OAO AK SIBUR
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2004

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders of OAO AK Sibur

1. We have audited the accompanying consolidated balance sheet of OAO AK Sibur and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated statements of income, of cash flow and of changes in shareholders' equity for the year then ended. These financial statements as set out on pages 3 to 35 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Group as of .31 December 2003 and for the year then ended were not audited by us or other auditors.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
14 July 2005

(In millions of Russian Roubles)

Notes		31 December 2004	31 December 2003 Restated Unaudited
	Assets		
	Current assets		
	Cash and cash equivalents	1,835	1,620
4	Available-for-sale investments	4,007	2,890
5	Accounts receivable and prepayments	13,734	20,216
6	Inventories	10,448	8,766
	Other current assets	47	27
		30,071	**33,519**
	Non-current assets		
7	Property, plant and equipment	41,328	36,911
8	Investments in associated undertakings	162	594
9	Long-term accounts receivable and prepayments	3,070	2,025
10	Other non-current assets	1,179	1,366
		45,739	**40,896**
	Total assets	**75,810**	**74,415**
	Liabilities and equity		
	Current liabilities		
11	Accounts payable and accrued charges	26,169	29,033
12	Taxes payable	2,345	4,702
13	Short-term borrowings and current portion of long-term borrowings	6,979	4,864
15	Current portion of restructured liabilities	2,078	1,066
	Short-term promissory notes payable	358	1,538
		37,929	**41,203**
	Non-current liabilities		
14	Long-term borrowings	5,761	6,277
15	Restructured liabilities	17,062	17,207
12	Restructured tax liabilities	470	506
16	Deferred tax liabilities	4,222	3,824
	Other non-current liabilities	687	539
		28,202	**28,353**
	Total liabilities	**66,131**	**69,556**
	Shareholders' equity		
17	Share capital	5,734	5,734
17	Treasury shares	(1,576)	(1,576)
17	Accumulated deficit	(4,855)	(9,404)
		(697)	**(5,246)**
23	Minority interest	10,376	10,105
	Total liabilities and equity	**75,810**	**74,415**

A.V. Dyukov	S.N. Bagrov
President	Chief Accountant
14 July 2005	14 July 2005

(In millions of Russian Roubles)

Notes		Year ended 31 December 2004	2003 Restated Unaudited
18	Sales	85,220	66,957
19	Operating expenses	(75,042)	(66,699)
	Operating profit	**10,178**	**258**
	Exchange gains	1,496	652
	Exchange losses	(1,366)	(500)
	Interest income	94	162
	Interest expense	(3,599)	(4,160)
15	Gain on and extinguishment of restructured liabilities	-	1,639
	Net finance cost	**(3,375)**	**(2,207)**
8	Share of net loss of associated undertakings	(17)	(277)
20	Losses on available-for-sale investments	(100)	(940)
	Profit (loss) before profit tax and minority interest	**6,686**	**(3,166)**
16	Current profit tax expense	(2,077)	(506)
16	Deferred profit tax (expense) benefit	(268)	289
	Profit tax expense	**(2,345)**	**(217)**
	Profit (loss) before minority interest	**4,341**	**(3,383)**
23	Minority interest	207	802
	Net profit (loss)	**4,548**	**(2,581)**

A.V. Dyukov
President
14 July 2005

S.N. Bagrov
Chief Accountant
14 July 2005

The accompanying notes are an integral part of these financial statements.

(In millions of Russian Roubles)

Notes		Year ended 31 December 2004	2003 Restated Unaudited
	Operating activities		
21	**Net cash provided by operating activities**	**7,248**	**810**
	Investing activities		
	Capital expenditures	(5,523)	(1,653)
22	Acquisition of additional interest in subsidiaries undertakings	(256)	-
	Change in available-for-sales investments	(190)	-
	Change in other long-term assets	(98)	-
	Interest received	19	53
	Net cash used for investing activities	**(6,048)**	**(1,600)**
	Financing activities		
14	Proceeds from long-term borrowings (including current portion)	867	147
14	Repayment of long-term borrowings (including current portion)	(485)	(51)
	Redemption of promissory notes	(1,180)	(738)
13	Proceeds from short-term borrowings	25,983	12,992
13	Repayment from short-term borrowings	(24,942)	(9,959)
	Interest paid	(1,307)	(893)
	Net cash (used for) provided by financing activities	**(1,064)**	**1,498**
	Effect of exchange rate changes on cash and cash equivalents	79	161
	Increase in cash and cash equivalents	**215**	**869**
	Cash and cash equivalents, at the beginning of reporting period	1,620	751
	Cash and cash equivalents, at the end of reporting period	**1,835**	**1,620**

A.V. Dyukov
President
14 July 2005

S.N. Bagrov
Chief Accountant
14 July 2005

(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Share capital	Treasury shares	Accumulated deficit	Total shareholders' equity
17	**Balance as of 31 December 2002 as reported**	**408**	**5,734**	**(1,434)**	**(10,420)**	**(6,120)**
2	Correction of prior period errors	-	-	-	3,465	3,465
2,17	**Balance as of 31 December 2002 as restated**	**408**	**5,734**	**(1,434)**	**(6,955)**	**(2,655)**
	Net loss as reported	-	-	-	(2,274)	(2,274)
	Net treasury share transactions as reported	(13)	-	(142)	132	(10)
	Balance as of 31 December 2003 as reported	**395**	**5,734**	**(1,576)**	**(12,562)**	**(8,404)**
2	Correction of prior period errors	-	-	-	(307)	(307)
	Net loss as restated	-	-	-	(2,581)	(2,581)
2, 17	**Balance as of 31 December 2003 as restated**	**395**	**5,734**	**(1,576)**	**(9,404)**	**(5,246)**
	Net income	-	-	-	4,548	4,548
17	**Balance as of 31 December 2004**	**395**	**5,734**	**(1,576)**	**(4,856)**	**(698)**

A.V. Dyukov
President
14 July 2005

S.N. Bagrov
Chief Accountant
14 July 2005

The accompanying notes are an integral part of these financial statements.

1 NATURE OF OPERATIONS

OAO AK Sibur and its subsidiaries (the "Group") form a vertically integrated petrochemical group.

The Group is involved in the following principal activities:

- refining, processing and distribution of petrochemical products;
- production and distribution of tires.

OAO Gazprom is the principal shareholder of the Group with a controlling interest of 99.9% and 78.1% in OAO AK Sibur as of 31 December 2004 and 31 December 2003, respectively.

The weighted average number of full time employees during 2004 and 2003 was 87,725 and 80,519, respectively.

The consolidated financial statements have been prepared on the basis that the Group will continue as a going concern. As of 31 December 2004 the Group's current liabilities exceeded its current assets by RR 7,858, principally as a result of the debt due to OAO Gazprom (see Note 24).

During 2005 management plans a restructuring of the Group, the principal objective of which is to settle the majority of the debt due to OAO Gazprom. Based on these plans, continued improvement in the efficiency of the Group's operations and a better market environment, management believes that a going concern basis for the preparation of the consolidated financial statements is appropriate. Substantial part of OAO AK Sibur's operations will be transferred to a new petrochemical subsidiary within OAO Gazprom Group in 2006 (see Note 27) with the required assets and liabilities to be transferred and recorded in the financial statements of the new company from the end of 2005.

2 BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS").

Group companies maintain their accounting records in Russian Rouble ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting ("RAR"). 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 of the Group are 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 preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of financial instruments, the impairment provisions, deferred profits taxes and the provision for impairment of receivables. Actual results could differ from these estimates.

During the period December 2003 to December 2004, the International Accounting Standards Board ("IASB") revised 17 of its standards and issued 5 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" ("IFRS 6") effective for periods commencing on or after 1 January 2006, but may be adopted early. The Group has not early adopted these revised and new standards in preparing the consolidated financial statements.

2 BASIS OF PRESENTATION (continued)

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of presentation in accordance with IFRS 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 Hyperinflation 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. 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 as of 31 December 2002 were treated as the basis for the carrying amounts in subsequent financial statements.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation. The most significant reclassifications relate to:

- Short-term promissory notes payable as of 31 December 2003 have been decreased by RR 14,295 in order to present the balance of overdue promissory notes issued in the period 2001-2002 within accounts payable and accrued charges (see Note 11);
- Long-term accounts receivable and prepayments as of 31 December 2003 have been increased by RR 465 (see Note 9) as result of the reclassification of long-term recoverable VAT from current accounts receivable and prepayments (see Note 5);
- Operating expenses for year ended 31 December 2003 have been increased by RR 1,623 as result of the reclassification from net finance cost of the impairment provision for accounts receivable.

Restatement of comparatives

The unaudited comparative information for 2003 has been restated to correct certain errors. The most significant of these errors relate to:

- Recognition of an impairment provision in the amount of RR 1,185 as of 31 December 2002 in respect of items within assets under construction, that were indefinitely suspended in recent years and excluded from the Group's investment program;
- Recognition of an impairment provision in the amount of RR 1,244 as of 31 December 2002 in respect of other items within property, plant and equipment primary relating to social assets;
- Recognition of a gain on restructuring of the Group's long-term liabilities. The gain represented the difference between the present and nominal value of the restructured long-term liabilities in the amount of RR 4,957 as of 31 December 2002;
- Recognition of a deferred tax liability in the amount of RR 1,078 as of 31 December 2002 related to the gain recognized on restructuring of the Group's long-term liabilities;
- Recognition of deferred tax assets in the amount of RR 874 in respect of tax losses carried forward as of 31 December 2002;
- Recognition of deferred tax assets in the amount of RR 1,027 related to the provision for impairment of accounts receivable as of 31 December 2003;
- Elimination of inter-company sales in the amount of RR 3,594 for the year ended 31 December 2003.

The total effect of the prior period errors was an overstatement of the accumulated deficit in shareholder's equity by RR 3,158 and RR 3,465 as of 31 December 2003 and 31 December 2002, respectively (including deferred tax effect (gain) in the amount of RR 454 and RR 802 as of 31 December 2003 and 31 December 2002, respectively).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in accounting policy

During 2004 the Group changed its accounting policy with respect to the classification of expenses from a classification based on function to a classification based on the nature of expense, due to changes in the order of primary information collection. The change in accounting policy has been accounted for retrospectively. The comparative information have been restated to conform to the changed policy.

The principal accounting policies followed by the Group are set out below.

3.2 Group accounting

Subsidiary undertakings

Subsidiary undertakings in which the Group, directly or indirectly, has an interest of more than 50% of the voting rights or is otherwise able to exercise control over the operations have been consolidated.

The consolidated financial statements of the Group reflect the results of operations of any subsidiaries acquired from the date control is established. Subsidiaries are no longer consolidated from the date from which control ceases. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between Group companies have been eliminated. Separate disclosure is made of minority interests. Acquisitions of subsidiaries are recorded in accordance with the purchase accounting method.

Goodwill and minority interest

As of 31 March 2004 the Group adopted IFRS 3 “Business Combinations” (“IFRS 3”), IAS 36 (revised 2004) “Impairment of Assets” (“IAS 36”) and IAS 38 (revised 2004) “Intangible Assets” (“IAS 38”) resulting in a change in the accounting policy for goodwill and minority interest.

In accordance with the provisions of IFRS 3 goodwill is not amortized and is tested annually for impairment as well as when there are indications of impairment.

Until 31 March 2004, minority interest at the balance sheet dates represented the minority shareholders’ portion of the pre-acquisition carrying amount of the identifiable assets and liabilities of the subsidiary as of the acquisition date, and the minorities’ portion of movements in equity since the date of the combination. In accordance with the provisions of IFRS 3, the acquirer recognises the acquiree’s identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any minority interest in the acquiree is stated at the minority’s proportion of the net fair value of those items. These changes are applied prospectively from 31 March 2004.

When a business combination involves more than one transaction any adjustment to those fair values relating to previously held interests of the Group is recognised as a revaluation in equity. No such revaluation is made when the Group acquires additional minority interest in subsidiaries.

Any premiums paid in excess of the carrying amount of the respective portion of minority interest at the date of acquisition of an additional interest in subsidiaries are recognized in goodwill.

Minority interest is presented separately from liabilities and shareholders’ equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associated undertakings

Associated undertakings are undertakings over which the Group has significant influence, but which it does not control. Generally significant influence occurs when the Group has between 20% and 50% of the voting rights. Associated undertakings are accounted for using the equity method.

The equity method involves recognising in the statement of income the Group's share of the associated undertakings' profit or loss for the year, less dividends received. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each associated undertaking is carried in the balance sheet at an amount that reflects cost, including the goodwill at acquisition, plus its share of profit and losses. Provisions are recorded for any impairment in value.

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

3.3 Investments

The Group classified its investments into the following categories: trading, held-to-maturity and 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 fixed maturity that the management of the Group companies has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. There were no such investments as of 31 December 2004 and 2003. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in fair value, are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments 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 re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the financial asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently re-measured to fair value. Available-for-sale investments principally comprise non-marketable equity securities, for which it is not possible to obtain current market quotes. For these investments, fair value is estimated based on the market price of similar financial assets or estimated future discounted cash flows. For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on the reporting date based on bid prices.

Realized gains and losses arising from sale and unrealized gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the statement of income in the period in which they arise.

Changes in the fair value of trading and available-for-sale investments are recorded in the statement of income within operating expenses and gains and losses on available-for-sale investments, respectively.

In the statement of cash flow, purchases and sales of trading and available-for-sale investments are classified as operating activities.

(In millions of Russian Roubles)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

3.5 Accounts receivable

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. The provision for impairment of trade receivables is established if 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 carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

3.6 Value added tax

Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is 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 recoverable and deferred VAT payable) is recognised on a gross basis and disclosed separately as current asset and short-term liability, VAT related to long-term portion of restructured liabilities and assets under construction is included within non-current assets. 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.

3.7 Inventories

Inventories are recorded at the lower of cost and 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 overheads 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.

3.8 Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment.

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the disposal of property, plant and equipment are included in the consolidated statement of income as incurred.

Depreciation is calculated on a straight-line basis. Assets under construction are not depreciated.

The estimated useful lives of the Group's assets are as follows:

	Years
Buildings	20-70
Constructions	10-20
Machinery and equipment	5-15
Transport	5-15

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Impairment of assets

At each balance sheet date management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value (see Note 3.2 for impairment of goodwill). When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified. 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.

3.10 Borrowings

Borrowings are recognised initially at 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 and acquisition 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.

3.11 Deferred tax

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 profit tax is provided on temporary differences arising on investments in subsidiaries, associates, 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.

3.12 Foreign currency transactions

Monetary assets and liabilities, which are held by the Group entities as of 31 December 2004 and 2003 and denominated in foreign currencies, are translated into 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 as exchange gains or losses in the consolidated statement of income.

The official US dollar (USD) to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 27.75 and 29.45 as of 31 December 2004 and 2003, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 37.81 and 36.82 as of 31 December 2004 and 2003, respectively.

Exchange restrictions and currency controls exist relating to converting RR into other currencies. RR is not freely convertible in most countries outside of the Russian Federation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Provisions for liabilities and charges

Provisions 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. As obligations are determined, they are recognised immediately based on the present value of the expected future cash flows arising from the obligations. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3.14 Shareholders' equity

Treasury shares

Where the Group companies purchase the equity share capital of OAO AK Sibur, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Treasury shares are recorded at par value (as restated for the effect of hyperinflation). The gains (losses) arising from treasury shares transactions are recognised as an accumulated deficit 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 shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date.

3.15 Revenue recognition

Sales are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT, excise taxes and other similar compulsory payments. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

3.16 Mutual cancellation and other non-cash transactions

A portion of sales and purchases is settled by mutual settlements, barter and non-cash settlements. These settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies.

Non-cash transactions are measured at the fair value of consideration received or receivable. When it is not possible to measure the fair value of consideration received or receivable reliably, the non-cash transactions are measured at the fair value of consideration paid.

Approximately, 3% and 4% of accounts receivable settled during the years ended 31 December 2004 and 2003, respectively, were settled via mutual settlements or other non-cash settlements. Also during the years ended 31 December 2004 and 2003, respectively, approximately 4% and 5% of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

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

The Group also accepts promissory notes from its customers (both issued by customers and third parties) as a settlement of receivables. Promissory notes issued by customers are recorded in the same manner as accounts receivable originated by the Group. Promissory notes issued by other third parties are recorded as available-for-sale investments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period even if the asset recognition criteria are subsequently met.

3.18 Employee benefits

Pension and other post-retirement benefits

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 and are included within staff costs in operating expenses. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of income, however, separate disclosures are not provided as these costs and present obligations are not material.

Social expenses

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 operating expenses.

3.19 Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalent balances, investments, receivables, promissory notes, accounts payable and borrowings. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

Fair value disclosure

The fair value of accounts receivable for disclosure purposes is estimated by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of publicly quoted financial instruments for disclosure purposes is estimated based on current market value at the close of business on the reporting date.

(In millions of Russian Roubles)

4 AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2004	31 December 2003 Unaudited
Available-for-sale investments (net of impairment provision of RR 4,072 and RR 3,952 as of 31 December 2004 and 2003 respectively)	4,007	2,890

The balances of available-for-sale investments primarily comprise promissory notes of OAO Gazprom Group entities (see Note 24).

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2004	31 December 2003 Unaudited
Trade receivables (net of impairment provision of RR 967 and RR 658 as of 31 December 2004 and 2003, respectively)	4,656	9,480
Short-term recoverable VAT	5,519	6,537
Prepayments and advances (net of impairment provision of RR 88 and RR 101 as of 31 December 2004 and 2003, respectively)	1,765	838
Prepaid taxes	267	123
Other receivables (net of impairment provision of RR 2,668 and RR 3,504 as of 31 December 2004 and 2003, respectively)	1,527	3,238
	13,734	20,216

RR 2,370 and RR 2,194 of accounts receivables and prepayments are denominated in foreign currencies, mainly US dollar and Euro, as of 31 December 2004 and 2003, respectively.

6 INVENTORIES

	31 December 2004	31 December 2003 Unaudited
Refined products	7,555	5,814
Material and supplies (net of impairment provision for RR 164 and RR 11 as of 31 December 2004 and 2003, respectively)	1,807	1,909
Goods for resale	648	554
Work in progress	438	489
	10,448	8,766

Inventory pledged as security for loans and borrowings received was RR 1,200 and RR 1,167 as of 31 December 2004 and 2003, respectively.

(In millions of Russian Roubles)

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Facilities	Machinery and equipment	Transport	Assets under construction	Other	Total
Cost							
Balance as of 31 December 2003 (restated)	**12,703**	**14,651**	**21,974**	**2,263**	**8,983**	**1,572**	**62,146**
Additions	-	-	-	-	5,781	-	5,781
Consolidation of OAO Yaroslavsky Tire Plant (see Note 22)	668	179	1,491	46	792	21	3,197
Transfers	3,134	1,726	1,906	289	(7,214)	159	-
Disposals	(118)	(129)	(380)	(35)	(88)	(871)	(1,621)
Balance at 31 December 2004	**16,387**	**16,427**	**24,991**	**2,563**	**8,254**	**881**	**69,503**
Accumulated depreciation							
Balance as of 31 December 2003 (restated)	**(3,144)**	**(6,502)**	**(13,767)**	**(1,063)**	**-**	**(759)**	**(25,235)**
Depreciation	(270)	(877)	(1,521)	(155)		(217)	(3,040)
Consolidation of OAO Yaroslavsky Tire Plant (see Note 22)	(208)	(79)	(640)	(21)	-	(11)	(959)
Disposals	6	65	311	20	-	657	1,059
Balance at 31 December 2004	**(3,616)**	**(7,393)**	**(15,617)**	**(1,219)**	**-**	**(330)**	**(28,175)**
Net book Value							
Balance as of 31 December 2003 (restated)	**9,559**	**8,149**	**8,207**	**1,200**	**8,983**	**813**	**36,911**
Balance as of 31 December 2004	**12,771**	**9,034**	**9,374**	**1,344**	**8,254**	**551**	**41,328**

Included in the property, plant and equipment above are fully depreciated assets which are still in service with the gross cost of RR 14,416 and RR 13,970 as of 31 December 2004 and 2003, respectively. Included within additions are non-cash additions of RR 1,095 and RR 449 for the years ended 31 December 2004 and 2003, respectively.

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As a result of management's assessment of the recoverable amount, property, plan and equipment are presented net of a provision for impairment of RR 1,244 as of 31 December 2004 and 2003, assets under construction are presented net of a provision for impairment of RR 1,185 as of 31 December 2004 and 2003.

Net book value of fixed assets pledged as security for loans and borrowings received was RR 3,444 and RR 2,791 as of 31 December 2004 and 2003, respectively.

(In millions of Russian Roubles)

8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	31 December 2004	31 December 2003 Restated Unaudited
NIPI Gazpererabotka	114	102
OAO Orton	44	42
OAO Yaroslavsky Tire Plant (see Note 22)	-	397
Other	4	53
	162	594

	31 December 2004	31 December 2003 Restated Unaudited
Balance at the beginning of the reporting period	594	561
Share of net loss	(17)	(277)
Additions	-	438
Disposals	(415)	(128)
Balance at the end of the reporting period	162	594

Associated undertaking	Country	Nature of operations	% of ordinary shares held as of 31 December 2004	% of ordinary shares held as of 31 December 2003 Unaudited
NIPI Gazpererabotka	Russia	Research	38%	38%
OAO Orton	Russia	Technical fibers production	36%	36%
OAO Yaroslavsky Tire Plant (see Note 22)	Russia	Tires production	-	43%

9 LONG-TERM ACCOUNT RECEIVABLE AND PREPAYMENTS

	31 December 2004	31 December 2003 Unaudited
Advances for assets under construction (net of impairment provision of RR 9 and nil as of 31 December 2004 and 2003, respectively)	1,385	157
VAT related to long-term portion of restructured liabilities	1,304	1,438
VAT related to assets under construction	269	201
Long-term accounts receivables and prepayments (net of impairment provision of RR 357 and RR 26 as of 31 December 2004 and 2003, respectively)	112	229
	3,070	2,025

10 OTHER NON-CURRENT ASSETS

(In millions of Russian Roubles)

	31 December 2004	31 December 2003 Unaudited
Available-for-sale investments (net of provision for impairment of RR 957 and RR 2,637 as of 31 December 2004 and 2003, respectively)	987	1,270
Other non-current assets	192	96
	1,179	1,366

11 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2004	31 December 2003 Restated Unaudited
Trade payables	4,362	7,449
Interest payable	1,074	956
Accounts payable for acquisition of property, plant and equipment	1,069	625
Advances received	856	473
Other payables	18,808	19,530
	26,169	29,033

Included within other payables is debt due to OAO Gazprom which originated in 2001-2002 as short-term promissory notes payable in the amount of RR 12,849 as of 31 December 2004 and 31 December 2003, which were overdue as of 31 December 2003.

RR 530 and RR 447 of accounts payable and accrued charges are denominated in foreign currency, mainly the US dollar, as of 31 December 2004 and 2003, respectively.

12 TAXES PAYABLE

	31 December 2004	31 December 2003 Restated Unaudited
VAT	1,672	3,636
Tax penalties and interest	421	205
Profit tax	185	260
Unified social tax	138	327
Property tax	114	157
Other taxes	285	623
	2,815	5,208
Less: long term portion of restructured tax liabilities	(470)	(506)
	2,345	4,702

Substantially all accrued taxes above that are overdue, except restructured tax liabilities (see below) incur interest at a rate of 1/300 of the refinancing rate of the Central Bank of the Russian Federation per day (13% and 16% per annum as of 31 December 2004 and 2003, respectively). Interest does not accrue on tax penalties and interest.

Included within VAT payable as of 31 December 2004 and 2003 is RR 1,380 and RR 2,217, respectively, of deferred VAT that is only payable to the tax authorities when the underlining receivable is recovered or written off.

(In millions of Russian Roubles)

12 TAXES PAYABLE (continued)

The long-term portion of restructured tax liabilities comprise various taxes, penalties and interest payable to the budget and non-budget funds which were previously past due and which were restructured in years 2000, 2001 and 2002 following the application of Government Resolution dated 3 September 1999 No.1002. The Group's current restructuring agreements presume payments of outstanding restructured taxes over a period of ten years, in accordance with agreed payment schedules. Failure to pay the restructured taxes as they become due or to settle current tax liabilities would result in reinstatement of the original liability under the restructuring agreements.

The amortization of the discount (representing the difference between the carrying amount of the old payables and the discounted value of the restructured taxes) is recorded within interest expense and amounted to RR 58 and RR 53 for the years ended 31 December 2004 and 2003, respectively.

The long-term portion of restructured tax liabilities has the following maturity profile:

	31 December 2004	31 December 2003 Restated Unaudited
Between one and two years	338	290
Between two and five years	300	326
After five years	29	98
	667	714
Less: unamortized discount on restructured taxes	(197)	(208)
	470	506

The total amortised cost of restructured tax liabilities was RR 510 and RR 630 as of 31 December 2004 and 2003, respectively.

Interest on restructured tax liabilities is accrued quarterly based on outstanding restructured tax liabilities, applying the refinancing rate of the Central Bank of the Russian Federation. RR 310 and RR 336 of the restructured tax liabilities as of 31 December 2004 and 2003, respectively, accrue interest at one-tenth of the official rate of the Central Bank of the Russian Federation as of the date of the Government Resolution.

13 SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December 2004	31 December 2003 Unaudited
Short-term borrowings:		
RR denominated borrowings	2,570	3,710
Foreign currency denominated borrowings (primarily USD and Euro)	3,074	634
	5,644	4,344
Current portion of long-term borrowings (see Note 14)	1,335	520
	6,979	4,864

Short-term RR denominated borrowings had average interest rates of 12.4% and 12.9% for the years ended 31 December 2004 and 2003, respectively. Short-term foreign currency denominated borrowings had average interest rates of 9.2% and 10.9% for the years ended 31 December 2004 and 2003, respectively.

(In millions of Russian Roubles)

14 LONG-TERM BORROWINGS

	Currency	Due	31 December 2004	31 December 2003 Unaudited
Long-term borrowings payable to:				
OAO AK Sberbank RF	RUR	2002-2007	2,800	2,800
OAO Vneshtorgbank	USD	2003-2008	1,859	1,973
OAO Investment bank “Trust”	RUR	2002-2007	1,258	1,258
OAO AKB Eurofinance Mosnarbank	RUR	2004-2007	276	-
OAO VBRR	RUR	2004-2006	250	-
Albustan Investments Ltd.	USD	2001-2003	-	436
Other long-term borrowings	RUR	Various	653	330
Total long-term borrowings			7,096	6,797
Less: current portion of long-term borrowings			(1,335)	(520)
			5,761	6,277

The currency of total long-term borrowings is presented below:

	31 December 2004	31 December 2003 Unaudited
RR denominated borrowings (including current portion of RR 700 and RR 206 as of 31 December 2004 and 2003, respectively)	4,785	4,269
USD denominated borrowings (including current portion of RR 635 and RR 314 as of 31 December 2004 and 2003, respectively)	2,311	2,528
	7,096	6,797

The maturity portfolio of long-term borrowings is presented below:

	31 December 2004	31 December 2003 Unaudited
Due for repayment:		
Between one and two years	2,695	1,408
Between two and five years	3,066	4,869
	5,761	**6,277**

Long-term borrowings include fixed rate loans with a carrying value of RR 6,899 and RR 6,334 and fair value of RR 7,243 and RR 6,364 as of 31 December 2004 and 2003, respectively. Long-term borrowings include a variable interest rate loan from OAO AK IBG “NIKoil” in the amount of RR 194 as of 31 December 2004 with a variable interest rate linked to LIBOR.

The Group does not have formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

	31 December 2004	31 December 2003 Unaudited
Fixed rate RR denominated long-term borrowings	12.4%	12.6%
Fixed rate foreign currency denominated long-term borrowings	9.2%	8.9%
Variable rate foreign currency denominated long-term borrowings	11.8%	-

The Group has no subordinated debt and no debt that may be converted into an equity interest in the Group.

(In millions of Russian Roubles)

15 RESTRUCTURED LIABILITIES

	31 December 2004	31 December 2003 Restated Unaudited
OAO Gazprom	16,280	13,492
Other creditors	2,860	4,781
Total	19,140	18,273
Less: current portion of restructured liabilities	(2,078)	(1,066)
	17,062	17,207

The maturity of restructured liabilities is presented below:

Due for repayment:	31 December 2004	31 December 2003 Restated Unaudited
Between one and two years	2,719	1,438
Between two and five years	10,470	8,578
After five years	3,873	7,191
	17,062	17,207

During 2000-2003 amicable agreements were signed by the Group's subsidiaries with their creditors to restructure their liabilities. Discounting of the nominal value of the restructured liabilities, applying a weighted average discount rate of 11.2%, resulted in the recognition of a gain in the amount of RR 584 in the year ended 31 December 2003. The increase in the carrying amount of the liability as a result of the accretion of the discount, recognised on all restructured liabilities, was recorded in the consolidated statement of income within interest expense and amounted to RR 397 and RR 258 for the years ended 31 December 2004 and 2003, respectively. Included within the gain on and extinguishment of restructured liabilities of consolidated statement of income for the year ended 31 December 2003 is a gain in the amount of RR 1,055 related to the settlement of certain liabilities under amicable agreements.

16 PROFIT TAX

Profit (loss) before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

	Year ended 31 December 2004	Year ended 31 December 2003 Restated Unaudited
Profit (loss) before profit tax and minority interest	6,686	(3,166)
Theoretical tax (charge) benefit at a statutory rate (24% for the years ended 31 December 2004 and 2003, respectively)	(1,605)	760
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expense	(1,187)	(1,517)
Other non-temporary differences	447	540
Profit tax expense	(2,345)	(217)

(In millions of Russian Roubles)

16 PROFIT TAX (continued)

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%.

	31 December 2004	Differences recognition and reversals	31 December 2003 as restated	Differences recognition and reversals as restated	31 December 2002 as restated
Tax effects of taxable temporary differences:					
Property, plant and equipment	(4,322)	(342)	(3,980)	264	(4,244)
Inventory	(369)	(18)	(351)	(46)	(305)
Investments	(132)	3	(135)	80	(215)
Restructured liability	(1,061)	95	(1,156)	(78)	(1,078)
Other	(49)	14	(63)	13	(76)
	(5,933)	(248)	(5,685)	233	(5,918)
Tax effects of deductible temporary differences:					
Tax losses carry forward	244	(527)	771	(103)	874
Bad debt provision	1,262	357	905	103	802
Other deductible temporary differences	205	20	185	56	129
Total net deferred tax liabilities	(4,222)	(398)	(3,824)	289	(4,113)

Deferred tax liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment.

In accordance with tax legislation of the Russian Federation tax losses and current tax assets of the different companies in the Group 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, a deferred tax asset of one company of the Group can not be offset against a deferred tax liability of another company.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 1,420 as of 31 December 2004 and 2003, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

(In millions of Russian Roubles)

17 SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 5,734 as of 31 December 2004 and 2003 and consists of 543,750 million ordinary shares, each with a par value of 0.01 roubles.

Treasury shares

As of 31 December 2004 and 2003 subsidiaries of the Group held 149 billion ordinary shares of OAO AK Sibur. The Group management controls the voting rights of these shares.

Accumulated deficit

Included within accumulated deficit and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of RR as of 31 December 2002.

The statutory accounting reports of the parent company, OAO AK Sibur, are the basis for profit distribution and other appropriations. For 2004, the current year net statutory profit for the parent company OAO AK Sibur as reported in the published annual statutory reporting forms was RR 7,200 and accumulated loss for the previous periods totalled RR 4,604. No dividends were declared in respect of 2004 net statutory profit.

18 SALES

	Year ended 31 December 2004	Year ended 31 December 2003 Restated Unaudited
Gas sales (including excise tax):		
Dry gas	4,809	4,695
Natural gas	3,817	-
Gross sales of gas	8,626	4,695
Excise tax	(15)	(11)
Revenue on gas sales	8,611	4,684
Sales of refined products (including excise tax and custom duties, net of VAT):		
Tires and industrial rubber goods	15,939	13,561
Rubbers	13,928	11,038
Polymers	10,622	7,842
Products of organic synthesis	9,991	7,535
Other refined products	22,497	18,422
	72,977	58,398
Excise tax	(19)	(21)
Custom duties	(464)	(344)
Revenue on refined product sales	72,494	58,033
Other revenue	4,115	4,240
	85,220	66,957

(In millions of Russian Roubles)

19 OPERATING EXPENSES

	Year ended 31 December 2004	Year ended 31 December 2003 Restated Unaudited
Materials	25,442	23,657
Staff costs	14,016	10,863
Electricity	10,960	9,396
Transportation services	8,103	7,990
Purchased gas	3,254	145
Depreciation	3,040	2,736
Impairment provisions for account receivables	1,678	2,307
Repairs and maintenance	1,637	1,239
Taxes other than on income	1,299	1,018
Cost of goods for resales	1,113	1,763
Processing services	936	1,066
Other	3,564	4,519
	75,042	66,699

Taxes other than on income consist of:

	Year ended 31 December 2004	Year ended 31 December 2003 Unaudited
Land tax	421	404
Property tax	434	390
Penalties on tax liabilities	228	211
Tax refund	-	(418)
Other tax liabilities	216	431
	1,299	1,018

All taxes other than on income are calculated based on amounts recorded in accordance with Russian statutory accounting regulations at statutory rates.

20 FINANCIAL INSTRUMENTS

Available-for-sale investments: amounts reported in the consolidated statement of income

	Year ended 31 December 2004	Year ended 31 December 2003 Restated Unaudited
Unrealized fair value losses, net	(338)	(457)
Realized gains (losses) on sale, net	238	(483)
Losses on available-for-sale investments, net	(100)	(940)

(In millions of Russian Roubles)

21 NET CASH PROVIDED BY OPERATING ACTIVITIES

Notes		Year ended 31 December 2004	2003 Restated Unaudited
	Profit (loss) before tax and minority interest	6,686	(3,166)
	Adjustments to net profit (loss) before profit tax and minority interest		
	Depreciation	3,040	2,736
	Impairment provisions	2,263	2,307
	Net unrealized foreign exchange gains	(260)	(412)
	Losses on available-for-sale investments	(238)	483
	Interest expense	3,599	4,160
	Gains on and extinguishment of restructured liabilities	-	(1,639)
	Losses on disposal of property, plant and equipment	543	1,146
	Interest income	(94)	(162)
7, 10	Non-cash additions to property, plant and equipment and other long-term investments	(835)	1,378
	Losses on fair value adjustments for trading and available-for-sale investments	338	457
	Share of net loss of associated undertakings	17	277
	Total effect of adjustments	8,373	10,731
		15,059	**7,565**
	Changes in working capital		
	Decrease (increase) in accounts receivable and prepayments	6,674	(4,459)
	Increase of inventories	(1,328)	(575)
	Increase in other current assets	(23)	(26)
	Increase in accounts payable and accrued charges	(6,649)	(2,385)
	(Increase) decrease in taxes payable excluding profit tax	(3,295)	208
	(Increase) decrease in available-for-sale investments	(1 018)	734
	Total effect of working capital changes	(5,639)	(6,503)
	Profit tax paid	(2,172)	(252)
	Net cash provided by operating activities	**7,248**	**810**

21 NET CASH PROVIDED BY OPERATING ACTIVITIES (continued)

Total cash taxes paid:

Year ended 31 December

(In millions of Russian Roubles)

	2004	2003 Unaudited
VAT	3,151	2,501
Unified social tax	2,926	2,336
Profit tax	2,172	252
Personal income tax	1,461	1,149
Property tax	493	354
Custom duties	484	377
Land tax	452	460
Fines and penalties	374	133
Other taxes	523	558
Total taxes paid	12,036	8,120

22 SUBSIDIARY UNDERTAKINGS

OAO Gazprom has a substantial interest in a number of the Group subsidiary undertakings (marked with (*)) and has transferred to the Group operating and financial control over the subsidiary undertakings. Representatives of OAO AK Sibur also have majority of the seats on the Boards of Directors of subsidiary undertakings.

Principal subsidiaries undertakings, dealing mainly with petrochemical production (location – Russian Federation)

	Percent of share capital held by the Group as of 31 December		Percent of share capital held by the other entities within OAO Gazprom Group as of 31 December	
	2004	2003 Unaudited	2004	2003 Unaudited
OAO AZOT, Kemerovo	75%	75%	-	-
OAO Belozerniy GPK	100%	100%	-	-
OAO Voronezhsintezkauchuk*	26%	26%	49%	49%
OAO VoltairProm*	82%	1%	-	81%
OAO Volzhskiy airnitrogen plant	51%	51%	-	-
OAO Gubkinskiy GPK	100%	100%	-	-
OAO Krasnoyarskiy ZSK*	17%	16%	35%	35%
OAO Kauchuk	100%	100%	-	-
ZAO Novokuybishevsk petrochemical company	100%	100%	-	-
OAO Nizhnevartovskiy GPK	100%	100%	-	-
OOO Nyagangazpererabotka	100%	100%	-	-
OAO Plastic*	40%	40%	24%	24%
OAO Sibur-Volzhskiy	100%	100%	-	-
OAO Sibur-PETF*	60%	60%	40%	40%
ZAO Sibur-Khimprom	100%	100%	-	-
OAO Sibur-Neftekhim*	17%	17%	66%	39%
OAO Sibur-Tyumen*	67%	67%	33%	33%
OAO SiburTyumenGaz	100%	100%	-	-
OOO Sibur-Geotekstil	100%	100%	-	-
OOO Tollyattikauchuk	100%	100%	-	-
OOO Tomskneftekhim*	67%	67%	26%	26%
OOO Tobolsk-Neftekhim	100%	100%	-	-
OAO Uralorgsintez	67%	67%	-	-
OAO Yuzhno-Balykskiy GPK	100%	100%	-	-

22 SUBSIDIARY UNDERTAKINGS (continued)

Principal subsidiaries undertakings, dealing mainly with tires production (location – Russian Federation)

(In millions of Russian Roubles)

	Percent of share capital held by the Group as of 31 December		Percent of share capital held by the other entities within OAO Gazprom Group as of 31 December	
	2004	2003 Unaudited	2004	2003 Unaudited
OAO Omskshina*	43%	43%	23%	18%
OAO Yaroslavsky Tire Plant*	62%	43%	13%	7%
OOO Uralsk tire plant*	75%	-	25%	-
ZAO SP Matador - Omskshina	51%	51%	-	-

In October 2004 the Group purchased 1.79% of preferred shares and 16.82% of common shares of OAO Yaroslavsky Tire Plant for RR 217 paid in cash, as a result of which the Group's interest increased to 61.94%. Management assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received. The Group controlled the OAO Yaroslavsky Tire Plant from January 2004.

Other subsidiaries undertakings

Company	Location	Type of activity	Percent of share capital held by the Group as of 31 December 2004	2003 Unaudited	Percent of share capital held by the other entities within OAO Gazprom Group as of 31 December 2004	2003 Unaudited
OOO Plant Benzol*	Russian Federation	Investing	55%	58%	45%	42%
OOO Neftekhim-Leasing	Russian Federation	Leasing	100%	100%	-	-
OOO Sibur-Russian tires*	Russian Federation	Trading	0%	0%	100%	100%
OAO Khimprom*	Russian Federation	Leasing	38%	38%	62%	62%
OOO GasNeftoTrade	Russian Federation	Investing	100%	100%	-	-
OAO Tomskpolimerprom*	Russian Federation	Investing	42%	24%	58%	76%
OOO Tomsk petrochemical plant*	Russian Federation	Investing	57%	57%	43%	43%
OOO Sibur-Europe	Switzerland	Investing	100%	100%	-	-

23 MINORITY INTEREST

	Year ended 31 December 2004	2003 Restated Unaudited
Minority interest at the beginning of the reporting period	10,105	10,102
Minority interest share of net loss of subsidiary undertakings	(207)	(802)
Consolidation of OAO Yaroslavsky Tire plant (see Note 22)	385	-
Other changes in minority interest as a results of changes in the Group's structure	93	805
Minority interest at the end of the reporting period	10,376	10,105

24 RELATED PARTIES

For the purpose 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 millions of Russian Roubles)

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 2004 are detailed below.

OAO Gazprom

OAO Gazprom is the controlling shareholder of the Group, principal creditor and supplier of materials and services.

	Nature of relationship
OAO Gazprom	Ultimate parent to the Group
AB Gazprombank (ZAO)	Fellow subsidiary of OAO Gazprom
ZAO Sibur-Motors	Fellow subsidiary of OAO Gazprom
ZAO Sibur-Rezinotekhnika	Fellow subsidiary of OAO Gazprom
ZAO Spetcisterny	Fellow subsidiary of OAO Gazprom
ZAO TD Sibur	Fellow subsidiary of OAO Gazprom
OAO Voltair	Fellow subsidiary of OAO Gazprom
OAO Vostokgazprom	Fellow subsidiary of OAO Gazprom
OAO Zapsibgazprom	Fellow subsidiary of OAO Gazprom
OOO Burgaz	Fellow subsidiary of OAO Gazprom
OOO Bonus-Invest	Fellow subsidiary of OAO Gazprom
OOO Gazkomplektimpex	Fellow subsidiary of OAO Gazprom
OOO Gazpromtrans	Fellow subsidiary of OAO Gazprom
OOO Gazexport	Fellow subsidiary of OAO Gazprom
OOO Invest+	Fellow subsidiary of OAO Gazprom
OOO Mezhregiongaz	Fellow subsidiary of OAO Gazprom
OOO Orgavtolux	Fellow subsidiary of OAO Gazprom
OOO Orenburggazprom	Fellow subsidiary of OAO Gazprom
OOO Surgutgazprom	Fellow subsidiary of OAO Gazprom
OOO Tomsktransgaz	Fellow subsidiary of OAO Gazprom

Significant transactions with OAO Gazprom during the year

		Year ended 31 December	
	Pricing	**2004**	**2003 Unaudited**
ZAO Spetcisterny			
Purchase of transportation services	OAO Gazprom regulated prices	5,656	4,530
OAO Gazprom			
Dry gas sales	Market price	-	227
Purchase of materials	Market price	1,679	785
Purchase of transportation services	OAO Gazprom regulated prices	1,390	1,381
Fines and penalties		-	638
OOO Urengoygazprom			
Purchase of materials	Market price	1,311	721
OOO Mezhregiongaz			
Dry gas sales	Market price	782	-
OOO Surgutgazprom			
Petrochemical products sales	Market price	339	171
Purchase of materials	Market price	133	423

(In millions of Russian Roubles)

24 RELATED PARTIES (continued)

	Pricing	Year ended 31 December 2004	2003 Unaudited
OOO Gazpromtrans			
Purchase of transportation services	OAO Gazprom regulated prices	374	-
OOO Gazexport			
Commission fee (export sales)	Market price	161	62
OOO Orenburggazprom			
Purchase of materials	Market price	157	631
OAO Vostokgazprom			
Transportation and storage services sales	Market price	76	-
Purchase of materials	Market price	10	144
OOO Tomsktransgaz			
Dry gas sales	Market price	86	-

Available-for-sale investments (short-term promissory notes)

	31 December 2004			31 December 2003 Unaudited		
	Cost	Impairment provision	Carrying value	Cost	Impairment provision	Carrying value
ZAO Sibur-Motors	7,314	(3,718)	3,596	1,174	(303)	871
AB Gazprombank (ZAO)	43	-	43	32	-	32
Other	344	(185)	159	186	(186)	-
	7,701	(3,903)	3,798	1,392	(489)	903

Accounts receivable and prepayments

	31 December 2004			31 December 2003 Unaudited		
	Cost	Impairment provision	Carrying value	Cost	Impairment provision	Carrying value
OOO Gazexport	1,833	-	1,833	1,301	-	1,301
OOO Orgavtolux	592	(592)	-	1,093	(1,093)	-
OOO Bonus-Invest	670	(670)	-	819	(723)	96
OAO Voltair	99	-	99	-	-	-
ZAO Spetcisterny	89	-	89	14	-	14
OOO Invest+	79	-	79	-	-	-
OOO Surgutgazprom	79	-	79	43	-	43
ZAO Sibur-Motors	60	(56)	4	181	(56)	125
OOO Gazkomplektimpex	-	-	-	158	-	158
Other	576	(339)	237	699	(261)	438
	4,077	(1,657)	2,420	4,308	(2,133)	2,175

24 RELATED PARTIES (continued)

(In millions of Russian Roubles)

Accounts payable and accrued charges

	31 December 2004	31 December 2003 Unaudited
OAO Gazprom	18,255	19,062
ZAO TD Sibur	931	-
OOO Bonus-Invest	451	701
AB Gazprombank (ZAO)	311	280
ZAO Sibur-Motors	230	14
OOO Gazexport	209	146
OOO Invest+	79	-
OOO Mezhregiongaz	74	6
Other	545	1,181
	21,085	21,390

Current portion of restructured liabilities

	31 December 2004	31 December 2003 Unaudited
OAO Gazprom	1,242	505
ZAO Sibur-Motors	175	-
AB Gazprombank (ZAO)	159	62
OOO Orenburggazprom	153	60
OOO Surgutgazprom	60	23
OOO Tomsktransgaz	30	23
OAO Vostokgazprom	24	9
Other	21	20
	1,864	702

Short-term borrowings and current portion of long-term borrowings

	Currency	Annual interest rate	31 December 2004	31 December 2003 Unaudited
AB Gazprombank (ZAO)	RR	8%-15%	652	766
AB Gazprombank (ZAO)	USD	16%	83	-
OOO Gazexport	USD	8%	570	-
OOO Gazexport	USD	0.1%	-	295
OAO Gazprom	RR	3%	-	660
Other	RR		8	-
			1,313	1,721

Short-term promissory notes payable

	31 December 2004	31 December 2003 Unaudited
OAO Spetscisterny	8	28
ZAO Sibur-Motors	3	251
OAO Gazprom	-	127
OAO Vostokgazprom	-	33
Other	12	105
	23	544

(In millions of Russian Roubles)

24 RELATED PARTIES (continued)

Restructured liabilities

	31 December 2004	31 December 2003 Unaudited
OAO Gazprom	10,171	9,779
AB Gazprombank (ZAO)	1,297	1,298
ZAO Sibur-Motors	1,240	2
OOO Orenburggazprom	1,019	1,001
OOO Surgutgazprom	387	382
OAO Vostokgazprom	154	152
OOO Tomsktransgaz	84	103
OOO Mezhregiongaz	54	67
Other	10	6
	14,416	12,790

Guarantees

As of 31 December 2004 the following interests in the Group's subsidiary undertakings (see Note 22) were pledged as guarantees of the liabilities under amicable agreements and short-term loans received from OAO Gazprom Group: OAO Voronezhsintezkauchuk - 20%, OAO Volzhskiy airnitrogen plant - 51%, OAO Kauchuk - 80%, ZAO Sibur-Khimprom - 19%, OAO Sibur-Neftekhim - 8%, OAO Sibur-Tyumen - 42%, OAO Uralorgsintez - 51%, OAO Yaroslavsky Tire Plant - 17%.

Directors' remuneration

OAO AK Sibur paid to five members of the Board of Directors salary and bonuses of RR 58 and RR 2 for the years ended 31 December 2004 and 2003, respectively. The salary and bonuses of members of the Board of Directors are subject to approval at the annual shareholders meeting.

Associated undertakings

OAO Yaroslavsky Tire Plant

Included within accounts receivable and prepayments (see Note 5) and within accounts payable and accrued charges (see Note 11) were receivables and payables of OAO Yaroslavsky Tire Plant in the amount of RR 1,197 and RR 1,218 respectively as of 31 December 2003. For the year ended 31 December 2003 the Group sold goods to OAO Yaroslavsky Tire Plant for RR 2,840 and purchased goods for RR 3,776. OAO Yaroslavsky Tire Plant was consolidated as a subsidiary from January 2004.

OAO Orton

Included within accounts receivable and prepayments (see Note 5) are receivables due from OAO Orton in the amounts of nil and RR 60 as of 31 December 2004 and 2003, respectively. Included within accounts payable and accrued charges (see Note 11) are payables of OAO Orton in the amounts of RR 140 and RR 94 as of 31 December 2004 and 2003, respectively. The Group purchased from OAO Orton processing services for RR 129 and RR 101 for the years ended 31 December 2004 and 31 December 2003, respectively.

25 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment

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.

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. 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 the Group’s future operations and earnings, are not predictable.

Legal proceedings

The Group is a party to certain legal proceedings 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 adverse effect on the result of operations or financial position of the Group.

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 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. 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 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.

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, other then amounts that have been accrued in the consolidated financial statements.

Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

25 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Guarantees

As of 31 December 2004 16.82% of common shares and 1.79% of preferred shares of OAO Yaroslavsky Tire Plant held by the Group (see Note 22) were pledged as a guarantee of a short-term loan provided by ZAO GUTA-BANK to a subsidiary of the Group.

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Board of Directors has approved a capital expenditure budget for 2005 of RR 12,575.

26 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, interest rates, commodity prices and changes in debt and equity market prices. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and Euro. Foreign currency denominated assets (see Note 5) and liabilities (see Notes 11, 13 and 14) give rise to foreign exchange exposure.

Interest rate risk

The majority of interest rates on long-term borrowings are fixed, which expose the Group to fair value interest rate risk. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent on changes in market interest rate. The Group's interest rate risk arises from short-term and long-term borrowings.

Commodity risk

Revenues generated by the sale of gas and refined products depends on volumes and commodity prices. A decline in the prices for gas and other hydrocarbons could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and thus could considerably affect the financial position of the Group.

Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. 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 accounts receivable, net of provision for impairment of receivables, 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.

27 POST BALANCE SHEET EVENTS

Restructuring

On 4 February 2005 the Board of Directors of OAO Gazprom discussed the Group's proposed business development strategy for 2004 -2011. The strategy includes a planned restructuring of the debt due from the Group to OAO Gazprom and its subsidiaries. This debt is planned to be settled by the issuance of shares in a new petrochemical holding company, in which OAO Gazprom and its subsidiaries will own a 100% interest. The Group shall contribute to the chapter capital of the new company the shares in its existing subsidiaries.

The establishment of the new company is expected to be finalized at the end of the third quarter of 2005. At the same time an extraordinary meeting of the Board of Directors of OAO Gazprom is planned to take place to approve the acquisition of the shares in the new company. Management plans to transfer the substantial part of the operations of OAO AK Sibur to the new company on 1 January 2006. OAO AK Sibur will have sufficient cash inflow to be able to fulfill its obligation to other creditors.

Financial investments

In April 2005 the Group sold its 50.6% holding in OAO Kurganmashzavod for RR 1,195. The Group did not exercise control over the entity during the period of ownership.

In May 2005 the Group acquired a further 17.04% interest in OAO Sibur-Neftekhim (consolidated subsidiary undertaking) for RR 238, paid in cash, thus increasing its interest to 34.3%.

In May 2005 the Group acquired a further 33.04% interest in OAO Saransky Zavod Rezinotekhnika for RR 69 paid in cash thus increasing its interest to 52.03%. Management assessed the fair value of the underlying net assets received at the amount of RR 255.

Borrowings

In March 2005 the Group received USD 10 million under a one-year loan from ZAO Moscow International Bank at an interest rate of LIBOR + 5%.

In May and June 2005 the Group received Euro 0.6 million and Euro 1.3 million, respectively under a four-year loan from AB Gazprombank (ZAO) at an interest rate of 10.5%.

In May and June 2005 the Group received USD 20 million and USD 20 million, respectively of borrowings under a three-year loan from ZAO AIKB NOMOS-Bank at an interest rate of 9.4%.

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