	278	-
Raiffeisen bank Austria	USD	2007	277	-
Moscow International bank	USD	2007	222	-
Sberbank RF Moscow	USD	2006	206	239
Ministry of Finance, RT	RR	2004	-	83
Other	Various	Various	2,404	2,701
Total borrowings			**7,192**	**5,455**

On 11 December 1996, the Group entered into a US dollar denominated loan agreement with Citibank, N.A. and Export–Import Bank of the United States ("Eximbank"), whereby a consortium of banks provided financing of USD 115.3 million for the purchase of equipment and services. The outstanding amount of the loan was USD 43.2 million (RR 1,199 million) at 31 December 2004 (31 December 2003 – USD 55.6 million (RR 1,636 million). The loan principal is repayable in 16 equal semi-annual instalments commencing 15 September 2000. Citibank serves as the agent for the consortium and Eximbank provides the consortium a guarantee for 85% of the loan balance.

The loan bears interest at LIBOR plus 1.5%, which was capitalised till the completion of the MDH unit on 31 December 2002. The effective interest rates on this loan ranged from 2.69% to 3.56% in 2004 and from 2.69% to 3.38% in 2003. Interest is payable on 15 September and 15 March of each year. The loan is secured by the plant and equipment acquired under this loan agreement as amended by the release agreement (see Note 8).

In October 2004 the Group received a loan from OAO Svyazinvestneftekhim for the amount of RR 1,500 million for the purchase of additionally issued AK BARS shares (Note 14). In December 2004 the loan was partially redeemed in the amount of RR 1,000 million with proceeds from the sale of AK BARS shares (see Note 7).

The average effective interest rates at the balance sheet dates were as follows:

	31 December 2004	31 December 2003
US$ denominated floating rate	5.5%	4.6%
US$ denominated fixed rate	6.3%	8.3%
RR denominated bonds	14.2%	14.1%
RR denominated fixed rate	6.9%	10.5%

Certain loan agreements entered by the Group are secured by supply commitments, which are trading financial agreements in substance (see Note 22), property, plant and equipment (see Note 8) and inventory (see Note 6). Additionally, certain loan agreements require the Group to maintain certain minimum financial ratios.

(in millions of Russian roubles)

Note 10 Accounts payable and accrued liabilities

	31 December 2004	31 December 2003
Trade accounts payable	2,600	1,543
Advances from customers	1,361	432
Wages and salaries payable	204	157
Dividends payable	118	103
Interest payable	55	56
Other payables and accruals	522	335
Total accounts payable and accrued liabilities	**4,860**	**2,626**

Note 11 Taxes payable

	31 December 2004	31 December 2003
Income tax	464	184
Value added tax (including deferred)	198	164
Other taxes	244	166
Total taxes payable	**906**	**514**

The deferred VAT included above is payable upon settlement of the related trade receivable balances.

Note 12 Minority interests

	Year ended 31 December 2004	Year ended 31 December 2003
Balance at 1 January	**293**	**252**
Minority interest share of net profit of subsidiaries	41	14
Creation of new subsidiary (Note 19)	109	-
Additional share issue by subsidiary (Note 19)	619	-
Dividends paid to minority interest	(10)	-
Share in currency translation adjustment	7	27
Balance at 31 December	**1,059**	**293**

Note 13 Shareholders' equity and earnings per share

Share capital at 31 December 2004 and 2003:

	Number of shares	Nominal amount
Non-voting preferred shares	218,983,750	757
Voting ordinary shares	1,611,256,000	5,575
Outstanding share capital at 31 December 2004 and 2003	**1,830,239,750**	**6,332**
Treasury shares		
Treasury shares at 31 December 2002	**(15,390,675)**	**(53)**
Net purchases of treasury shares in 2003	(117,203,130)	(406)
Treasury shares at 31 December 2003	**(132,593,805)**	**(459)**
Net purchases of treasury shares in 2004	(265,524,171)	(919)
Treasury shares at 31 December 2004	**(398,117,976)**	**(1,378)**

(in millions of Russian roubles)

Earnings per share

	Year ended 31 December 2004	Year ended 31 December 2003
Net income	2,639	1,178
Weighted average number of participating shares, adjusted for treasury shares	1,552,424,738	1,794,840,768
Earnings/ (basic and fully diluted) per participating share (RR per share)	1.70	0.66

Golden share

The Government of the Republic of Tatarstan possesses a special right ("Golden Share") to veto certain decisions taken at shareholders' and Board of Directors' meetings. Decisions subject to veto include: amendments to the Company's charter or adoption of a new edition; reorganisation of the Company; liquidation of the Company, creation of the liquidation commission and approval of the interim and final liquidation balance sheets; increases and decreases in share capital; investments in holding companies, financial and industrial groups or other entities; entering into significant transactions and transactions with related parties in accordance with the Law of the Russian Federation "On Joint Stock Companies"; and the appointment of the chief executive officer (General Director) of the Company.

Through the above rights, substantive direct participation in the Group's charter capital, its legislative and regulatory powers and participation in the governing bodies of the Group's largest shareholders, the Government of the Republic of Tatarstan can exercise control over the Group's activity.

Shares in possession of an entity related to the Group

At 31 December 2003 the Company along with Investment Company IBH ("IBH") served as general partners of Nizhnekamskneftekhim & Company Limited Partnership ("Partnership"). Substantial economic interest in the Partnership belongs to its limited partners and, accordingly, the Company accounted for its interest in the Partnership as an available-for-sale investment. The Group's investment in the Partnership as at 31 December 2003 represents interest-free loans provided to the Partnership. The Partnership owned 288,770,324 or approximately 16% of the voting shares of the Company as at 31 December 2003.

In March 2004, at the request of the Company a City Court in Nizhnekamsk declared the admittance of IBH as a general partner to the Partnership as invalid. Accordingly, the Company became the sole general partner in the Partnership. In July 2004, the Partnership was liquidated, resulting in the sales of its assets (primarily shares of the Company). As the result of a number of transactions the shares of the liquidated Partnership were transferred to a newly formed, wholly-owned partnership, Polymer NKNK and Co. and other Group entities for a total consideration of RR 531 million (RR 103 million for cash consideration, RR 148 million for promissory notes and RR 280 million for loan payable to the Group). As at 31 December 2004 the Group had 398,117,976 treasury shares (including the shares owned by its subsidiaries).

Furthermore a company, established by the Company's management, named OOO NKNK-management, became the general partner of Polymer-NKNK and Co and this partnership was renamed NKNK management and Co. Additionally certain subsidiaries of the Group were admitted to this partnership as limited partners.

Property, plant and equipment under operational management

In 1994 the Company received an ethylene pipeline into operational management from the Government of the Republic of Tatarstan. The pipeline connects the Company's plant with its two major consumers of ethylene. Under the terms of the operational management agreement the Company had the right to use the pipeline without any payments requirements by the Company. For financial and tax reporting purposes this pipeline was recognized as a contribution to capital.

In December 2004 the Government of the Republic of Tatarstan cancelled the agreement and contributed the pipeline into the share capital of OAO Neftekhimsevilen, the Group's subsidiary. The Government's shareholding in OAO Neftekhimsevilen increased to 49% as at 31 December 2004 as a result of this contribution. The return of the assets was reflected in the statement of changes in shareholders' equity as a distribution and the increase of the

(in millions of Russian roubles)

Government's shareholding in OAO Neftekhimsevilen resulted in an increase of minority interest balance at 31 December 2004 (see Note 12).

Rights attributable to preferred shares

Preferred shareholders have the right to participate with voting rights in General Shareholders' Meetings at which issues relating to the amendment of their rights or to the Company's liquidation or reorganisation are discussed.

Preferred shares have the right to receive annual dividends of not less than RR 0.06 per share, and this amount can be accumulated for a period of up to three years and paid when funds are available to do so and authorized by the Company's Board of Directors. Since the dividend on each preferred share cannot be less than that on each ordinary share, for the purposes of the earnings per share calculation preferred shares are considered to be participating shares in all financial reporting years.

In the event that no decision is taken in the General Shareholders' Meeting regarding payment of dividends on preferred shares, or if a decision is made to pay less than the minimum amount shown above, preferred shares acquire voting rights equivalent to those held by ordinary shares until such time as the minimum dividends are paid.

On liquidation, preferred shares have the right to receive a distribution of the nominal amount of their shares, after the settlement of all external liabilities in accordance with the relevant legislation, before any amounts are paid to ordinary shareholders.

Dividends and distributable reserves

Dividends declared:

For the year ended 31 December 2002, approved in the annual general shareholders' meeting held on 19 April 2003:	
Per ordinary share in RR	0.054
Per preferred share in RR	0.060
Total dividends declared	100
For the year ended 31 December 2003, approved in the annual general shareholders' meeting held on 23 April 2004:	
Per ordinary share in RR	0.062
Per preferred share in RR	0.062
Total dividends declared	113

The following amounts have not been included in the consolidated financial statements since they were declared after the balance sheet date:

For the year ended 31 December 2004, approved in the annual general shareholders' meeting on 22 April 2005:	
Per ordinary share in RR	0.185
Per preferred share in RR	0.185
Total dividends declared	339

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2004, the current year statutory net profit for the Company as reported in the published annual statutory reporting forms was RR 3,327 million and the closing balance of the accumulated profit including the current year statutory net profit totalled RR 8,090 million. Management believes that the accumulated profit including the current year statutory net profit is distributable. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

(in millions of Russian roubles)

Note 14 Related party transactions

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

In addition to control over the Group's activities (see Note 13), the Government of the Republic of Tatarstan is also in a position to influence OAO Tatneft and OAO TAIF, both of which are also ordinary shareholders in the Company and are the Group's principal suppliers of raw materials. Additionally OAO Nizhnekamskshina, which is a subsidiary of OAO Tatneft, is one of the Group's largest customers.

The Government of the Republic of Tatarstan uses its influence over OAO Tatneft and its subsidiaries and OAO TAIF to ensure the Group receives supplies of raw materials at regulated prices, which may or may not reflect market prices, and over the Group to ensure that legal entities controlled by the Government of the Republic of Tatarstan and OAO Tatneft receive supplies of products of the Company at regulated prices, and influences the prices charged for these supplies which are reassessed each quarter. Starting from the fourth quarter 2004 the Government of the Republic of Tatarstan significantly diminished these or any other form of arrangements of this nature. The Group's reported statements of income, balance sheets and cash flows would be different had such transactions been carried out amongst unrelated parties.

In 2004 the Group received RR 167 million from the Government of the Republic of Tatarstan for the reconstruction of certain social assets (in 2003 – RR 62 million), after the completion of the respective projects the assets will be returned to the Government and the underlying liability will be set off.

In October 2004 the Group received a loan from OAO Svyazinvestneftekhim, which is controlled by the Government of the Republic of Tatarstan, in the amount of RR 1,500 million for the purchase of a share emission of AK Bars bank. The loan matures in 2014 and bears interest at 0.015% per annum. In December 2004 RR 1,000 million of the loan was repaid with the sale proceeds from the sale of the shares (Note 7). The remaining balance was early repaid in February 2005. The Group treated the low interest loan as governmental assistance, consequently, no origination gain or loss on the subsequent early redemption was recognized in these financial statements.

Transactions and balances with related parties

Purchases from and sales to related parties include:

Related party	Description	Year ended 31 December 2004	Year ended 31 December 2003
OAO Tatneft, OAO TAIF and OAO Tatneft-Resource	Purchase of naphtha and other raw materials	1,293	3,243
OAO Niznekamskshina, OAO Tatneft-Neftekhimsnab and URNIN Tatneft	Sale of synthetic rubber and other products	2,265	2,129

Balances due to or from the above related parties, excluding those balances mentioned separately in these consolidated financial statements (see Notes 7 and 9), include:

Item	31 December 2004	31 December 2003
Cash	31	28
Accounts receivable	145	437
Promissory notes receivable	40	40
Accounts payable and accrued liabilities	97	55

(in millions of Russian roubles)

Transactions and balances with associates

Sales to associates in 2004 were RR 497 million (in 2003 – RR 363 million), and purchases from them in 2004 were RR 305 million (in 2003 - RR 21 million). The processing fee paid to Nizhnekamsky Oil Refinery in 2004 was RR 304 million. Rent income received from Nizhnekamsky Oil Refinery in 2004 for the MDH unit rent amounted to RR 105 million (See Note 8). Balances with associates excluding transactions detailed in Note 7 were as follows:

Item	31 December 2004	31 December 2003
Cash and cash equivalents	356	31
Loans received	544	946
Accounts receivable	249	24
Accounts payable and accrued liabilities	285	21

In April 2004 the Group entered into guarantee agreement with Spurt bank for the bonded loan in the amount of RR 500 million, under terms of which the Group guarantees payment in case of default of bonds' issuer.

Shares owned by directors and senior management

The total number of shares owned directly by the directors and senior management comprised 5,538,875 ordinary and 788,000 preferred shares (in total approximately 0.35% of the Company's share capital) at 31 December 2004 (at 31 December 2003 – 6,095,000 ordinary and 788,000 preferred shares, (in total approximately 0.39% of the Company's share capital).

Other cross-shareholdings

The Company owned 7.3% and 11% of OAO Tatneftekhiminvest Holding at 31 December 2004 and 31 December 2003, respectively. OAO Tatneftekhiminvest Holding owned approximately 3% of the Company's share capital at 31 December 2004 and 2003, and had one seat on the Company's Board of Directors in 2004 and 3 seats in 2003. OAO Tatneftekhiminvest Holding is accounted for as an associate in these consolidated financial statements due to significant influence. (Note 7).

Directors' compensation

Compensation paid to directors and senior management for their services in full time or part time executive management positions comprises a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to the Russian statutory financial statements. Total directors' and senior management compensation of the above nature, included within personnel costs in transportation, general and administrative expenses, amounted to RR 76 million for the year ended 31 December 2004 (31 December 2003 – RR 56 million). Board of directors of the Company comprises 17 members (in 2003 – 17 members).

Note 15 Direct processing expenses

	Year ended 31 December 2004	Year ended 31 December 2003
Raw materials	17,283	11,342
Energy and fuel	5,043	4,255
Personnel costs	2,855	1,801
Services and other	1,948	1,431
Depreciation	1,916	1,805
Repairs and maintenance	783	732
Impairment provision (reversal of provision) for obsolete stock	10	(32)
Unified social tax	772	422
Total direct processing expenses	**30,610**	**21,756**

(in millions of Russian roubles)

Note 16 Transportation, general and administrative expenses

	Year ended 31 December 2004	Year ended 31 December 2003
Personnel costs	342	228
Transportation recharges	370	297
Insurance	283	95
Unified social tax	99	72
Repairs and maintenance	78	76
Fire security	56	53
Depreciation	47	41
Raw materials	36	35
Currency sales losses	52	35
Other	1,128	1,390
Total transportation, general and administrative expenses	**2,491**	**2,322**

Depreciation totalling RR 1,963 million (year ended 31 December 2003 – RR 1,846 million) and personnel costs totalling RR 3,197 million (year ended 31 December 2003 – RR 2,029 million) were included in the consolidated statement of income in the year.

Note 17 Taxes other than on income

	Year ended 31 December 2004	Year ended 31 December 2003
Property tax	276	138
Land owner's tax	242	210
Land tax	231	201
Other taxes	22	65
Total taxes other than on income	**771**	**614**

Note 18 Income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2004	Year ended 31 December 2003
Current income tax expense	1,382	908
Deferred income tax benefit	(317)	(51)
Total income tax expense	**1,065**	**857**

Income tax payable by companies in the Russian Federation with effect from 1 January 2002 ranges from 20% to 24%, depending on the decision each year of regional and local tax authorities which can agree jointly on a supplementary amount of up to 4% above that set by the federal tax authorities. The rate used to compute the deferred tax assets and liabilities of the Group at 31 December 2004 and 2003 was 24%, which reflects the fact that the regional and local tax authorities decided to assess the maximum supplementary amount in respect of both years.

(in millions of Russian roubles)

Presented below is a reconciliation between actual income tax expense and taxes determined by applying the theoretical tax rate to profit before taxation:

	Year ended 31 December 2004	Year ended 31 December 2003
Profit before taxation and minority interests	3,745	2,049
Theoretical tax charge at statutory rate of 24%	899	492
Tax effects of items not deductible or assessable for taxation purposes:		
Non-taxable income	(47)	(15)
Non-deductible expenses	321	380
Revaluation of tax base	(108)	-
Total income tax expense	**1,065**	**857**

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24 percent (2003 - 24 percent).

	31 December 2002	Tax effect of movement in temporary differences	31 December 2003	Tax effect of movement in temporary differences	31 December 2004
Property, plant and equipment	1 317	(222)	1 095	(263)	832
Inventories	119	19	138	(22)	116
Catalysts	60	(7)	53	(6)	47
Long-term loans	-	21	21	(7)	14
Long-term investments	15	41	56	15	71
Accounts receivable and prepayments	(119)	49	(70)	(3)	(73)
Accruals	(50)	46	(4)	(35)	(39)
Deferred income	(39)	2	(37)	4	(33)
Net deferred income tax liability	**1 303**	**(51)**	**1 252**	**(317)**	**935**

The Group has not recognised deferred tax liability in respect of temporary differences 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.

Note 19 Principal subsidiaries

Subsidiary	Business	Ownership at 31 December 2004 (2003)
OOO Neftekhimagroprom	Agricultural	100% (100%)
OOO Trest TSNKhRS	General equipment repairs and construction	100% (100%)
OOO Nizhnekamskneftekhim - Service	Wholesale and retail trade	100% (100%)
OOO YOP Neftehim	Food supplies and catering	100% (100%)
OOO Transport-express	Transportation	100% (73%)
OY Nizhex Scandinavia Ltd	Sale of petrochemicals	50% (50%)
OAO Neftekhimsevilen	Plastic products	51% (74%)
OOO Nizhnekamskneftekhim -Divinil	Butadiene production	50% (-)

As at 31 December 2004 and 2003 percentage of ownership interest of the Group in the subsidiaries is equal to percentage of voting interest.

All the consolidated subsidiaries are incorporated in the Russian Federation, except for OY Nizhex Scandinavia Ltd ("Nizhex"), which is incorporated in Finland. The Group executes control over this subsidiary through chairmanship and seats in the Board of directors.

The decrease of shareholding in OAO Neftekhimsevilen to 51% was due to a share emission, which occurred in December 2004. The other shareholder is the Ministry of Land and Property of RT received a 49% stake in Neftekhimsevilen by transferring an ethylene pipeline. The transaction effectively resulted in a distribution of RR 515 million reflected as movement in statement of changes in shareholders' equity and an increase in minority balance at 31 December 2004 (see Note 13).

OOO Nizhnekamskneftekhim-Divinil was created in April, 2004. The Group executes control over this subsidiary through chairmanship and seats in the Board of directors. Charter capital was created by transferring processing facilities and other assets valued at RR 241 million. In June 2004 50% of OOO Nizhnekamskneftekhim-Divinil shares were sold to third parties. The transaction resulted in a gain of RR 80 million reported as component of other income in Consolidated statement of income.

Note 20 Financial risks

Interest rate risk

The Group obtains borrowings from and deposits surplus funds with banks at current market interest rates. The Group has no significant interest-bearing assets. It does not use any hedging instruments to manage its exposure to changes in interest rates because management considers that there is no necessity to do so.

Foreign exchange risk

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble, Euro or the US dollar, and it does not use foreign exchange or forward contracts. The main assets and liabilities denominated in US dollars and Euro are listed in notes 4, 5 and 9. Management believes the Group's exposure to fluctuations in foreign exchange rates is limited to a certain extent as the proceeds from certain export sales contracts are used to repay dollar denominated borrowings.

Fair values

The estimated fair value of financial assets carried at amortised cost is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. Fair value of these financial assets did not materially differ from their carrying amount at 31 December 2004 and 31 December 2003. At 31 December 2004 and 31 December 2003 the fair value of financial liabilities which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, did not materially differ from the carrying amount of these financial liabilities.

The carrying amounts of financial assets and liabilities with maturity of less than one year are assumed to approximate their fair values.

Credit risk

The Group does not hold or issue financial instruments for trading purposes. Financial instruments, which potentially subject the Group to concentrations of credit risk primarily consist of cash and accounts receivable. The carrying amount of accounts receivable, net of impairment provision, represents the maximum amount exposed to credit risk. The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Note 21 Contingent liabilities, commitments and other risks

CONTINGENT LIABILITIES

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. 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.

As at 31 December 2004 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

Legal proceedings

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

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.

COMMITMENTS

Social assets

The Group significantly contributes to the maintenance of local infrastructure and the welfare of its employees within the Republic of Tatarstan. This includes contributions towards the construction, development and maintenance of housing and other social needs. Such funding is periodically determined by the Board of Directors and recorded as expenditures as incurred.

Supply commitments

Under the terms of the Eximbank loan agreement (see Note 9), the Group entered into supply agreements to produce and dispatch products to Mineraloil-Rohstoff-Handel Gmbh ("MRH"), Germany, and Nizhex. According to the terms of these supply agreements, the Group is obliged to produce and dispatch certain products, at market rates, to MRH and Nizhex up to the value of the Eximbank loan agreement. At 31 December 2004, the Group’s remaining supply commitment under this agreement is RR 1,215 million (USD 43.8 million) (31 December 2003 – RR 1,738 million (USD 59.0 million).

Under the terms of the loan agreement with Commercebank (see Note 9) the Group entered into a supply agreement with Helm AG, according to which the Group is obliged to produce and dispatch certain products at market rates. As at 31 December 2004 the Group’s remaining commitment under the contract was RR 1,479 million (USD 53.3 million) (31 December 2003 – RR 2,209 million (USD 75.0 million).

According to a credit line agreement from a consortium of banks, led by Citibank (see Note 9) the Group has entered into supply agreements with Ameropa AG and Pegasus Pollymers International Inc. to supply petrochemical products at market rates. The amount of supply commitment as at 31 December 2004 was RR 3,552 million (USD 128 million).

As at 31 December 2004 the Group has other supply commitments in the amount of RR 386 million (USD 13.9 million) and as at 31 December 2003: RR 751 million (USD 25.5 million). No loss is expected to result from those supply agreements.

Guarantees to third parties

The Group has entered in number of agreements under which the Group is guarantor to third parties in case of default of the principal debtors. The amount of guarantees given as at 31 December 2004 is RR 819 million (31 December 2003 – RR 315 million) (see Note 14).

OTHER RISKS

Operations and legislative matters

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by legislative, fiscal and regulatory developments, including those related to environmental protection. Due to the capital intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings are not predictable.

At 31 December 2004 and 2003 the Group held limited insurance policies in relation to its assets and operations, or in respect of public liability or other insurable risks.

Operating environment of the Group

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

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

Note 22 Post balance sheet events

During 2004 the Board of Directors of the Company approved the issuance of 1,500,000 RR denominated bonds with par value of RR 1 thousand and a coupon yield 9.99% which mature in March 2011. In April 2005 the bonds were placed at their nominal value resulting in no premium and/ or discount.