NIZHNEKAMSKNEFTEKHIM GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005

CONTENTS

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT
To the Shareholders of OAO Nizhnekamskneftekhim

1. We have prepared consolidated financial statements for the year ended 31 December 2005 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 year and of the results of operations and cash flows for the year 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 32, 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 consolidated financial statements, which are based on the statutory accounting reports approved by the shareholders on 28 April 2006, with adjustments and reclassifications recorded for the purpose of presentation in accordance with IFRS.

Vladimir M. Busygin
General Director

28 July 2006

OAO Nizhnekamskneftekhim
423574 Nizhnekamsk
Republic of Tatarstan
Russian Federation

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

1. We have audited the accompanying consolidated balance sheet of OAO Nizhnekamskneftekhim and its subsidiaries (together the "Group") as at 31 December 2005, and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These financial statements (as set out on pages 5 to 32) are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. Without qualifying our opinion, we draw your attention to Notes 9, 13 and 14 to the accompanying consolidated financial statements. The Government of the Republic of Tatarstan is a significant shareholder of the Group and Governmental economic and social policies affect its financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
28 July 2006

(in millions of Russian roubles, unless otherwise stated)

Consolidated Balance Sheet

	Notes	31 December 2005	31 December 2004
Assets			
Current assets			
Cash and cash equivalents	5	4,790	1,020
Accounts receivable and prepayments	6	6,774	5,377
Inventories	7	5,162	4,386
Other current assets		220	140
Total current assets		**16,946**	**10,923**
Non-current assets			
Restricted cash	5	447	386
Investments in associates	8	1,573	1,586
Non-current financial assets	8	3,605	736
Property, plant and equipment	9	23,283	23,207
Total non-current assets		**28,908**	**25,915**
Total assets		**45,854**	**36,838**
Liabilities and Equity			
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	10	2,450	4,308
Accounts payable and accrued liabilities	11	6,632	4,860
Taxes payable	12	1,386	906
Total current liabilities		**10,468**	**10,074**
Non-current liabilities			
Long-term borrowings	10	13,284	4,576
Deferred tax liability	17	832	935
Deferred income		148	158
Other non-current liabilities		91	229
Total non-current liabilities		**14,355**	**5,898**
Total liabilities		**24,823**	**15,972**
Equity attributable to parent company shareholders			
Share capital	13	6,332	6,332
Treasury shares	13	(1,394)	(1,315)
Currency translation reserve		6	34
Retained earnings		15,142	14,756
Total equity attributable to parent company shareholders		**20,086**	**19,807**
Minority interests		**945**	**1,059**
Total equity		**21,031**	**20,866**
Total liabilities and equity		**45,854**	**36,838**

Vladimir M. Busygin
General Director

Ilfar R. Yakhin
Chief Accountant

28 July 2006

The accompanying notes set out on pages 9 to 32 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Income

	Notes	Year ended 31 December 2005	Year ended 31 December 2004
Revenues			
Product sales		45,703	36,773
Processing fees		895	459
Transportation recharges		621	393
Other income		850	604
Total revenues and other income		**48,069**	**38,229**
Operating expenses			
Cost of sales	15	(38,156)	(29,920)
Selling, general and administrative expenses	16	(6,821)	(4,404)
Total operating expenses		**(44,977)**	**(34,324)**
Operating profit		**3,092**	**3,905**
Financial income/(expenses)			
Exchange (loss)/gain, net		(363)	314
Interest income		139	66
Interest expense		(732)	(626)
Total financial expenses		**(956)**	**(246)**
Share of net results of associates	8	**124**	**86**
Profit before taxation		**2,260**	**3,745**
Income tax expense	17	(1,335)	(1,065)
Profit for the year		**925**	**2,680**
Profit/(loss) attributable to:			
Parent company shareholders		1,043	2,639
Minority interests		(118)	41
Profit for the year		**925**	**2,680**
Earnings (basic and fully diluted) per participating share (Russian roubles per share)	13	**0.72**	**1.70**

The accompanying notes set out on pages 9 to 32 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Year ended 31 December 2005	Year ended 31 December 2004
Cash flows from operating activities		
Cash receipts from customers	46,618	38,027
Cash paid to suppliers and employees, and taxes other than on income	(41,408)	(33,369)
Interest paid	(791)	(631)
Income tax paid	(1,307)	(1,072)
Change in restricted cash	61	1
Net cash from operating activities	**3,173**	**2,956**
Cash flows from investing activities		
Purchase of subsidiaries	-	(27)
Purchase of interests in associates	-	(1,660)
Proceeds from sale of interests in associates	103	1,039
Loans given	(20)	-
Proceeds from sale of third party promissory notes	28	157
Purchase of property, plant and equipment	(5,795)	(3,257)
Dividends and interest received	86	24
Net cash used in investing activities	**(5,598)**	**(3,724)**
Cash flows from financing activities		
Proceeds from long and short-term borrowings	20,399	5,738
Repayment of long and short-term borrowings	(13,531)	(4,264)
Dividends paid	(164)	(88)
(Purchases)/ proceeds from sale of treasury shares	(503)	44
Net cash from financing activities	**6,201**	**1,430**
Net increase in cash and cash equivalents before the effects of exchange rate changes	**3,776**	**662**
Effect of exchange rate changes	(6)	2
Net increase in cash and cash equivalents	**3,770**	**664**
Cash and cash equivalents at the beginning of the year	1,020	356
Cash and cash equivalents at the end of the year	**4,790**	**1,020**

The accompanying notes set out on pages 9 to 32 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Attributable to parent company shareholders					
	Share capital	**Treasury shares**	**Retained earnings**	**Currency translation reserve**	**Minority interest**	**Total equity**
Balance at 31 December 2003	**6,332**	**(459)**	**12,501**	**27**	**293**	**18,694**
Profit for the year	-	-	2,639	-	41	2,680
Treasury shares purchases (see Note 13)	-	(856)	244	-		(612)
Common control transactions	-	-	(515)	-	729	214
Currency translation adjustment	-	-	-	7	7	14
Dividends declared , adjusted for dividends attributable to treasury shares (re 2003 approved 23 April 2004– see Note 13)	-	-	(113)	-	(11)	(124)
Balance at 31 December 2004	**6,332**	**(1,315)**	**14,756**	**34**	**1,059**	**20,866**
Profit for the year	-	-	1,043		(118)	925
Treasury shares purchases (see Note 13)	-	(79)	(422)	-	-	(501)
Common control transactions (see Note 18)	-	-	34	-	67	101
Currency translation adjustment	-	-	-	(28)	(28)	(56)
Dividends declared, adjusted for dividends attributable to treasury shares (re 2004 approved 22 April 2005 – see Note 13)	-	-	(269)	-	(35)	(304)
Balance at 31 December 2005	**6,332**	**(1,394)**	**15,142**	**6**	**945**	**21,031**

The accompanying notes set out on pages 9 to 32 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 18 (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 25,073 and 25,345 employees during the years ended 31 December 2005 and 2004, respectively.

The main shareholders of the Company as at 31 December 2005 are OAO Svyazinvetsneftekhim (100% owned by Republic of Tatarstan) – 25.2% of the shares (31 December 2004 – 35.2% of the shares) and TAIF Group – 15.2% of the shares (31 December 2004 – 7.2% of the shares). Additionally, 22.0% of the Company's shares as at 31 December 2005 are accounted for as treasury shares as they are held by Group subsidiaries (20.8% of the shares - 31 December 2004) (see Note 13). In November 2005 the major shareholder of the Group, Svyazinvestneftehim, transferred its 25.2% of the shares of the Company to OOO TAIF-Invest under a trust management agreement for the period of five years, which permits OOO TAIF-Invest to manage and vote these shares.

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 55% of total sales during 2005 (for 2004 – 57%) were made to customers in export markets. These export sales are invoiced and settled principally in US dollars and Euros.

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 preparation

Basis for preparation

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. The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

The Group companies maintain their accounting records in Russian Roubles ("RR"), which is their functional currency, and prepare their statutory financial statements in accordance with the Federal Law on Accounting apart from one Group subsidiary, which is incorporated in Finland, which operates and prepares its financial statements in Euros. All amounts in these financial statements are presented in millions of Russian Roubles ("RR million"), unless otherwise stated.

Reclassifications

Certain amounts have been reclassified in the comparative financial information for the year ended 31 December 2004 to conform to the current year presentation.

Product sales and cost of sales relating to energy resale for the year ended 31 December 2004 were netted for RR 391 million as these transactions do not generate revenue and are incidental to the main revenue-generating activities (IAS 1).

Cost of sales, relating to certain materials and selling and transport services for the year ended 31 December 2004 were decreased for RR 1,070 million, and reclassified to selling, general and administrative expenses.

Taxes other than on income for the year ended 31 December 2004 in the amount of RR 771 million were reclassified to cost of sales.

Social infrastructure and housing expenses for the year ended 31 December 2004 in the amount of RR 843 million were reclassified to selling, general and administrative expenses.

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.

New accounting development and revised standards

During the period December 2003 to March 2006, the International Accounting Standards Board ("IASB") revised 25 of its standards and issued 9 new standards. In addition, the International Financial Reporting Interpretations Committee ("IFRIC") issued six new interpretations in 2004, one of which was subsequently withdrawn. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" ("IFRS 6") and IFRS 7 "Financial instruments: disclosures" ("IFRS 7"), which are effective for periods commencing on or after 1 January 2006 and 1 January 2007 respectively, but may be adopted early.

The revisions to IAS 1, Presentation of Financial Statements, clarify certain presentation requirements. Most significantly, the revised standard requires that minority interest be presented within equity. The Company has retrospectively reflected the revised presentation standard for equity in the financial statements for the year ended 31 December 2004. The revised IAS 1 requires classification of a liability as current if the lenders can request early redemption and therefore the entity does not have an unconditional right to defer settlement for at least twelve months after the balance sheet date. Long-term borrowings as at 31 December 2004 were decreased by RR 1,308 million and reclassified as short-term borrowings to comply with revised IAS 1.

IAS 24, Related Party Disclosures, as revised, requires the disclosure of compensation of key management personnel and clarifies that such personnel include non-executive directors. The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements (see Note 14).

Other revised and amended standards effective on 1 January 2005 are as follows: IAS 2, Inventories; IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; IAS 10, Events after the Balance Sheet Date; IAS 16, Property, Plant and Equipment; IAS 17, Leases; IAS 19, Employee Benefits; IAS 21, The Effects of Changes in Foreign Exchange Rates; IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; IAS 31, Investments in Joint Ventures; IAS 32, Financial Instruments: Disclosure and Presentation; IAS 33, Earnings per Share; IAS 36, Impairment of Assets; IAS 38, Intangible Assets; IAS 39, Financial Instruments: Recognition and Measurement; IAS 40, Investment Property; IFRS 3, Business Combinations; IFRS 4, Insurance Contracts; IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations; IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities and IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments. The adoption of these revised and amended standards did not had a material effect on the Group's financial position, statements of income or of cash flows.

Other new standards and interpretations early adopted by the Group on 1 January 2005 are as follows: IAS 19 (amendment), Employee Benefits; IFRIC 4, Determining whether an Arrangement contains a Lease; IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. The adoption of these standards did not have a material impact on the Group's financial position, statements of income or of cash flows.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted: IAS 39 (Amendment), The Fair Value Option; IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions; IAS 39 (Amendment), Financial Guarantee; IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital; IFRS 6, Exploration for and Evaluation of Mineral Resources; IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment; IFRIC 7, Applying the Restatement Approach under IAS 29; IFRIC 8, Scope of IFRS 2; IAS 21 (Amendment), Net Investment in a Foreign Operation; IFRIC 9, Reassessment of Embedded Derivatives; IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources. These new standards and interpretations are not expected to significantly affect the Group's financial statements.

Note 3 Critical accounting estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information preparation and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from such estimates. In particular, information about significant areas of estimation and critical judgments in applying accounting policies made by management in preparing these financial statements include:

Impairment provision for property, plant and equipment. Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a significantly different amount for any impairment provision.

Impairment provision for receivables. Management has determined the allowance for doubtful debtors based on specific customer identification, customer payment trends and subsequent receipts and settlements. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that, therefore, the recorded value approximates their fair value.

Impairment provision for investments. Management has determined the fair value of investments, using the analysis of expected future cash flows.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The Group has not recognised any 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. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Note 4 Summary of significant accounting policies

4.1 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. Minority's interest transactions are accounted using the parent company method.

Associates

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 ("associated") 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 statement of income 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. 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.

4.2 Investments

The Group classifies its investments into the following categories: trading, held-to-maturity or available-for-sale, loans to other entities and long-term accounts receivable. 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. Loans to other entities and long-term accounts receivable 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 recognized 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 amortized cost using the effective yield method. Realized and unrealized 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.

The Group's investments which are not publicly traded and therefore no reliable method of fair value estimation exists for those 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 amortized 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.

4.3 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.

4.4 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.

4.5 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.

4.6 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.

4.7 Property, plant and equipment and related government grants

All property, plant and equipment is carried at cost, except for assets acquired prior to 1 January 2003 which have been adjusted for the impact of changes in the general purchasing power in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", less accumulated depreciation. Assets under construction are carried at cost and depreciated from the time the asset is brought into 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.

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

	Years
Buildings	30-40
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.

4.8 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.

4.9 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 and 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.

4.10 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 2005, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 28.7825 (31 December 2004 USD 1= RR 27.7487). The official Euro to RR exchange rate at 31 December 2005, as determined by the Central Bank of the Russian Federation, was 34.1850 (31 December 2004 - 37.8104). 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 the foreign subsidiary is 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.

4.11 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 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.

(in millions of Russian roubles, unless otherwise stated)

Earnings (loss) per share

Preferred 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.

4.12 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.

4.13 Employee benefits

Pension costs

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 benefits are included within personnel costs in cost of sales.

Note 5 Cash and cash equivalents, and restricted cash

	31 December 2005	31 December 2004
USD denominated amounts	4,129	97
Euro denominated amounts	308	316
RR denominated amounts	353	607
Total cash and cash equivalents	**4,790**	**1,020**

Restricted cash amounts represents deposits, related to Group's loan agreement with Eximbank (see Note 10). These deposits totalled USD 15.5 million (RR 447 million) and USD 13.9 million (RR 386 million) at 31 December 2005 and 31 December 2004, respectively.

Note 6 Accounts receivable and prepayments

	31 December 2005	31 December 2004
VAT receivable	1,921	723
Short-term portion of ZAO TAIF-NK note receivable (see also Note 8)	1,089	-
Receivables from export sales (denominated in USD and Euro)	896	970
Advances to suppliers	893	1,436
Receivables from domestic sales	860	1,171
Taxes paid in advance	143	145
Prepayments to customs	111	126
Other accounts receivable	861	806
Total accounts receivable and prepayments	**6,774**	**5,377**

A provision for impairment of RR 490 million at 31 December 2005 (31 December 2004 – RR 510 million) has been made against the receivables from domestic sales to reduce them to their estimated recoverable value. The decrease in the provision of RR 20 million during the year ended 31 December 2005 (year ended 31 December 2004 – increase of RR 1 million) was recognised in the consolidated statement of income as a component of selling, general and administrative expenses.

(in millions of Russian roubles, unless otherwise stated)

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 396 million (31 December 2004 – RR 232 million). The increase in the provision of RR 164 million during the year ended 31 December 2005 (in 2004 – RR 60 million) was recognised in the consolidated statement of income as a component of selling, general and administrative expenses.

Note 7 Inventories

	31 December 2005	31 December 2004
Finished goods and work in progress	2,260	1,987
Raw materials	1,505	1,345
Materials and supplies	1,397	1,054
Total inventories	**5,162**	**4,386**

RR 407 million and RR 1,068 million of finished goods and work in progress were pledged as security for borrowings at 31 December 2005 and 2004, respectively (see Note 10).

Materials and supplies are presented net of provision for obsolescence of RR 32 million at 31 December 2005 (31 December 2004 - RR 28 million). The increase in the provision of RR 4 million (in 2004 – increase of RR 10 million) was recognised in the consolidated statement of income as component of cost of sales.

Note 8 Investments in associates and non-current financial assets

Investments in associates

	Year ended 31 December 2005	Year ended 31 December 2004
Balance at the beginning of the year	**1,586**	**897**
Additions	41	1,660
Disposals	(155)	(1,039)
Share of net results for the year	124	86
Dividends	(23)	(18)
Balance at the end of the year	**1,573**	**1,586**

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

Associate	Amount of investment		Ownership percentage		Share of net profit (loss) for year ended	
	31 Dec 2005	31 Dec 2004	31 Dec 2005	31 Dec 2004	31 Dec 2005	31 Dec 2004
KB Intechbank	139	134	32.47%	32.47%	5	4
SP Elastokam	114	103	50.00%	50.00%	11	5
Nizhnekamsk Oil Refinery	-	94	-	25.00%	9	28
Tatneftekhiminvest-holding	160	77	7.30%	7.30%	83	53
Kaminterkhim	-	-	40.00%	-	(26)	-
Tatfundbank	180	189	5.19%	7.37%	(9)	7
AK Bars Bank	734	696	7.49%	7.49%	38	25
Karpov Plant	96	100	33.10%	32.50%	(4)	(7)
Spurt Bank	147	173	14.05%	16.35%	17	(4)
Other	3	20	Various	Various	-	(25)
Total	**1,573**	**1,586**			**124**	**86**

(in millions of Russian roubles, unless otherwise stated)

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 January 2005 the Group purchased 40% of outstanding shares of OOO Kaminterkhim from OAO Tatneft affiliated companies for RR 26 million, however, because the company had negative net assets the investment was fully impaired. OOO Kaminterkhim rents its equipment to the Company which uses it in the MTBE (Methyl-tret-butyl ether) production process.

In March 2005 the Group sold 2.3% of Spurt bank shares to a group of external companies at book value for RR 23 million for cash consideration.

Nizhnekamsk Oil refinery was formed in 1997 and the Group acquired a 25% interest in the refinery for RR 2,5 million (historical cost at the date of acquisition). In December 2005 the Group sold its 25% interest in Nizhnekamsk Oil Refinery to OAO Tatneft for cash consideration in the amount of RR 11 million. This transaction resulted in a loss of RR 88 million as the carrying value of the investment in the refinery at the date of disposal was RR 99 million.

Non-current financial assets

Description	Nature of operations	31 December 2005	31 December 2004
Long term portion of ZAO TAIF-NK note receivable	Sale of MDH unit	2,726	-
Loan to Tatneft-NKNK-Oil (associate)	Motor oil venture	229	339
Available-for-sale investments	Various	89	123
Other non-current financial assets	Various	561	274
Total		**3,605**	**736**

In September 2005 the Group sold its MDH unit (see Note 9) to ZAO TAIF-NK (the Group related party, see Note 14) for a note receivable in the amount of RR 3,977 million (sales price of RR 3,370 million plus VAT of RR 607 million), which was partially redeemed in the amount of RR 162 mln in 2005. The note bears interest at 8.0% per annum and matures in February 2007. The long term portion of the note receivable as at 31 December 2005 is RR 2,726 million, the short term portion of the note receivable as at 31 December 2005 is RR 1,089 million, total amount of the note receivable as at 31 December 2005 is RR 3,815 million.

The loan to associate Tatneft-NKNK-Oil of RR 229 million bears interest rate of 7.0% 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 until 31 August 2007. The effect of extending the maturity totalling RR 47 million was recorded in the consolidated statement of income for the year ended 31 December 2004. During 2005 a portion of this loan was paid earlier than its scheduled payment and, accordingly, RR 30 million of the previously recognized loss was recorded as interest income.

(in millions of Russian roubles, unless otherwise stated)

Note 9 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 1 January 2005					
Cost	30,551	38,478	5,198	2,114	76,341
Accumulated depreciation	(22,277)	(29,924)	-	(933)	(53,134)
Net book value at 1 January 2005	**8,274**	**8,554**	**5,198**	**1,181**	**23,207**
Depreciation for the year	(549)	(1,331)	-	(94)	(1,974)
Additions	-	-	6,788	-	6,788
Transfers	1,521	1,519	(3,201)	161	-
Disposals at cost	(14)	(4,053)	(792)	(80)	(4,939)
Impairment provision	(390)	(44)	(353)	-	(787)
Accumulated depreciation on disposals	53	891	-	44	988
Net book value at 31 December 2005	**8,895**	**5,536**	**7,640**	**1,212**	**23,283**
At 31 December 2005					
Cost	31,668	35,900	7,640	2,195	77,403
Accumulated depreciation	(22,773)	(30,364)	-	(983)	(54,120)
Net book value at 31 December 2005	**8,895**	**5,536**	**7,640**	**1,212**	**23,283**

Property, plant and equipment are presented net of an impairment provision of RR 2,879 million at 31 December 2005 (RR 2,092 million at 31 December 2004). The increase in the provision of RR 787 million was recognised in the consolidated statement of income as component of selling, general and administrative expenses.

Included in cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RR 29,356 million and RR 28,722 million at 31 December 2005 and 2004, respectively.

Included in the additions above is capitalised interest of RR 199 million for the year ended 31 December 2005 (year ended 31 December 2004 – RR 52 million).

In September 2005 the Group sold its MDH unit (classified as equipment) with a net book value of RR 3,207 million to ZAO TAIF-NK (the Group's related party) for RR 3,370 million (net of VAT). The sales price was settled by receipt of promissory notes of ZAO TAIF-NK (see Note 6 and 8). The transaction resulted in a gain of RR 163 million recognized as a component of other income.

RR 5,368 million and RR 5,390 million of property, plant and equipment at cost were pledged as security for borrowings at 31 December 2005 and 2004, respectively (see Note 10).

(in millions of Russian roubles, unless otherwise stated)

Note 10 Borrowings

	31 December 2005	31 December 2004
Bonds payable	7,277	1,692
Other borrowings	8,457	7,192
Total borrowings	**15,734**	**8,884**
Less short-term borrowings and current portion of long-term borrowings	(2,450)	(4,308)
Total long-term borrowings	**13,284**	**4,576**

Borrowings include amounts denominated in RR, USD and Euro:

	31 December 2005	31 December 2004
Borrowings in USD	12,696	5,000
Borrowings in RR	2,494	3,387
Borrowings in Euro	544	497
Total borrowings	**15,734**	**8,884**

Scheduled maturity of long-term borrowings was as follows:

	31 December 2005	31 December 2004
Due for repayment:		
Between one and two years	2,111	1,447
Between two and four years	2,636	3,129
After four years	8,537	-
Total long-term borrowings	**13,284**	**4,576**

(in millions of Russian roubles, unless otherwise stated)

Unsecured bonds payable

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

Description	Coupon	Amount
Issued 2 September 2003, maturing 2 September 2007, RR denominated	8%	2,000
Repurchased in 2003		(432)
Repurchased in 2004		(202)
Repurchased in 2005		(1,218)
Unamortized discount		(29)
Balance as at 31 December 2005		**119**
Issued 4 April 2005, maturing 26 March 2012, RR denominated	9.99%* for first 4 years	1,500
Unamortized discount		(14)
Balance as at 31 December 2005		**1,486**
Issued 22 December 2005, maturing 22 December 2015**, USD denominated	8.5% paid semi-annually	5,757
Unamortized discount		(85)
Balance as at 31 December 2005		**5,672**
Total balance as at 31 December 2005		**7,277**

*- bond bears interest of 9.99% per annum for the first four years. After which the Company is able to set a new rate it is willing to pay. This new rate will be announced in advance. After the announcement of the new rate the bond holders have the option to continue to hold the bonds or put them back to the Company.

** - holders of the bonds have option to redeem the bonds int 2010.

Other borrowings

The other borrowings received by the Group:

Borrowing facilites	Currency	Year of redemption	31 December 2005	31 December 2004
Citibank N.A.	USD	2009	1,928	639
Citibank (OPIC)	USD	2012	1,284	-
Sberbank RF Moscow	USD	2011	1,151	805
Citibank N.A. (SACE)	USD	2013	898	126
Eximbank	USD	2008	888	1,199
Citibank (GOVCO)	USD	2013	350	-
Sberbank RF Kazan	USD	2011	288	278
Commercebank Moscow	USD	2006	86	417
OAO Svyazinvestneftekhim	RR	2014	-	500
Raiffeisen bank Austria	USD	2007*	-	277
Moscow International bank	USD	2007*	-	222
Sberbank RF Moscow	USD	2006*	-	206
Other	Various	Various	1,584	2,523
Total other borrowings			**8,457**	**7,192**

*- These borrowings were repaid in advance of scheduled maturity with proceeds from the December 2005 bonds issue. The total amount of borrowings repaid in 2005 after the December 2005 bonds issue was RR 1,637 million.

(in millions of Russian roubles, unless otherwise stated)

Citibank N.A. From January to July 2005 the Group obtained an additional financing from a consortium of banks under management of Citibank N.A. for USD 44.0 million. The outstanding amount of the loan was USD 67.0 million (RR 1,928 million) at 31 December 2005 (31 December 2004 – USD 23.0 million (RR 639 million)).

Citibank (OPIC). In April 2005 the Company entered into an agreement with Citibank to obtain US dollar denominated credit facilities for USD 45.0 million. The loan is guaranteed by OPIC and secured by supply commitments (see Note 20). The loan is repayable in twenty one equal quarterly instalments commencing January 2007. The use of this facility is restricted to the financing of the polystyrene plant and capital expenditures. The outstanding amount of the loan was USD 44.6 million (RR 1,284 million) at 31 December 2005.

Sberbank RF Moscow. From January to August 2005 the Group received additional financing from Sberbank R.F. for USD 11.0 mln. Total amount of this loan is USD 40.0 million. This loan is secured by fixed assets, finished goods, promissory notes and shares. The outstanding amount of the loan was USD 40.0 million (RR 1,151 million) at 31 December 2005 (31 December 2004: USD 29.0 million (RR 805 million).

Citibank N.A. (SACE). In 2005 the Group received financing from Citibank N.A. (SACE) for USD 26.7 million. Total amount of this loan is USD 65.0 million. The loan is guaranteed by SACE and secured by property, plant and equipment. The outstanding amount of the loan was USD 31.2 million (RR 898 million) at 31 December 2005 (31 December 2004: USD 4.5 million (RR 126 million).

Eximbank. In 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 30.9 million (RR 888 million) at 31 December 2005 (31 December 2004 – USD 43.2 million (RR 1,199 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 percent of the loan balance. Interest is payable on 15 September and 15 March of each year. The loan is secured by the property, plant and equipment. According to the terms of loan agreement the Group is required to maintain a collateral account with Citibank, New York, to repay loan principal and interest.

Citibank (GOVCO). In December 2004, the Group entered into an additional US dollar denominated loan agreement with Citibank (GOVCO) and Eximbank for the total amount of USD 14.0 million, whereby in 2005 GOVCO provided financing for the purchase of equipment and services. The loan principal is repayable in 14 equal semi-annual instalments commencing 25 March 2007. Citibank serves as the agent for the lender (GOVCO). The outstanding amount of the loan was USD 12.2 million (RR 350 million) at 31 December 2005.

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

	31 December 2005	**31 December 2004**
US$ denominated floating rate	8.2%	5.2%
US$ denominated fixed rate	7.7%	5.8%
RR denominated bonds	9.8%	11.9%
RR denominated fixed rate	11.1%	5.0%

The low average effective interest rate at 31 December 2004 in respect of RR denominated fixed rate borrowings is explained by the fact that at 31 December 2004 the Company had outstanding loan from a related party, OAO Svyazinvestneftekhim, in the amount of RR 500 million with an interest rate of 0.015% per annum.

Certain loan agreements entered by the Group are secured by supply commitments, which are trading financial agreements in substance (see Note 20), property, plant and equipment (see Note 9) and inventory (see note 7). Additionally, various loan agreements require the Group to maintain certain minimum financial ratios.

(in millions of Russian roubles, unless otherwise stated)

Note 11 Accounts payable and accrued liabilities

	31 December 2005	31 December 2004
Trade accounts payable	4,069	2,600
Advances from customers	1,233	1,361
Salaries payable	228	204
Reserve for holidays (payroll)	201	161
Dividends payable	184	118
Accrued interest	111	55
Other	606	361
Total accounts payable and accrued liabilities	**6,632**	**4,860**

Note 12 Taxes payable

	31 December 2005	31 December 2004
VAT (including deferred)	940	198
Income tax	240	464
Other taxes	206	244
Total taxes payable	**1,386**	**906**

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

Note 13 Shareholders' equity and earnings per share

Share capital at 31 December 2005 and 2004:

	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 2005 and 2004	**1,830,239,750**	**6,332**
Treasury shares		
Treasury shares at 31 December 2003	**(132,593,805)**	**(459)**
Net purchases of treasury shares in 2004	(247,343,271)	(856)
Treasury shares at 31 December 2004	**(379,937,076)**	**(1,315)**
Net purchases of treasury shares in 2005	(22,876,925)	(79)
Treasury shares at 31 December 2005	**(402,814,001)**	**(1,394)**

Earnings per share

	Year ended 31 December 2005	Year ended 31 December 2004
Profit attributable to parent company shareholders	1,043	2,639
Weighted average number of participating shares, adjusted for treasury shares	1,440,673,335	1,552,424,738
Earnings (basic and fully diluted) per participating share (RR per share)	**0.72**	**1.70**

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 entities related to the Group

As at 31 December 2004 the Group had 379,937,076 treasury shares owned by wholly-owned partnership, Polymer NKNK and Co. and other Group entities.

During 2005 a company, established by NKNK 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. NKNK management and Co continued to acquire shares of the Group throughout 2005.

As at 31 December 2005 Group entities had ownership of 402,814,001 treasury shares. Of these shares, 78,951,544 were pledged as collateral for the Sberbank RF Moscow loan of RR 1,151 mln as at 31 December 2005 (see Note 10). In February 2006 this loan was redeemed and the shares were released from the pledge. See Note 21 Events After the Balance Sheet Date for further discussion of treasury shares transfer.

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.

(in millions of Russian roubles, unless otherwise stated)

Dividends and distributable reserves

Dividends declared:

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

For the year ended 31 December 2004, approved in the annual general shareholders' meeting held on 22 April 2005:

Per ordinary share in RR	0.185
Per preferred share in RR	0.185

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 2005, approved in the annual general shareholders' meeting on 28 April 2006:

Per ordinary share in RR	0.177
Per preferred share in RR	0.177

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 2005, the current year statutory net profit for the Company as reported in the published annual statutory reporting forms was RR 2,151 million (for 2004 – RR 3,327 million) and the closing balance of the accumulated profit including the current year statutory net profit totalled RR 9,935 million as at 31 December 2005 (as at 31 December 2004 – 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.

Note 14 Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party is under common control of 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 TAIF Group, 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 used its influence over OAO Tatneft and its subsidiaries and TAIF Group to ensure the Group received 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 received supplies of products of the Company at regulated prices, and influenced the prices charged for these supplies which were reassessed each quarter. Beginning in 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 millions of Russian roubles, unless otherwise stated)

In 2005 and 2004 the Group has transactions and balances with the following state controlled entities and government bodies which are treated as related parties by IAS 24 "Related Party Disclosures", as revised:

Related party	Description	Year ended 31 December 2005	Year ended 31 December 2004
OAO Tatenergo	Purchase of electric energy	6,021	4,504
OAO Russian Railroads	Purchase of transport services	724	542
OAO Sibur	Purchase of raw materials	487	598
Custom authorities	Custom fees and custom services	162	206
OAO Sibur	Sales of services on processing of rubber and sale of petrochemical products	371	568
Local municipal authorities and government bodies	Various purchases	60	16

Purchases from and sales to other related parties include:

Related party	Description	Year ended 31 December 2005	Year ended 31 December 2004
OAO Tatneft, ZAO TAIF-NK and OAO Tatneft-Resource	Purchase of naphtha and other raw materials	6,416	1,293
OAO Niznekamskshina, OAO Tatneft-Neftekhimsnab and URNIN Tatneft	Sale of synthetic rubber and other products	3,097	2,265

During 2005 the Group sold its 25% interest in Nizhnekamsk Oil Refinery and its MDH unit to related parties (See Notes 8 and 9).

Balances due to or from the above related parties, excluded those balances mentioned separately in these consolidated financial statements (see Note 6, 8 and 10), include:

Item	31 December 2005	31 December 2004
Cash and cash equivalents	-	31
Accounts receivable	323	462
Loans received	-	884
Accounts payable and accrued liabilities	535	142

Transactions and balances with associates

Sales to associates in 2005 were RR 277 million (year ended 31 December 2004 – RR 497 million), and purchases from them in 2005 were RR 51 million (year ended 31 December 2004 - RR 49 million).

The processing fee paid to Nizhnekamsk Oil Refinery in 2005 was RR 653 million (year ended 31 December 2004 – RR 452 million). Sales to Nizhnekamsk Oil Refinery in 2005 for totalled RR 587 million (year ended 31 December 2004 – RR 392 million).

Balances with associates were as follows:

Item	31 December 2005	31 December 2004
Cash and cash equivalents	194	229
Loans received	153	544
Accounts receivable	65	127
Accounts payable and accrued liabilities	22	127

(in millions of Russian roubles, unless otherwise stated)

In April 2004 the Group entered into guarantee agreement with Spurt bank for a bonded loan in the amount of RR 500 million, under terms of which the Group guarantees payment in case of default of the bonds' issuer (see Note 20).

Shares owned by directors and senior management

The total number of shares owned directly by the directors and senior management comprised 3,622,375 ordinary and 802,800 preferred shares (in total approximately 0.24% of the Company's share capital) at 31 December 2005 (at 31 December 2004 – 5,538,875 ordinary and 800,300 preferred shares (in total approximately 0.35% of the Company's share capital)).

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 selling, general and administrative expenses, amounted to RR 148 million for the year ended 31 December 2005 (year ended 31 December 2004 – RR 76 million).

Note 15 Cost of sales

	Year ended 31 December 2005	Year ended 31 December 2004
Raw materials	22,216	16,027
Energy and fuel	6,545	5,043
Personnel costs	3,303	2,855
Depreciation	1,900	1,916
Services and other	1,863	1,738
Repairs and maintenance	747	783
Unified social tax	721	777
Taxes other than income tax	620	529
Rental payment for land	237	242
Impairment provision for obsolete stock	4	10
Total cost of sales	**38,156**	**29,920**

(in millions of Russian roubles, unless otherwise stated)

Note 16 Selling, general and administrative expenses

	Year ended 31 December 2005	Year ended 31 December 2004
Transportation expenses	1,584	1,102
Maintenance of social infrastructure	944	827
Impairment provision on fixed assets	787	-
Personnel costs	715	342
Materials	547	372
Insurance	379	283
Custom duties	162	206
Unified social tax	145	99
Bad debt expense	144	61
Legal provisions (see Note 20)	121	-
Repairs and maintenance	121	78
Depreciation	74	47
Fire security	46	56
Other	1,052	931
Total selling, general and administrative expenses	**6,821**	**4,404**

Depreciation totaling RR 1,974 million (year ended 31 December 2004 – RR 1,963 million) and personnel costs totaling RR 4,018 million (year ended 31 December 2004 – RR 3,197 million) were included in the consolidated statement of income in the year.

The impairment provision on fixed assets primarily related to write downs taken on an ice sports complex constructed by the Group in the amount of RR 350 million and the write off of reconstruction costs related to the Kazan Kremlin, as part of the 1000th anniversary of Kazan city, in the amount of RR 344 million (see Note 9). Both of those projects were undertaken in association with the Government of the Republic of Tatarstan.

Note 17 Income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2005	Year ended 31 December 2004
Current income tax expense	1,438	1,381
Deferred income tax benefit	(103)	(316)
Total income tax expense	**1,335**	**1,065**

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 2005 and 2004 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, unless otherwise stated)

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 2005	Year ended 31 December 2004
Profit before taxation	2,260	3,745
Theoretical tax charge at statutory rate of 24%	542	899
Tax effects of items not deductible or assessable for taxation purposes:		
Non-taxable income	(29)	(47)
Non-deductible expenses	822	321
Revaluation of tax base	-	(108)
Total income tax expense	**1,335**	**1,065**

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 (2004 - 24 percent).

	31 December 2003	Tax effect of movement in temporary differences	31 December 2004	Tax effect of movement in temporary differences	31 December 2005
Property, plant and equipment	1 095	(263)	832	-	832
Inventories	138	(22)	116	(36)	80
Catalysts	53	(6)	47	(47)	-
Long-term loans	21	(7)	14	21	35
Long-term investments	56	15	71	2	73
Accounts receivable and prepayments	(70)	(3)	(73)	(12)	(85)
Accruals	(5)	(34)	(39)	(35)	(74)
Deferred income	(37)	4	(33)	4	(29)
Net deferred income tax liability	**1 251**	**(316)**	**935**	**(103)**	**832**

The Group has not recognised any 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 18 Principal subsidiaries

Subsidiary	Business	Percentage of voting interest held 31 December 2005	31 December 2004
OOO Neftekhimagroprom	Agricultural	100%	100%
OOO Neftekhim-Invest	Asset management	100%	-
OOO Trest TSNKhRS	General equipment repairs and construction	100%	100%
OOO Nizhnekamskneftekhim - Service	Wholesale and retail trade	100%	100%
OOO UOP Neftehim	Food supplies and catering	100%	100%
OOO Transport-express	Transportation	100%	100%
OOO SCC Neftekhimik	Ice sports complex	93%	-
OAO Neftekhimsevilen	Plastic products	51%	51%
OY Nizhex Scandinavia Ltd	Sale of petrochemicals	50%	50%
OOO Nizhnekamskneftekhim -Divinil	Butadiene production	50%	50%

As at 31 December 2005 and 2004 the percentage of ownership interest of the Group in its 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.

OOO SCC Neftekhimik was created in November 2005 for the recently constructed ice sports complex in Nizhnekamsk. See details of impairment in Note 16. In December 2005 the Group transferred a 7.3% share in OOO SCC Neftekhimik to the Ministry of Land and Property Relations of RT to settle a government grant amount of RR 95 million received from the Ministry of Finance of RT for the initial construction of the ice sports complex. As a result of this operation the minority interest increased by RR 67 mln.

Note 19 Financial risks

Interest rate risk

The Group obtains borrowings from and deposits surplus funds with banks at current market interest rates. The Group's income and operating cash flows dependent on changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing borrowings. As shown in Note 10 the Group has a significant portion of its borrowings that bear variable rates of interest. 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 5, 6 and 10. 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 US dollar denominated borrowings.

Fair values

The estimated fair value of financial assets carried at amortized 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 2005 and 31 December 2004. At 31 December 2005 and 31 December 2004 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 20 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 2005 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 March 2006, the Federal anti-monopoly agency issued a ruling in the amount of RR 71 million against the Group for the overstatement of tariffs for ethylene transportation through the Company's pipeline. Additionally, in January 2006, Tatenergo issued a claim to the Group for additional charges for 2005 heating services provided by OAO Tatenergo to the Company, and in April 2006 the Arbitration court of the Republic of Tatarstan issued a ruling in the amount of RR 121 million against the Company. The Group has the right to appeal this decision and continues to discuss a settlement of this dispute with OAO Tatenergo. Management of the Group believe an amicable agreement with OAO Tatenergo is the most probable outcome. Although management of the Group continues to challenge these decisions through the legal process, the Group has made a provision in the consolidated financial statements in the amount of RR 121 million as at 31 December 2005 relating to both the overstatement of tariffs and the additional charges for heating services. The provision was recognised in the consolidated statement of income as a component of selling, general and administrative expenses (see Note 16).

In the opinion of management, there are no other 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 10), the Group entered into supply agreements to dispatch products to Mineraloil-Rohstoff-Handel Gmbh ("MRH"), Germany, and Nizhex. According to the terms of these supply agreements, the Group is obliged to dispatch certain products, at market rates, to MRH and Nizhex up to the value calculated on the basis of the Eximbank loan agreement. At 31 December 2005, the Group's remaining supply commitment under this agreement is RR 630 million (USD 21.9 million) (31 December 2004 – RR 1,163 million (USD 41.9 million)).

Under the terms of the loan agreement with Commercebank (see Note 10) the Group entered into a supply agreement with Helm AG, according to which the Group is obliged to dispatch certain products at market rates. As at 31 December 2005 the Group's remaining commitment under the contract was RR 280 million (USD 9.7 million) (31 December 2004 – RR 1,479 million (USD 53.3 million)).

According to a credit line agreement from a consortium of banks, led by Citibank (see Note 10) the Group has entered into supply agreements with Ameropa AG and Pegasus Pollymers International Inc. to supply petrochemical products at market rates. As at 31 December 2005 the Group's remaining commitment under the contract was RR 3,814 million (USD 132.5 million) (31 December 2004 – RR 3,552 million (USD 128 million)).

In April 2005 the Company entered into an agreement with Citibank (see Note 10) to obtain US dollar denominated credit facilities for USD 45 million. The loan is guaranteed by OPIC and the Group entered into agreement with Sawex and Nizhex-Scandinavia Ltd., according to which it is obliged to dispatch certain products at market rates. As at 31 December 2005 the Group's remaining commitment under the contract was RR 3,027 million (USD 105.2 million).

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 2005 is RR 617 million (31 December 2004 – RR 819 million).

Financial commitments

The Group has uncovered letters of credit as at 31 December 2005 for RR 317 million (RR nil – as at 31 December 2004).

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 2005 and 2004 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 21 Events After the Balance Sheet Date

Transfer of treasury shares to trust management

In March 2006 NKNK-Service, a Group entity, contributed its 79,632,294 shares to the Partnership NKNK-management and Co. On 28 April 2006 the Company's Board of Directors approved the transfer of 402,814,001 shares belonging to NKNK-management and Co to OOO TAIF-Invest for trust management for the period of 5 years. Under the trust agreement although NKNK-management and Co. still owns the shares, OOO TAIF-Invest is permitted to manage and vote these shares. Subsequent to this trust agreement the total number of shares under the OOO TAIF-Invest trust management is 805,628,000 or 44.0% of share capital.

Redemption of borrowings

After the bonds issue on 23 December 2005 the Group issued irrevocable payment notice on early redemption of the following loans: (1) portion of the loan from the consortium of banks under management of Citibank N.A. in the amount of USD 65 million, (2) the Commercebank loan in the amount of USD 3 million and (3) two Sberbank loans totalling USD 50 million (see Note 10). The loan from the consortium of banks under management of Citibank N.A. and the Commercebank loan were redeemed on 17 January 2006 and the Sberbank loans were redeemed on 6 February 2006.