NIZHNEKAMSKNEFTEKHIM GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO Nizhnekamskneftekhim

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

7. Without qualifying our opinion, we draw your attention to Note 15 to the consolidated financial statements, which indicates that the Group had extensive transactions with related parties.

Moscow, Russian Federation
27 June 2007

(in millions of Russian roubles, unless otherwise stated)

Consolidated Balance Sheet

	Note	31 December 2006	31 December 2005
Assets			
Current assets			
Cash and cash equivalents	5	569	4,790
Trade accounts receivable and other receivables	6	5,142	3,706
Inventories	8	6,598	5,162
VAT receivable		1,157	1,921
Other current assets	7	2,199	1,367
Total current assets		**15,665**	**16,946**
Non-current assets			
Restricted cash	5	418	447
Investments in associates	9	1,703	1,573
Non-current financial assets	9	538	3,605
Property, plant and equipment	10	27,222	23,283
Total non-current assets		**29,881**	**28,908**
Total assets		**45,546**	**45,854**
Liabilities and Equity			
Current liabilities			
Current borrowings and current portion of non-current borrowings	11	3,006	2,450
Accounts payable and accrued liabilities	12	6,712	6,632
Income tax payable		15	240
Taxes other than income payable	13	791	1,146
Total current liabilities		**10,524**	**10,468**
Non-current liabilities			
Non-current borrowings	11	10,819	13,284
Deferred tax liability	19	569	832
Deferred income		120	148
Other non-current liabilities		55	91
Total non-current liabilities		**11,563**	**14,355**
Total liabilities		**22,087**	**24,823**
Equity attributable to parent company shareholders			
Share capital	14	6,332	6,332
Treasury shares	14	(1,394)	(1,394)
Currency translation reserve		11	6
Retained earnings		17,544	15,142
Total equity attributable to parent company shareholders		**22,493**	**20,086**
Minority interests		**966**	**945**
Total equity		**23,459**	**21,031**
Total liabilities and equity		**45,546**	**45,854**

Vladimir M. Busygin
General Director

Ilfar R. Yakhin
Chief Accountant

27 June 2007

The accompanying notes on pages 8 to 33 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Income Statement

	Note	2006	2005
Revenues			
Product sales	16	51,950	45,616
Processing fees		606	895
Transportation recharges		472	621
Other income		861	850
Total revenues and other income		**53,889**	**47,982**
Operating expenses			
Cost of sales	17	(43,733)	(38,156)
Selling, general and administrative expenses	18	(6,658)	(6,734)
Total operating expenses		**(50,391)**	**(44,890)**
Operating profit		**3,498**	**3,092**
Financial income/(expenses)			
Exchange gain/(loss), net		852	(363)
Interest income		277	139
Interest expense		(1,072)	(732)
Total financial income/(expenses)		**57**	**(956)**
Share of net results of associates	9	**262**	**124**
Profit before taxation		**3,817**	**2,260**
Income tax expense	19	(1,038)	(1,335)
Profit for the year		**2,779**	**925**
Profit/(loss) attributable to:			
Parent company shareholders		2,713	1,043
Minority interests		66	(118)
Profit for the year		**2,779**	**925**
Earnings (basic and fully diluted) per participating share (Russian roubles per share)	14	**1.90**	**0.72**

The accompanying notes on pages 8 to 33 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	2006	2005
Cash flows from operating activities		
Cash receipts from customers	59,643	46,618
Cash paid to suppliers and employees, and taxes other than on income	(54,328)	(41,408)
Interest paid	(1,205)	(791)
Income tax paid	(1,083)	(1,307)
Change in restricted cash	(29)	61
Net cash from operating activities	**2,998**	**3,173**
Cash flows from investing activities		
Proceeds from sale of interests in associates	-	103
Loans given	(50)	(20)
Proceeds from sale of third party promissory notes	114	28
Proceeds from sale of property, plant and equipment	960	203
Purchase of property, plant and equipment	(6,797)	(5,998)
Dividends and interest received	44	86
Net cash used in investing activities	**(5,729)**	**(5,598)**
Cash flows from financing activities		
Proceeds from long and short-term borrowings	15,809	20,399
Repayment of long and short-term borrowings	(16,966)	(13,533)
Dividends paid	(351)	(164)
Purchases of treasury shares	-	(501)
Net cash (used for)/received from financing activities	**(1,508)**	**6,201**
Net (decrease)/increase in cash and cash equivalents before the effects of exchange rate changes	**(4,239)**	**3,776**
Effect of exchange rate changes	18	(6)
Net (decrease)/increase in cash and cash equivalents	**(4,221)**	**3,770**
Cash and cash equivalents at the beginning of the year	4,790	1,020
Cash and cash equivalents at the end of the year	**569**	**4,790**

The accompanying notes on pages 8 to 33 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Share capital	Treasury shares	Retained earnings	Currency translation reserve	Total equity attributable to the Company's equity holders	Minority interest	Total equity
Balance at 31 December 2004	**6,332**	**(1,315)**	**14,756**	**34**	**19,807**	**1,059**	**20,866**
Currency translation adjustment	-	-	-	(28)	(28)	(28)	(56)
Net loss recognised directly in equity	-	-	-	(28)	(28)	(28)	(56)
Profit for the year	-	-	1,043	-	1,043	(118)	925
Total recognized profit for the year	-	-	1,043	(28)	1,015	(146)	869
Treasury shares purchases (see Note 14)	-	(79)	(422)	-	(501)	-	(501)
Capital contribution and other	-	-	34	-	34	67	101
Dividends*	-	-	(269)		(269)	(35)	(304)
Balance at 31 December 2005	**6,332**	**(1,394)**	**15,142**	**6**	**20,086**	**945**	**21,031**
Currency translation adjustment	-	-	-	5	5	5	10
Net profit recognised directly in equity	-	-	-	5	5	5	10
Profit for the year	-	-	2,713	-	2,713	66	2,779
Total recognized profit for the year	-		2,713	5	2,718	71	2,789
Dividends *	-	-	(311)	-	(311)	(50)	(361)
Balance at 31 December 2006	**6,332**	**(1,394)**	**17,544**	**11**	**22,493**	**966**	**23,459**

* - The amount of dividends has been adjusted to exclude dividends attributable to treasury shares.

The accompanying notes on pages 8 to 33 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, a 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 20 (the "Group") are principally engaged in the production and sale of petrochemicals within the Republic of Tatarstan. The Group employed an average of 24,796 and 25,073 employees during the years ended 31 December 2006 and 2005, respectively.

The main shareholders of the Company as at 31 December 2006 are: OAO Svyazinvetsneftekhim (100% owned by the Republic of Tatarstan) (31 December 2006 - 25.2% of share capital; 31 December 2005 – 25.2% of share capital); and the TAIF Group (31 December 2006 - 22.5% of share capital; 31 December 2005 – 22.5% of share capital). Additionally, 22.0% of the Company's share capital as at 31 December 2006 are accounted for as treasury shares as they are held by Group subsidiaries (22.0% of the share capital - 31 December 2005). In November 2005 OAO Svyazinvestneftehim transferred under a trust management agreement its interest in 25.2% of the Company's share capital to a member of the TAIF Group. This trust management agreement is for a period of five years and permits OOO TAIF-Invest to manage and vote these shares. As a consequence of the above, currently the TAIF Group controls the Company.

Management considers the Group to have a single main activity since all its manufacturing facilities are located in Nizhnekamsk and none of its main products or the associated assets are large enough to constitute a separate business segment. The Group's primary format for reporting segment information is business segments, and its secondary format is geographic segments. Approximately 57% of total sales during 2006 (for 2005 – 55%) were made to customers in export markets (see Note 16). 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 Global 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") under the historical cost convention. 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

The prepayments to suppliers for amount of RR 893 million, tax prepayments for amount of RR 143 million and prepayments to custom for amount of RR 111 million as at 31 December 2005 were reclassified from trade accounts receivable and other receivables to other current assets. 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 pronouncements and revised standards

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of

Note 2 Basis of preparation (continued)

their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2005, unless otherwise described below.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group may now designate financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's Board of Directors; or (c) a contract contains one or more embedded derivatives unless: (i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis when the embedded derivative is first considered that separation of the embedded derivative(s) is prohibited. The Group applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. The amendment did not have an impact on these financial statements.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. The Group does not apply hedge accounting and therefore the amendment did not have an impact on these financial statements.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (eg quasi-equity intercompany loans) to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment did not have a significant impact on these financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment did not have a significant impact on these financial statements.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. This interpretation did not have a significant impact on these financial statements.

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2006, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised until the measurement period because participation in the market during the measurement period is the obligating event in accordance with IAS 37. This interpretation did not have a significant impact on these financial statements.

Note 2 Basis of preparation (continued)

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements. This standard did not have a significant impact on these financial statements.

Effect of Adoption. The effect of adoption of the above new or revised standards and interpretations on the Group's financial position at 31 December 2006 and 31 December 2005 and on the results of its operations for the years then ended was not significant.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the new IFRS will have on disclosures in its financial statements.

IAS 23 (Revised), Recognition of Borrowing Costs. The revision removed the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Group is currently assessing what impact this revision will have to the Group's financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations: IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007); IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007); IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006); IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006); IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007); IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, 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. Management have estimated that if discount rates were reduced from an average 12.1% to 10.0%, then the carrying value of property, plant and equipment would have to increase by RR 26 million. Additionally, management have estimated that if future cash flows were to be reduced by 5.0% then the carrying value of property, plant and equipment would have to reduce by RR 28 million.

Note 3 Critical accounting estimates (continued)

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 other current assets. Management has determined the fair value of other current assets, based on an assessment of their recoverability and future expected cash flows.

Estimation of provision in respect of payments to employees on retirement. Management has determined that certain lump sum payments to employees on retirement constitute neither a legal or constructive obligation to the Group. Consequently, no provision in respect of post-employment benefits has been created. Management continues to review such programmes and continues to assess whether they give rise to a legal or constructive obligation. If a constructive obligation were to have been assessed to have arisen as of the beginning of the period then a provision of approximately RR 50 to 70 million would have needed to be recorded.

Deferred income tax asset recognition. The 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. Management has estimated that if estimated future earnings of entities with deferred tax assets were to be reduced by 5% then deferred tax assets would not be reduced significantly. 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 (“associates”) are accounted for by the equity method of accounting. Under this method the Group’s share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. 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.

Note 4 Summary of significant accounting policies (continued)

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. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

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

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as liability and asset. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Note 4 Summary of significant accounting policies (continued)

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	2-10

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.

Note 4 Summary of significant accounting policies (continued)

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 2006, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 26.3311 (31 December 2005 USD 1= RR 28.7825). The official Euro to RR exchange rate at 31 December 2006, as determined by the Central Bank of the Russian Federation, was Euro (EUR) 1 = RR 34.6965 (31 December 2005 EUR 1 - 34.1850). 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.

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

(in millions of Russian roubles, unless otherwise stated)

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.

Note 4 Summary of significant accounting policies (continued)

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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.

4.14 Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

4.15 Provisions

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Note 5 Cash and cash equivalents and restricted cash

	31 December 2006	**31 December 2005**
RR denominated amounts	385	353
USD denominated amounts	111	4,129
Euro denominated amounts	73	308
Total cash and cash equivalents	**569**	**4,790**

Restricted cash amounts represents deposits, related to Group's loan agreement with Eximbank (see Note 11). These deposits totalled USD 15.9 million (RR 418 million) and USD 15.5 million (RR 447 million) at 31 December 2006 and 31 December 2005, respectively.

(in millions of Russian roubles, unless otherwise stated)

Note 6 Trade accounts receivable and other receivables

	31 December 2006	31 December 2005
ZAO TAIF-NK note receivable	2,876	1,089
Receivables from export sales (denominated in USD and Euro)	1,470	896
Receivables from domestic sales, net	664	860
Other accounts receivable, net	132	861
Total trade accounts receivable and other receivables	**5,142**	**3,706**

A provision for impairment of RR 508 million at 31 December 2006 (31 December 2005 – RR 490 million) has been made against receivables from domestic sales to reduce them to their estimated recoverable value. The increase in the provision of RR 18 million during the year ended 31 December 2006 (year ended 31 December 2005 – decrease of RR 20 million) was recognised in the consolidated income statement as a component of selling, general and administrative expenses.

Other accounts receivable are stated net of provision for impairment of RR 330 million (31 December 2005 – RR 396 million). The decrease in the provision of RR 66 million during the year ended 31 December 2006 (in 2005 – increase of RR 164 million) was recognised in the consolidated income statement as a component of selling, general and administrative expenses.

ZAO TAIF-NK note receivable

In September 2005 the Group sold its middle distillates hydrotreating ("MDH") unit to ZAO TAIF-NK (a related party of the Group, see Note 15) for an unsecured note receivable in the amount of RR 3,977 million (sales price of RR 3,370 million plus VAT of RR 607 million), of which RR 939 million and RR 162 million were repaid in 2006 and 2005, respectively. The note bears interest at 8.0% per annum and matures in February 2007, thus it is reflected in current accounts receivable. In February 2007 this note was fully redeemed for cash (see Note 23).

Note 7 Other current assets

	31 December 2006	31 December 2005
Advances to suppliers	956	893
Loan to Tatneft-NKNK-Oil	92	-
Taxes paid in advance	920	143
Prepayments to customs	16	111
Other current assets	215	220
Total other current assets	**2,199**	**1,367**

Loan to Tatneft-NKNK-Oil

The Group has an unsecured loan to its associate Tatneft-NKNK-Oil with a gross value of RR 386 million. This loan 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. Management have assessed the recoverability of this loan and reflected an impairment provision of RR 275 million, resulting in a net carrying value of RR 92 million. The impairment provision was reflected in selling, general and administrative expenses in the 2006 consolidated income statement.

(in millions of Russian roubles, unless otherwise stated)

Note 8 Inventories

	31 December 2006	31 December 2005
Finished goods and work in progress	2,426	1,906
Raw materials	2,513	1,859
Materials and supplies	1,659	1,397
Total inventories	**6,598**	**5,162**

RR 11 million and RR 407 million of finished goods and work in progress were pledged as security for borrowings at 31 December 2006 and 2005, respectively.

Raw materials are presented net of provision for obsolescence of RR 42 million at 31 December 2006 (31 December 2005 - RR 32 million). The increase in the provision of RR 10 million (in 2005 – RR 4 million) was recognised in the consolidated income statement as component of cost of sales. Carrying value of raw materials carried at net realizable value is RR 2,555 million and RR 1,891 at 31 December 2006 and 2005, respectively.

Note 9 Investments in associates and non-current financial assets

Investments in associates

	Year ended 31 December 2006	Year ended 31 December 2005
Balance at the beginning of the year	**1,573**	**1,586**
Additions	6	41
Disposals	-	(155)
Share of net results for the year	262	124
Dividends	(17)	(23)
Impairment	(121)	-
Balance at the end of the year	**1,703**	**1,573**

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

Associate	Activities of associate	Amount of investment		Ownership percentage	
		31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
KB Intechbank	Banking services	214	139	32.47%	32.47%
SP Elastokam	Production of polyurethane	121	114	50.00%	50.00%
Tatneftekhiminvest-holding	Holding company	202	160	7.30%	7.30%
Kaminterkhim	Production of chemicals	-	-	49.00%	40.00%
Tatfundbank	Banking services	181	180	5.19%	5.19%
AK Bars Bank	Banking services	728	734	3.12%	7.49%
Karpov Plant	Production of chemicals	97	96	33.10%	33.10%
Spurt Bank	Banking services	159	147	14.05%	14.05%
Other	Various	1	3	Various	Various
Total		**1,703**	**1,573**		

All associates are incorporated within the Russian Federation.

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 millions of Russian roubles, unless otherwise stated)

Note 9 Investments in associates and non-current financial assets (continued)

Summaries of the Group's share of associates' revenue, assets and liabilities for the years ended and as at 31 December 2006 and 2005 are as follows:

Associate	Share of associate revenue		Share of associate assets		Share of associate liabilities	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
KB Intechbank	175	115	1,081	880	867	741
SP Elastokam	410	254	234	175	113	61
Tatneftekhiminvest-holding	42	61	139	138	1	-
Kaminterkhim	4	1	29	25	37	32
Tatfundbank	198	129	1,565	1,079	1,385	900
AK Bars Bank	734	640	3,175	5,416	2,445	4,743
Karpov Plant	195	164	237	177	141	250
Spurt Bank	170	128	1,005	767	846	611
Other	24	19	21	18	1	1
Total	**1,952**	**1,511**	**7,486**	**8,675**	**5,836**	**7,339**

Non-current financial assets

Description	Nature of operations	31 December 2006	31 December 2005
Long term portion of ZAO TAIF-NK note receivable (see Note 6)	Sale of MDH unit	-	2,726
Loan to Tatneft-NKNK-Oil (see Note 7)	Motor oil venture	-	229
Available-for-sale investments	Various	116	89
Other non-current financial assets	Various	422	561
Total		**538**	**3,605**

Other non-current financial assets represent prepaid expenses, which will be used in the period after 31 December 2007.

(in millions of Russian roubles, unless otherwise stated)

Note 10 Property, plant and equipment

	Buildings	Equipment	Assets under construction	Other	Total
At 1 January 2005					
Cost	30,569	37,394	5,198	3,180	76,341
Accumulated depreciation	(22,294)	(28,840)	-	(2,000)	(53,134)
Net book value at 1 January 2005	**8,275**	**8,554**	**5,198**	**1,180**	**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	14	891	-	83	988
Net book value at 31 December 2005	**8,857**	**5,536**	**7,640**	**1,250**	**23,283**
At 1 January 2006					
Cost	31,686	34,816	7,640	3,261	77,403
Accumulated depreciation	(22,829)	(29,280)	-	(2,011)	(54,120)
Net book value at 1 January 2006	**8,857**	**5,536**	**7,640**	**1,250**	**23,283**
Depreciation for the year	(764)	(1,264)	-	(219)	(2,247)
Additions	637	114	6,460	251	7,462
Transfers	5,066	3,593	(8,797)	138	-
Disposals at cost	(31)	(171)	(575)	(469)	(1,246)
Impairment provision	(149)	-	(103)	-	(252)
Accumulated depreciation on disposals	10	168	-	44	222
Net book value at 31 December 2006	**13,626**	**7,976**	**4,625**	**995**	**27,222**
At 31 December 2006					
Cost	37,209	38,352	4,625	3,181	83,367
Accumulated depreciation	(23,583)	(30,376)	-	(2,186)	(56,145)
Net book value at 31 December 2006	**13,626**	**7,976**	**4,625**	**995**	**27,222**

Property, plant and equipment are presented net of an impairment provision of RR 3,131 million at 31 December 2006 (RR 2,879 million at 31 December 2005). The increase in the provision of RR 252 million in 2006 was recognised in the consolidated income statement as component of selling, general and administrative expenses, and related to specific impairments of assets whose estimated future economic returns, as measured by value in use, were not sufficient to cover their carrying value. Included in the 2006 impairment provision of RR 149 million in respect of buildings is a provision on an ice sports complex constructed by the Group (in 2005 impairment provision of RR 350 million). Following the first year of full operation of the ice sports complex management reassessed the estimate of future cash flows and consequently reflected the above provision.

Included in cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RR 32,884 million and RR 31,487 million at 31 December 2006 and 2005, respectively.

Included in the additions above is capitalised interest of RR 163 million for the year ended 31 December 2006 (year ended 31 December 2005 – RR 199 million). The effective capitalization rate in 2006 was 7.57% (in 2005 – 7.45%).

RR 3,198 million and RR 5,368 million of property, plant and equipment at carrying value were pledged as security for borrowings at 31 December 2006 and 2005, respectively (see Note 11).

Note 11 Borrowings

	31 December 2006	**31 December 2005**
Bonds payable	6,687	7,277
Other borrowings	7,138	8,457
Total borrowings	**13,825**	**15,734**
Less current borrowings and current portion of non-current borrowings	(3,006)	(2,450)
Total non-current borrowings	**10,819**	**13,284**

(in millions of Russian roubles, unless otherwise stated)

Note 11 Borrowings (continued)

Borrowings include amounts denominated in RR, USD and Euro:

	31 December 2006	31 December 2005
Borrowings in USD	10,298	12,696
Borrowings in RR	2,134	2,494
Borrowings in Euro	1,393	544
Total borrowings	**13,825**	**15,734**

Scheduled maturity of non-current borrowings was as follows:

	31 December 2006	31 December 2005
Due for repayment:		
Between one and two years	1,261	2,111
Between two and four years	1,609	2,636
After four years	7,949	8,537
Total non-current borrowings	**10,819**	**13,284**

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)
Repurchased in 2006		(127)
Unamortized discount		(12)
Balance as at 31 December 2006		**9**
Issued 4 April 2005, maturing 26 March 2012, RR denominated	9.99%* for first 4 years	1,500
Unamortized discount		(12)
Balance as at 31 December 2006		**1,488**
Issued 22 December 2005, maturing 22 December 2015**, USD denominated	8.5% paid semi-annually	5,266
Repurchased in 2006		-
Unamortized discount		(76)
Balance as at 31 December 2006		**5,190**
Total balance as at 31 December 2006		**6,687**

*- 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 in 2010.

(in millions of Russian roubles, unless otherwise stated)

Note 11 Borrowings (continued)

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**

(in millions of Russian roubles, unless otherwise stated)

Note 11 Borrowings (continued)

Other borrowings

The other borrowings received by the Group:

Borrowing facilities	Interest rate descrip-tion	Currency	Year of redemption	31 December 2006		31 December 2005	
				Current portion	Non-current portion	Current portion	Non-current portion
Current borrowings							
Nordea (credit line of Oy.Nizhex Scandinavia Ltd.)	Floating	EUR	2007	535	-	21	150
Non-current borrowings							
Citibank N.A.	Floating	USD	2009**	515	601	-	-
Citibank N.A.	Floating	USD	2008*	-	-	643	1,291
Citibank (OPIC)	Floating	USD	2012**	169	1,016	-	1,275
Sberbank RF Moscow	Fixed	USD	2011*	-	-	-	1,151
Citibank N.A. (SACE)	Fixed	USD	2013	237	1,306	-	1,011
Eximbank	Floating	USD	2008	325	162	340	548
Citibank (GOVCO)	Floating	USD	2013	54	324	-	350
Sberbank RF Kazan	Fixed	USD	2011*	-	-	14	14
Commercebank – Moscow	Floating	USD	2006*	-	-	86	-
HVB Bank (SLA 04)	Floating	EUR	2015	16	246	-	-
IMB	Floating	EUR	2010**	-	354	-	-
Other	Various	Various	Various	1,146	133	1,346	217
Total other borrowings				**2,997**	**4,142**	**2,450**	**6,007**

*- These borrowings were repaid in advance of scheduled maturity with proceeds from the December 2005 bonds issue. The total amount of borrowings repaid in 2006 after the December 2005 bonds issue was RR 3,107 million
** - These borrowings were repaid in advance of scheduled maturity in February 2007 (See Note 23).

Citibank N.A. In December 2005 the Group entered into a loan agreement for USD 44.0 million. The loan is secured by supply commitments (see Note 22). The outstanding amount of the loan was USD 42.4 million (RR 1,116 million) at 31 December 2006 (31 December 2005 – USD nil (RR nil)).

Citibank N.A. The loan was repaid in January 2006 ahead of schedule. The outstanding amount of the loan as at 31 December 2005 was USD 67.0 million (RR 1,934 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 22). The use of this facility is restricted to the financing of capital expenditures in respect of the Group's polystyrene plant and other capital assets. The outstanding amount of the loan was USD 45.0 million (RR 1,184 million) at 31 December 2006 (31 December 2005 – USD 44.6 million (RR 1,284 million).

Sberbank RF Moscow. Total amount of this loan is USD 40.0 million. This loan is secured by property, plant and equipment, finished goods, promissory notes and shares. The loan was repaid in February 2006 ahead of schedule. The outstanding amount of the loan as at 31 December 2005 was USD 40.0 million (RR 1,151 million).

(in millions of Russian roubles, unless otherwise stated)

Note 11 Borrowings (continued)

Citibank N.A. (SACE). In 2005 the Group received financing from Citibank N.A. (SACE) for USD 23.4 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 58.6 million (RR 1,543 million) at 31 December 2006 (31 December 2005 - USD 31.2 million (RR 1,011 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 18.5 million (RR 487 million) at 31 December 2006 (31 December 2005 – USD 30.9 million (RR 888 million). Citibank serves as the agent for the consortium and Eximbank provides the consortium a guarantee for 85 percent of the loan balance. The loan is secured by the property, plant and equipment and supply commitments. 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 14.4 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 14.4 million (RR 378 million) at 31 December 2006 (31 December 2005 – USD 12.2 million (RR 350 million).

HVB Bank. The Group obtained new credit lines under contracts signed in August 2005 for a total amount of EUR 33 million. During 2006 EUR 12.6 million(RR 436 million) was received by the Group. The major portion of the credit is to be repaid by 2015.

MMB Bank. In August 2005 the Group signed a credit line to finance the modernisation of the Ethelene plant in the total amount of EUR 13.6 million. During 2006 the Group drew down EUR 10.1 million (RR 354 million). The maturity date of this credit line is 2010.

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

	31 December 2006	31 December 2005
US$ denominated floating rate	7.7%	8.2%
US$ denominated fixed rate	7.3%	7.7%
RR denominated bonds	9.9%	9.8%
RR denominated fixed rate	9.8%	11.1%
EUR denominated floating rate	5.4%	3.0%
EUR denominated fixed rate	6.1%	-

Certain loan agreements entered by the Group are secured by supply commitments, which are trading financial agreements in substance (see Note 22), property, plant and equipment (see Note 10) and inventory (see note 8). Additionally, various loan agreements require the Group to maintain certain minimum financial ratios.

The Group has undrawn credit facilities in amount of RR 3,285 million (USD 120 million and EUR 3.6 million) at 31 December 2006 (31 December 2005 – RR 3,468 million (USD 120 million and EUR 0.4 million)).

Note 12 Accounts payable and accrued liabilities

	31 December 2006	31 December 2005
Trade accounts payable	4,012	4,069
Advances from customers	1,860	1,233
Salaries payable	255	228
Vacation pay accrual	253	201
Dividends payable	82	184
Accrued interest	103	111
Other	147	606
Total accounts payable and accrued liabilities	**6,712**	**6,632**

Note 13 Taxes other than income payable

	31 December 2006	31 December 2005
VAT (including deferred)	540	940
Other taxes	251	206

(in millions of Russian roubles, unless otherwise stated)

Total taxes other than income payable	**791**	**1,146**

Note 14 Shareholders' equity and earnings per share

As of 31 December 2006 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 shares (31 December – 1,611,256,000 shares). As of 31 December 2006 the Company had authorised, issued and paid up non-voting preferred share capital of 218,983,750 shares (31 December – 218,983,750 shares).

	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 2006 and 2005	**1,830,239,750**	**6,332**
Treasury shares		
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 and at 31 December 2006	**(402,814,001)**	**(1,394)**

Earnings per share

	Year ended 31 December 2006	Year ended 31 December 2005
Profit attributable to parent company shareholders	2,713	1,043
Weighted average number of participating shares, adjusted for treasury shares	1,427,425,749	1,440,673,335
Earnings (basic and fully diluted) per participating share (RR per share)	**1.90**	**0.72**

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 2006 Group entities had ownership of 402,814,001 (402,814,001 as at 31 December 2005) shares of the Company. These have been accounted for as treasury shares.

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 millions of Russian roubles, unless otherwise stated)

Note 14 Shareholders' equity and earnings per share (continued)

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.

Additional share issue

An Extraordinary Shareholders' Meeting on 11 December 2006 approved the additional issue of 25,780,096,000 ordinary shares. This share issue has yet to be registered by the relevant Federal authorities.

Dividends and distributable reserves

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

Per ordinary share in RR	0.1850
Per preferred share in RR	0.1850

For the year ended 31 December 2005, approved in the annual general shareholders' meeting on 28 April 2006:

Per ordinary share in RR	0.1765
Per preferred share in RR	0.1765

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 2006, approved in the annual general shareholders' meeting on 26 April 2007:

Per ordinary share in RR	0.5448
Per preferred share in RR	0.5448

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 2006, the current year statutory net profit for the Company as reported in the published annual statutory reporting forms was RR 3,324 million (for 2005 – RR 2,151 million) and the closing balance of the accumulated profit including the current year statutory net profit totalled RR 12,940 million as at 31 December 2006 (as at 31 December 2005 – RR 9,935 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

Note 15 Related party transactions

For the purposes of these consolidated 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 its ability to control over the Group's activities (see Note 14), the Government of the Republic of Tatarstan is also in a position to influence OAO Tatneft and the TAIF Group, which is also ordinary shareholder in the Company and is the Group's principal supplier of raw materials. Additionally OOO Tatneft-Neftehimsnab, which is a subsidiary of OAO Tatneft, is one of the Group's largest customers.

The TAIF Group, a shareholder, has a significant influence over Group supplies of raw materials.

(in millions of Russian roubles, unless otherwise stated)

Note 15 Related party transactions (continued)

In 2006 and 2005 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”.

Transactions and balances with the ultimate controlling entity

Purchases and expenses incurred from and sales to TAIF Group companies, which is the ultimate controlling entity were:

Related party	Description	Year ended 31 December 2006	Year ended 31 December 2005
The TAIF Group (ZAO TAIF-NK, NMU-3 and other)	Purchase of materials and services	9,013	2,682
The TAIF Group (ZAO TAIF-NK, OAO Kazanorgsintez and other)	Sale of products	2,086	281

Transactions and balances with entities under common control

Purchases and expenses incurred from and sales to entities under common control are summarised below. As a consequence of the ability of the Government of the Republic of Tatarstan to control the Company, entities controlled by the government of the Russian Federation are also considered to be related parties.

Related party	Description	Year ended 31 December 2006	Year ended 31 December 2005
The Tatneft Group (URNiN Tatneft, Tatneft Neftekhimsnab and other)	Purchase of materials	926	3,738
The Tatneft Group (URNiN Tatneft, Tatneft Neftekhimsnab and other)	Sale of products	4,640	3,097
OAO Russian railroads	Purchase of transport services	773	724
OAO Sibur	Purchases of materials	320	487
OAO Sibur	Sale of products	680	371
OAO Tatenergo (including its subsidiaries)	Purchase of electric energy and heat	6,718	6,021
Gazenergoset	Purchase and sale of products	1,702	702
ZAO Tatgazinvest	Purchase of natural gas used as fuel	509	-
Astrakhanskaya toplivnaya company	Purchase of electric energy and heat	168	-
Others	Sale of products	200	-
Others	Various purchases	9	60
Customs	Custom fees and custom services	67	162

Balances due to or from the above related parties (entities under common control), excluded those balances mentioned separately in these consolidated financial statements (see Note 6 and 7), include:

Item	31 December 2006	31 December 2005
Cash and cash equivalents (MKB Avers)	58	-
Accounts receivable (mostly prepaids to Tatenergo)	892	323
Accounts payable and accrued liabilities (mostly payables to Tatenergo)	682	535

(in millions of Russian roubles, unless otherwise stated)

Note 15 Related party transactions (continued)

Transactions and balances with associates

Sales to associates in 2006 were RR 251 million (year ended 31 December 2005 – RR 277 million), and purchases from associates in 2006 were RR 28 million (year ended 31 December 2005 - RR 51 million).

Balances with associates were as follows:

Item	31 December 2006	31 December 2005
Cash and cash equivalents (AK Bars, AKB Spurt, Tatfundbank)	301	194
Loans received (AK Bars)	240	153
Accounts receivable	10	65
Accounts payable and accrued liabilities	3	22

An impairment of a loan given to an associate is discussed in Note 7.

In April 2004 the Group entered into a guarantee agreement with AKB Spurt for a bonded loan, which outstanding amount at 31 December 2006 was RR 383 million (at 31 December 2005 - RR 500 million), under terms of which the Group guarantees payment in case of default of the bonds' issuer. The fair value of this guarantee has been estimated and included within accounts payable and accrued liabilities. The guarantee is valid until November 2007.

Shares owned by directors and senior management

The total number of shares owned directly by the directors and senior management comprised 3,007,732 ordinary and 821,496 preferred shares (in total approximately 0.21% of the Company's share capital) at 31 December 2006 (at 31 December 2005 – 3,622,375 ordinary and 802,800 preferred shares (in total approximately 0.24% 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 184 million for the year ended 31 December 2006 (year ended 31 December 2005 – RR 148 million).

Note 16 Product sales

The following table summarises the Group's product sales by destination.

	Year ended 31 December 2006	Year ended 31 December 2005
Russia and CIS	24,334	22,986
Other Europe	20,194	16,375
North America	2,404	2,252
Other	5,018	4,003
Total product sales	**51,950**	**45,616**

(in millions of Russian roubles, unless otherwise stated)

Note 17 Cost of sales

	Year ended 31 December 2006	Year ended 31 December 2005
Raw materials	25,551	22,216
Energy and fuel	7,118	6,545
Personnel costs	3,817	3,303
Depreciation	2,095	1,900
Services and other	2,623	1,863
Repairs and maintenance	797	747
Unified social tax	845	721
Taxes other than income tax	627	620
Rental payment for land	250	237
Impairment provision for obsolete stock	10	4
Total cost of sales	**43,733**	**38,156**

The rent agreement for land is renegotiated annually. The expected amount of rent payments for 2007 year is RR 260 million (for 2006 – 250 million).

Note 18 Selling, general and administrative expenses

	Year ended 31 December 2006	Year ended 31 December 2005
Transportation expenses	1,940	1,584
Maintenance of social infrastructure	942	944
Impairment provision on fixed assets	252	787
Impairment provision on other current assets	275	-
Impairment provision on investments	121	-
Personnel costs	801	715
Materials	575	547
Insurance	178	379
Custom duties	67	75
Unified social tax	195	145
Bad debt expense	(48)	144
Legal provisions (see Note 22)	15	121
Repairs and maintenance	152	121
Depreciation	152	74
Fire security	63	46
Other	978	1,052
Total selling, general and administrative expenses	**6,658**	**6,734**

Depreciation totaling RR 2,247 million (year ended 31 December 2005 – RR 1,974 million) and personnel costs totaling RR 4,618 million (year ended 31 December 2005 – RR 4,018 million) were included in the consolidated income statement in the year.

Note 19 Income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2006	Year ended 31 December 2005
Current income tax expense	1,301	1,438
Deferred income tax benefit	(263)	(103)
Total income tax expense	**1,038**	**1,335**

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 2006 and 2005 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)

Note 19 Income tax expense (continued)

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 2006	Year ended 31 December 2005
Profit before taxation	3,817	2,260
Theoretical tax charge at statutory rate of 24%	916	542
Tax effects of items not deductible or assessable for taxation purposes:		
Non-taxable income	(61)	(29)
Non-deductible expenses:		
Impairment of property, plant and equipment	60	189
Other expenses	123	633
Total income tax expense	**1,038**	**1,335**

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 (2005 - 24 percent).

	31 December 2004	Tax effect of movement in temporary differences	31 December 2005	Tax effect of movement in temporary differences	31 December 2006
Property, plant and equipment	833	-	833	(141)	692
Inventories	116	(36)	80	(62)	18
Catalysts	47	(47)	-	-	-
Suppliers	-	-	-	(79)	(79)
Long-term loans	14	21	35	26	61
Long-term investments	71	2	73	(79)	(6)
Accounts receivable and prepayments	(74)	(12)	(86)	(30)	(116)
Accruals	(39)	(35)	(74)	88	14
Deferred income	(33)	4	(29)	14	(15)
Net deferred income tax liability	**935**	**(103)**	**832**	**(263)**	**569**

The Group has not recognised a deferred tax liability of RR 20 million as at 31 December 2006 (31 December 2005 – RR nil) 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. For the years ended 31 December 2006 and 2005, the Group's effective tax rate was 27 percent and 59 percent, respectively. During 2006 the Group's effective tax rate reduced due to a decrease of non-deductible expenses, primarily related to social expenses and impairment of property, plant and equipment.

(in millions of Russian roubles, unless otherwise stated)

Note 20 Principal subsidiaries

Subsidiary	Business	Percentage of voting interest held 31 December 2006	31 December 2005
OOO Neftekhimagroprom	Agricultural	100%	100%
OOO Neftekhim-Invest	Asset management	100%	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%	93%
OAO Neftekhimsevilen	Plastic products	51%	51%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	50%	50%
OOO Nizhnekamskneftekhim -Divinil	Butadiene production	50%	50%

As at 31 December 2006 and 2005 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 Nizhex and OOO Nizhnekamskneftekhim-Divinil through chairmanship and seats in the Board of Directors.

Note 21 Financial risks

Interest rate risk

The Group obtains borrowings from and deposits surplus funds with banks at current market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing borrowings. As shown in Note 11 the Group has approximately half of its borrowings bearing variable and half bearing fixed interest rates. Borrowings with variable interest rates are subject to cash flow interest risk and borrowings with fixed interest rates are subject to fair value interest risk. 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 11. 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 and Euro 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 2006 and 31 December 2005. At 31 December 2006 and 31 December 2005 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 22 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, 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 2006 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2006 no provision for potential tax liabilities had been recorded (31 December 2005 – RR 52 million).

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. A provision of RR 71 million was recognised in 2005 and charged to the consolidated income statement as a component of selling, general and administrative expenses (see Note 18). The management assessment of this provision did not change during 2006.

During 2006 the Group has utilised a provision of RR 50 million, which was accrued in 2005 in respect of a legal proceeding from Tatenergo.

Other legal provisions for RR 15 million were accrued in 2006.

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

Capital commitments

As of 31 December 2006 the Group had entered into capital commitments equal to RR nil (31 December 2005 - RR nil).

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.

Note 22 Contingent liabilities, commitments and other risks (continued)

Supply commitments

Under the terms of the Eximbank loan agreement (see Note 11), the Group entered into supply agreement to dispatch products Oy Nizhex Scandinavia Ltd. ("Nizhex") (a subsidiary). According to the terms of this supply commitment agreement, the Group is obliged to dispatch certain products, at market rates, to Nizhex up to the value calculated on the basis of the Eximbank loan agreement. At 31 December 2006, the Group's remaining supply commitment under this agreement is RR 850 million (USD 32.3 million) (31 December 2005 – RR 1,310 million (USD 45.5 million)). This agreement was cancelled in April 2007.

In April 2006 the Company entered into a credit line agreement with Citibank (see Note 11) and as a consequence of this the Group is obliged to supply petrochemical products at market rates to Ameropa AG and Nizhex. As at 31 December 2006 the Group's remaining commitment under the contract was RR 2,420 million (USD 91.9 million) (31 December 2005 – RR nil). The credit was repaid in February 2007 (see Note 23) and supply commitment agreement was cancelled.

In April 2005 the Company entered into an agreement with Citibank (see Note 11) 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, according to which it is obliged to dispatch certain products at market rates. As at 31 December 2006 the Group's remaining commitment under the contract was RR 2,465 million (USD 93.6 million) (31 December 2005 – RR 3,027 million (USD 105.2 million)). The credit was repaid in February 2007 (see Note 23) and supply commitment agreement was cancelled.

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 2006 is RR 421 million (31 December 2005 – RR 617 million). The fair value of these guarantees have been estimated and have been included within accounts payable and accrued liabilities.

Financial commitments

The Group has unsecured uncovered letters of credit as at 31 December 2006 for RR 101 million (RR 317 million – as at 31 December 2005).

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 2006 and 2005 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 23 Events After the Balance Sheet Date

Repayment of accounts receivable

In February 2007 ZAO TAIF-NK (a related party) repaid the balance of its notes receivable to the Group in the amount of RR 2,876 million.

Redemption of borrowings

On 14 February 2007 the Group issued irrevocable payment notice to early repay the following loans: loan from Citibank N.A. in the amount of USD 42.4 million (RR 1,116 million), loan from Citibank (guaranteed by OPIC) in the amount of USD 45 million (RR 1,185 million) and loan from MMB bank in the amount of Euro 10.1 million (RR 354 million) (see Note 11). These borrowings were redeemed according to these notices in February 2007.

Dividends

As discussed in Note 14, on 26 April 2007 the annual general shareholder's meeting approved a dividend of RR 997 million.