NIZHNEKAMSKNEFTEKHIM GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.com

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 2007, 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 2007, 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.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
04 July 2008

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Consolidated Balance Sheet

	Note	31 December 2007	31 December 2006
Assets			
Current assets			
Cash and cash equivalents	5	152	569
Restricted cash	5	165	-
Trade accounts receivable and other receivables	6	3,378	5,142
Inventories	8	6,219	6,598
VAT receivable		1,026	1,157
Other current assets	7	4,079	2,199
Total current assets		**15,019**	**15,665**
Non-current assets			
Restricted cash	5	-	418
Investments in associates	9	996	1,703
Other non-current assets	9	3,676	538
Property, plant and equipment	10	31,707	27,222
Total non-current assets		**36,379**	**29,881**
Total assets		**51,398**	**45,546**
Liabilities and Equity			
Current liabilities			
Current borrowings and current portion of non-current borrowings	11	3,958	3,006
Accounts payable and accrued liabilities	12	7,767	6,712
Income tax payable		1	15
Taxes other than income payable	13	297	791
Total current liabilities		**12,023**	**10,524**
Non-current liabilities			
Non-current borrowings	11	10,831	10,819
Deferred tax liability	19	451	569
Deferred income		105	120
Other non-current liabilities		99	55
Total non-current liabilities		**11,486**	**11,563**
Total liabilities		**23,509**	**22,087**
Equity attributable to parent company shareholders			
Share capital	14	6,332	6,332
Treasury shares	14	-	(1,394)
Currency translation reserve		27	11
Retained earnings		20,470	17,544
Total equity attributable to parent company shareholders		**26,829**	**22,493**
Minority interests		**1,060**	**966**
Total equity		**27,889**	**23,459**
Total liabilities and equity		**51,398**	**45,546**

Vladimir M. Busygin
General Director

04 July 2008

Ilfar R. Yakhin
Chief Accountant

The accompanying notes on pages 8 to 38 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	2007	2006
Revenues			
Product sales	16	63,422	51,950
Processing fees		504	606
Transportation recharges		317	472
Other income		940	861
Total revenues and other income		**65,183**	**53,889**
Operating expenses			
Cost of sales	17	(53,018)	(43,733)
Selling, general and administrative expenses	18	(7,568)	(6,658)
Total operating expenses		**(60,586)**	**(50,391)**
Operating profit		**4,597**	**3,498**
Financial income/(expenses)			
Exchange gain, net		523	852
Interest income		107	277
Interest expense		(780)	(1,072)
Total financial income/(expenses)		**(150)**	**57**
Share of net results of associates	9	**178**	**262**
Profit before taxation		**4,625**	**3,817**
Income tax expense	19	(1,304)	(1,038)
Profit for the year		**3,321**	**2,779**
Profit attributable to:			
Parent company shareholders		3,203	2,713
Minority interests		118	66
Profit for the year		**3,321**	**2,779**
Earnings (basic and fully diluted) per participating share (Russian roubles per share)	14	**1.87**	**1.90**

The accompanying notes on pages 8 to 38 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	2007	2006
Cash flows from operating activities		
Cash receipts from customers	73,949	59,643
Cash paid to suppliers and employees, and taxes other than on income	(69,404)	(54,386)
Interest paid	(961)	(1,205)
Income tax paid	(1,116)	(1,083)
Change in restricted cash	253	29
Net cash from operating activities	**2,721**	**2,998**
Cash flows from investing activities		
Loans given	(20)	(50)
Proceeds from sale of third party promissory notes and other financial assets	86	114
Proceeds from sale of property, plant and equipment	2,776	960
Purchase of property, plant and equipment	(7,074)	(6,797)
Dividends and interest received	31	44
Net cash used for investing activities	**(4,201)**	**(5,729)**
Cash flows from financing activities		
Proceeds from long and short-term borrowings	21,836	15,809
Repayment of long and short-term borrowings	(20,185)	(16,966)
Dividends paid	(561)	(351)
Net cash received from/(used for) financing activities	**1,090**	**(1,508)**
Net decrease in cash and cash equivalents before the effects of exchange rate changes	**(390)**	**(4,239)**
Effect of exchange rate changes	(27)	18
Net decrease in cash and cash equivalents	**(417)**	**(4,221)**
Cash and cash equivalents at the beginning of the year	569	4,790
Cash and cash equivalents at the end of the year	**152**	**569**

The accompanying notes on pages 8 to 38 are an integral part of these consolidated financial statements.

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
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	-	2,713	66	2,779
Treasury shares purchases (see Note 14)	-	-	-	-	-	-	-
Dividends*	-	-	(311)	-	(311)	(50)	(361)
Balance at 31 December 2006	**6,332**	**(1,394)**	**17,544**	**11**	**22,493**	**966**	**23,459**
Currency translation adjustment	-	-	-	16	16	16	32
Treasury shares disposal (see Note 14, 15)	-	1,394	664	-	2,058	-	2,058
Gain on disposal of treasury shares	-	-	621	-	621	-	621
Provision on available for sale investments	-	-	(546)	-	(546)	-	(546)
Net profit recognised directly in equity	-	1,394	739	16	2,149	16	2,165
Profit for the year	-	-	3,203	-	3,203	118	3,321
Total recognized profit for the year	-	1,394	3,942	16	5,352	134	5,486
Dividends	-	-	(1,016)	-	(1,016)	(40)	(1,056)
Balance at 31 December 2007	**6,332**	**-**	**20,470**	**27**	**26,829**	**1,060**	**27,889**

* Dividends adjusted for dividends attributable to treasury shares

The accompanying notes on pages 8 to 38 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 25,005 and 24,796 employees during the years ended 31 December 2007 and 2006, respectively.

The main shareholders of the Company as at 31 December 2007 are: OAO Svyazinvetsneftekhim (100% owned by the Republic of Tatarstan) (31 December 2007 – 25.2% of share capital; 31 December 2006 – 25.2% of share capital); and the TAIF Group (31 December 2007 – 44.5% of share capital; 31 December 2006 – 22.5% of share capital). 22.0% of the Company's share capital was accounted for as treasury shares as of 31 December 2006. As discussed in Note 3, 14, 15 the Group lost control of the entity that held these treasury shares in 2007. These shares were acquired by a member of the TAIF group. 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. Ultimately, because of its ultimate ownership, the Government of the Republic of Tatarstan also controls the Group (see Note 14).

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 51% of total sales during 2007 (57% during 2006) 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 MICEX stock exchange and quotation list «A» of second level on the RTS stock exchange, with a further listing of Level 1 American Depositary Receipts on the Berlin and Frankfurt stock exchanges.

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's subsidiaries and associates 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. There is one exception to this, which is a subsidiary that is incorporated in Finland, and who 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.

New accounting pronouncements and revised standards

Certain new IFRSs became effective for the Group from 1 January 2007. 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 their impact on the Group's accounting policies.

IFRS 7 Financial Instruments: Disclosures (effective from January 1, 2007). The IFRS introduced new disclosure requirements for financial instruments. The volume of disclosures increased significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures 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 cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced 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. An Amendment to IAS 1 also introduced disclosures about level of an entity's capital and how it manages capital.

Note 2 Basis of preparation (continued)

IFRIC 7, Applying the Restatement Approach under IAS 29, effective for annual periods beginning on or after March 1, 2006 (that is from January 1, 2007 for these financial statements). The Interpretation clarified the application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarified calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

IFRIC 8, Scope of IFRS 2, effective for annual periods beginning on or after May 1, 2006 (that is from January 1, 2007 for these financial statements). The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

IFRIC 9, Reassessment of Embedded Derivatives, effective for annual periods beginning on or after June 1, 2006. The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contact. Only if the contact subsequently is significantly modified the entity reassesses whether to separate or not.

IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006). The interpretation clarifies that an entity should not reverse an impairment loss recognised in previous interim periods in respect of goodwill or an investment in a financial asset carried at cost.

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 2007 and 31 December 2006 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 2008 or later periods and which the entity has not early adopted.

IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1, 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.

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability.

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

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

Note 2 Basis of preparation (continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007). This Interpretation addresses how to apply IFRS 2 "Share-based Payment" to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent).

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008). The interpretation addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008). The interpretation addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. (effective for annual periods beginning on or after January 1, 2008). IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how a minimum refunding requirement might affect the availability of reductions in future contributions, and when a minimum refunding requirement might give rise to a liability. IFRIC 14 is not relevant for the Company's operations.

IAS 23, Borrowing Cost (Amendment, applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009). The amendment eliminates the option of immediately recognising as an expense borrowing costs that relate to the assets which requires substantial period of time to get ready for use or sale.

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 and professional judgements in applying accounting policies

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 the discount rates used in calculating impairment were reduced from an average 11.4% to 10.0%, then the carrying value of property, plant and equipment would have increased by RR 21 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 reduced by RR 9 million.

Note 3 Critical accounting estimates and professional judgements in applying accounting policies (continued)

Impairment provision for receivables. Management has determined the impairment provision for accounts receivable 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 60 to 80 million would have needed to be recorded.

Deferred income tax asset recognition. Deferred tax assets represent 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.

Disposals of treasury shares. Following the developments of 2007 management reassessed the Company's ability to control an entity that held 402,814,001 shares in the Company, these shares were accounted for as treasury shares as of 31 December 2006. This entity was deconsolidated primarily due to the entity's disposal of the Company's shares to a related party. The Group recognised an available-for-sale investment in respect of its interest in this entity following its deconsolidation. See further discussion of this matter in Note 15.

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.

Note 4 Summary of significant accounting policies (continued)

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. When the Group has incurred obligations or guaranteed obligations in respect of the associate equity accounting is 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 recognized 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 derecognized or impaired at which time the cumulative gain or loss is moved 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.

Note 4 Summary of significant accounting policies (continued)

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 and acceptance of goods and services received. 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.

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.

Note 4 Summary of significant accounting policies (continued)

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 Finance leases

Assets held under finance leases are capitalized and included in property, plant and equipment at the lower of fair value and the present value of the minimum lease payments as determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are determined at the inception of the lease and included within liabilities. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period.

The Group has certain long-term arrangements under which it has acquired all of the capacity of certain property, plant and equipment. In circumstances where it is considered that the Group has the majority of the risks and rewards of ownership of the plant, the arrangement is considered to contain a finance lease.

4.9 Borrowings

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

4.10 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.

4.11 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 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 24.5462 (31 December 2006 USD 1=RR 26.3311). The official Euro to RR exchange rate at 31 December 2007, as determined by the Central Bank of the Russian Federation, was Euro (EUR) 1=RR 35.9332 (31 December 2006 EUR 1=34.6965). 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.

Note 4 Summary of significant accounting policies (continued)

4.12 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.

4.13 Revenue recognition

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

Sales of services are recognized 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.

4.14 Employee benefits

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 selling, general and administrative expenses.

4.15 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 recognized based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

4.16 Provisions

Provisions for liabilities and charges are recognized 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 2007	31 December 2006
RR denominated amounts	107	385
Euro denominated amounts	25	73
USD denominated amounts	20	111
Total cash and cash equivalents	**152**	**569**

Restricted cash amounts represents deposits, related to Group's loan agreement with Eximbank (see Note 11). These deposits totalled USD 6.7 million (RR 165 million) and USD 15.9 million (RR 418 million) at 31 December 2007 and 31 December 2006, respectively. The restricted cash balance of RR 165 million as at 31 December 2007 is reflected in current assets as the underlying borrowing is current as at 31 December 2007.

Note 6 Trade accounts receivable and other receivables

	31 December 2007	31 December 2006
ZAO TAIF-NK note receivable	-	2,876
Receivables from export sales (denominated in USD and Euro)	1,666	1,470
Receivables from domestic sales, net	1,418	664
Other accounts receivable, net	294	132
Total trade accounts receivable and other receivables	**3,378**	**5,142**

A provision for impairment of RR 129 million at 31 December 2007 (31 December 2006 – RR 508 million) has been made against receivables from domestic sales to reduce them to their estimated recoverable value. The net decrease in the provision of RR 8 million during the year ended 31 December 2007 (year ended 31 December 2006 - increase of RR 18 million) was recognised in the consolidated income statement as a component of selling, general and administrative expenses.

The movement of the impairment provision for receivables from domestic sales is shown in the table below:

	Year ended 31 December 2007	Year ended 31 December 2006
Balance at the beginning of the year	**508**	**490**
Increase in impairment provision	52	116
Reversal of impairment provision	(60)	(98)
Write-off of previously impaired trade receivables	(371)	-
Balance at the end of the year	**129**	**508**

Other accounts receivable are stated net of provision for impairment of RR 58 million as at 31 December 2007 (31 December 2006 – RR 326 million). The net increase in the provision of RR 58 million during the year ended 31 December 2007 (during the year ended 2006 – decrease of RR 70 million) was recognised in the consolidated income statement as a component of selling, general and administrative expenses. The classification of RR 326 million related to the reclassification to non-current assets of the underlying receivable.

The movement of the impairment provision for other accounts receivables is shown in the table below:

	Year ended 31 December 2007	Year ended 31 December 2006
Balance at the beginning of the year	**326**	**396**
Increase in impairment provision	63	64
Reversal of impairment provision	(5)	(134)
Reclassification (See Note 9)	(326)	-
Balance at the end of the year	**58**	**326**

The carrying amounts of trade accounts receivable and other receivables approximate their fair value.

Note 6 Trade accounts receivable and other receivables (continued)

As at 31 December 2007 trade and other receivables of RR 187 million (31 December 2006 - RR 834 million) were fully impaired. The amount of provision was RR 187 million as of 31 December 2007 (31 December 2006 - RR 834 million). The individually impaired receivables mainly relate to domestic customers who are in unexpectedly difficult economic condition. The aging of these receivables is as follows:

	31 December 2007	31 December 2006
Up to 3 to 6 months	28	-
Over 6 months	159	834
Total	**187**	**834**

As at 31 December 2007 trade receivables of RR 1,203 million (31 December 2006 - RR 454 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	31 December 2007	31 December 2006
Not past due	1,809	1,680
Up to 3 months	983	391
3 to 6 months	122	16
Past due more than 6 months	98	47
Total	**3,012**	**2,134**

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2007	31 December 2006
Russian roubles	1,712	3,672
US Dollar	797	630
Euro	869	840
Total	**3,378**	**5,142**

The other classes within trade accounts receivable and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other accounts receivable mentioned above. The group does not hold any collateral as security.

Note 7 Other current assets

	31 December 2007	31 December 2006
Financial assets		
Loan to Tatneft-NKNK-Oil	92	92
Non-financial assets		
Advances to suppliers	2,754	956
Taxes paid in advance and VAT receivable on export sales	968	920
Prepayments to customs	10	16
Other current assets	255	215
Total other current assets	**4,079**	**2,199**

Loan to Tatneft-NKNK-Oil

The Group has an unsecured RR denominated 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 additional impairment provision of RR 275 million during 2006. As of 31 December 2007 and 2006 this loan had a net carrying value of RR 92 million.

Note 7 Other current assets (continued)

The movement of the provision is shown in the table below:

	Year ended 31 December 2007	Year ended 31 December 2006
Balance at the beginning of the year	**299**	**-**
Increase in impairment provision	15	299
Reversal of impairment provision	(1)	-
Write-off of previously impaired other current assets	(3)	-
Balance at the end of the year	**310**	**299**

The carrying amounts of other current assets approximate their fair value.

The other classes within other current assets do not contain impaired assets.

The carrying amounts of the Group's other current assets are denominated in the following currencies:

	31 December 2007	31 December 2006
Russian Roubles	3,601	2,147
US Dollar	108	23
Euro	370	29
Total	**4,079**	**2,199**

The maximum exposure to credit risk at the reporting date is the fair value of each class of other current assets mentioned above. The group does not hold any collateral as security.

Note 8 Inventories

	31 December 2007	31 December 2006
Finished goods and work in progress	2,266	2,426
Raw materials	1,984	2,513
Materials and supplies	1,969	1,659
Total inventories	**6,219**	**6,598**

RR 1,979 million and RR 11 million of finished goods and work in progress were pledged as security for borrowings at 31 December 2007 and 2006, respectively.

Raw materials are presented net of provision for obsolescence of RR 50 million as at 31 December 2007 (31 December 2006 - RR 42 million). The increase in the provision of RR 8 million during the year ended 31 December 2007 (for the year ended 31 December 2006 – RR 10 million) was recognised in the consolidated income statement as component of cost of sales. The carrying value of materials carried at net realizable value is RR 2,034 million and RR 2,555 million at 31 December 2007 and 2006, respectively.

Note 9 Investments in associates and other non-current assets

Investments in associates

	Year ended 31 December 2007	Year ended 31 December 2006
Balance at the beginning of the year	**1,703**	**1,573**
Additions	9	6
Disposals	(755)	-
Share of net results for the year	178	262
Dividends	(16)	(17)
Impairment	(123)	(121)
Balance at the end of the year	**996**	**1,703**

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

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

Associate	Activities of associate	Amount of investment 31 Dec 2007	Amount of investment 31 Dec 2006	Ownership percentage 31 Dec 2007	Ownership percentage 31 Dec 2006
Tatneftekhiminvest-holding	Holding company	242	202	7.30%	7.30%
Spurt Bank	Banking services	179	159	14.05%	14.05%
Tatfundbank	Banking services	178	181	3.20%	5.19%
KB Intekhbank	Banking services	162	214	20.00%	32.47%
SP Elastokam	Production of polyurethane	130	121	50.00%	50.00%
Karpov Plant	Production of chemicals	96	97	32.81%	32.81%
Kaminterkhim	Production of chemicals	-	-	49.00%	49.00%
AK Bars Bank	Banking services	-	728	-	3.12%
Other	Various	9	1	Various	Various
Total		**996**	**1,703**		

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.

Summaries of the Group's share of associates' revenue, profit and loss, assets and liabilities for the years ended and as at 31 December 2007 and 2006 are as follows:

Associate	Share of associate revenue 31 Dec 2007	Share of associate revenue 31 Dec 2006	Share of associate assets 31 Dec 2007	Share of associate assets 31 Dec 2006	Share of associate liabilities 31 Dec 2007	Share of associate liabilities 31 Dec 2006
SP Elastokam	538	410	264	234	134	113
Karpov Plant	243	195	272	237	177	141
AK Bars Bank*	180	734	-	3,175	-	2,445
Spurt Bank	156	170	1,280	1,005	1,100	846
Tatfundbank	126	198	1,374	1,565	1,197	1,385
KB Intekhbank	98	175	1,052	1,081	891	867
Kaminterkhim	4	4	28	29	36	37
Tatneftekhiminvest-holding	1	42	143	139	1	1
Other	2	24	175	21	161	1
Total	**1,348**	**1,952**	**4,588**	**7,486**	**3,697**	**5,836**

* for 5 months in respect of 2007

As at 28 May 2007 the Group ceased to exercise significant influence over AK Bars Bank due to no longer having participation in the Board of Directors. The net income attributable to the Group for the period when the Group had significant influence amounted to RR 34 million. As at 31 December 2007 this investments was accounted within other non-current assets as investment available-for-sale.

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

Other non-current assets

Description	31 December 2007	31 December 2006
Financial assets		
Available-for-sale investments, AK Bars Bank	755	-
Available-for-sale investments, other	2,263	15
Mortgage loans issued to employees	138	101
Non-financial assets		
Other non-current assets	520	422
Total other non-current assets	**3,676**	**538**

Available-for-sale investments, other represents the Group's interest in an entity that previously held treasury shares. The recognition of this entity is further discussed in Note 15.

Other non-current non-financial assets represent licences, catalysts and prepaid expenses, which will be utilized in the period after 31 December 2008.

The movement of the impairment provision for non-current assets is shown in the table below:

	Year ended 31 December 2007	Year ended 31 December 2006
Balance at the beginning of the year	**100**	**71**
Reclassification (see Note 6)	447	-
Increase in impairment provision	131	29
Increase in impairment provision on other available-for-sale	546	
Balance at the end of the year	**1,224**	**100**

All the above other non-current assets are denominated in Russian Roubles.

The maximum exposure to credit risk at the reporting date is the fair value of each class of other non-current assets mentioned above. The group does not hold any collateral as security.

Note 10 Property, plant and equipment

	Buildings	Equipment	Assets under construction	Other	Total
At 1 January 2006					
Cost	31,686	34,816	7,640	3261	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 1 January 2007					
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 1 January 2007	**13,626**	**7,976**	**4,625**	**995**	**27,222**
Depreciation for the year	(963)	(1,431)	-	(77)	(2,471)
Additions	-	-	7,676	-	7,676
Transfers	2,450	3,226	(5,847)	171	-
Disposals at cost	(115)	(68)	(290)	(77)	(550)
Impairment provision	-	-	(348)	(37)	(385)
Accumulated depreciation on disposals	106	47	-	62	215
Net book value at 31 December 2007	**15,104**	**9,750**	**5,816**	**1,037**	**31,707**
At 31 December 2007					
Cost	39,544	41,050	5,816	3,238	90,108
Accumulated depreciation	(24,440)	(31,760)	-	(2,201)	(58,401)
Net book value at 31 December 2007	**15,104**	**9,750**	**5,816**	**1,037**	**31,707**

Included in the equipment category are vehicles and machinery where the Group is a lessee under a finance lease:

	31 December 2007	**31 December 2006**
Cost capitalized finance leases	201	84
Accumulated depreciation	(18)	(16)
Net book value	**183**	**68**

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Gross finance lease liabilities – minimum lease payments:

	31 December 2007	**31 December 2006**
No later than 1 year	73	28
Later than 1 year and no later than 5 years	99	12
Future finance charges on finance leases	(41)	(8)
Present value of finance lease liabilities	**131**	**32**

The present value of finance lease liabilities is as follows:

	31 December 2007	**31 December 2006**
No later than 1 year	47	22
Later than 1 year and no later than 5 years	84	10
Net book value	**131**	**32**

Note 10 Property, plant and equipment (continued)

Property, plant and equipment is presented net of an accumulated impairment provision of RR 3,516 million at 31 December 2007 (RR 3,131 million at 31 December 2006). The increase in the provision of RR 385 million during the year ended 31 December 2007 (during the year ended 31 December 2006 – increase of RR 252 million) was recognised in the consolidated income statement as a component of selling, general and administrative expenses. The most significant component of the impairment charge for 2007 relates to the impairment for RR 200 million of the Group's water treatment facility. The future economic returns on this asset, measured as the expected value in use, were not sufficient to cover its carrying value. The most significant component of the impairment charge of RR 252 million for 2006 relates to a charge of RR 149 million in respect of an ice sport complex constructed by the Group.

Included in the cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RR 36,452 million and RR 32,884 million at 31 December 2007 and 2006, respectively.

Included in additions is capitalised interest of RR 170 million for the year ended 31 December 2007 (year ended 31 December 2006 – RR 163 million). The effective capitalization rate for the year ended 31 December 2007 was 7.19% (for the year ended 31 December 2006 – 7.57%).

RR 2,812 million and RR 3,198 million of property, plant and equipment at carrying value were pledged as security for borrowings at 31 December 2007 and 2006, respectively (see Note 11).

Note 11 Borrowings

	31 December 2007	31 December 2006
Bonds payable	6,332	6,687
Other borrowings	8,457	7,138
Total borrowings	**14,789**	**13,825**
Less current bonds payable and current portion of non-current borrowings	(3,958)	(3,006)
Total non-current borrowings	**10,831**	**10,819**

The carrying amounts and fair value of the non-current other borrowings and bonds are as follows:

	Fair value	
	31 December 2007	31 December 2006
Bonds payable	5,576	6,629
Other borrowings	3,849	3,210
Total non-current borrowings	**9,425**	**9,839**

The fair value of current other borrowings and RR denominated bonds payable equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using borrowing rate of 10% (for the year ended 31 December 2006 - 10%).

Borrowings include amounts denominated in RR, USD and Euro:

	31 December 2007	31 December 2006
Borrowings in USD	9,533	10,298
Borrowings in RR	3,696	2,134
Borrowings in Euro	1,560	1,393
Total borrowings	**14,789**	**13,825**

Scheduled maturity of non-current borrowings was as follows:

	31 December 2007	31 December 2006
Due for repayment:		
Between one and two years	1,202	1,261
Between two and four years	1,754	1,609
After four years	7,875	7,949
Total non-current borrowings	**10,831**	**10,819**

Note 11 Borrowings (continued)

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)
Paid in 2007		(21)
Balance as at 31 December 2007		**-**
Issued 4 April 2005, maturing 26 March 2012, RR denominated	9.99%* for first 4 years	1,500
Unamortized discount		(10)
Balance as at 31 December 2007		**1,490**
Issued 22 December 2005, maturing 22 December 2015**, USD denominated	8.5% paid semi-annually	4,909
Unamortized discount		(67)
Balance as at 31 December 2007		**4,842**
Total balance as at 31 December 2007		**6,332**

*- 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.

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
Unamortized discount		(76)
Balance as at 31 December 2006		**5,190**
Total balance as at 31 December 2006		**6,687**

Note 11 Borrowings (continued)

Other borrowings

The other borrowings received by the Group:

				31 December 2007		31 December 2006	
Borrowing facilities	**Interest rate description**	**Currency**	**Year of redemption**	**Current portion**	**Non-current portion**	**Current portion**	**Non-current portion**
			Current borrowings				
Nordea (credit line of Oy. Nizhex Scandinavia Ltd.)	Floating	EUR	2008	387	-	535	-
BNP (credit line of Oy. Nizhex Scandinavia Ltd.)	Floating	EUR	2008	62	-	-	-
Citibank N.A. credit line	Fixed	USD	2008	918	-	433	-
IMB (Unicredit) credit line	Floating	USD	2008	455	-	-	-
Sberbank credit line	Fixed	RR	2008	1,374	-	-	-
			Non-current borrowings				
Citibank N.A.	Floating	USD	2009**	-	-	515	601
Citibank (OPIC)	Floating	USD	2012**	-	-	169	1,016
Citibank N.A. (SACE) $65m	Fixed	USD	2013	238	1,072	237	1,306
Eximbank	Floating	USD	2008	151	-	325	162
Citibank (GOVCO)	Floating	USD	2013	50	252	54	324
Citibank N.A. (SACE) $120m	Fixed	USD	2015	-	972	-	-
HSBC	Floating	USD	2009	-	736	-	-
HVB Bank (SLA 02)	Floating	EUR	2011	31	78	30	106
HVB Bank (SLA 03)	Floating	EUR	2014	56	335	4	27
HVB Bank (SLA 04)	Floating	EUR	2015	73	438	16	246
IMB (Unicredit) bank	Floating	EUR	2010**	-	-	-	353
AK Bars Bank	Fixed	RR	2012	-	300	-	-
Other	Various	Various	Various	163	316	679	-
Total other borrowings				**3,958**	**4,499**	**2,997**	**4,141**

** – These borrowings were repaid in advance of scheduled maturity in February 2007.

Sberbank credit line. In January 2007 the Group entered into a credit line agreement with Sberbank, according to which the Group receives money installments on as-needed basis. Redemption dates do not exceed 2 months. 19 installments took place through the year with total amount of RR 13,830 mln. 18 of them were paid back. As at 31 December 2007 there was one unpaid loan in the amount of RR 1,374 mln (redemption date is January 2008; inventory pledged as collateral for this loan equals to RR 1,979 mln).

Note 11 Borrowings (continued)

Citibank N.A. In December 2005 the Group entered into a loan agreement for USD 44.0 million. The loan was secured by supply commitments. The loan was repaid in advance of scheduled maturity in February 2007. The outstanding amount of the loan as at 31 December 2006 was USD 42.4 million (RR 1,116 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 was guaranteed by OPIC and secured by supply commitments. The loan was repaid in advance of scheduled maturity in February 2007. The outstanding amount of the loan as at 31 December 2006 was USD 45.0 million (RR 1,185 million).

Citibank N.A. (SACE) $65m. In 2007 the Group received financing from Citibank N.A. (SACE) for USD 4.5 million. Total amount of the loan is USD 65.0 million. The loan is guaranteed by SACE and secured by property, plant and equipment (see Note 10). The outstanding amount of the loan is USD 53.4 million (RR 1,310 million) at 31 December 2007 (31 December 2006 – USD 58.6 million (RR 1,543 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 6.2 million (RR 151 million) at 31 December 2007 (31 December 2006 – USD 18.5 million (RR 487 million)). As at 31 December 2007 the loan was secured by the property; plant and equipment (see Note 10). The loan was repaid in the accordance with agreement in March 2008.

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 12.3 million (RR 302 million) at 31 December 2007 (31 December 2006 – USD 14.4 million (RR 378 million)).

Citibank N.A. (SACE) $120m. In 2007 the Group received financing from Citibank N.A. (SACE) for USD 39.6 million. Total amount of the loan is USD 120.0 million. The loan is guaranteed by a letter of credit in amount of debtor's obligations during interest period. The outstanding amount of the loan is USD 39.6 million (RR 972 million) at 31 December 2007.

HSBC. In December 2007 the Group received financing from HSBC for USD 30 million (RR 736 million). The maturity date of the loan is 2009.

HVB Bank. The Group obtained new credit lines under contracts signed in August 2005 for a total amount of EUR 33 million for the upgrading of the ethylene plant. During 2007 EUR 20.1 million (RR 722 million) was received by the Group (EUR 12.6 million (RR 436 million) for 2006). The outstanding amount of the SLA #02 was EUR 3 million (RR 109 million) at 31 December 2007 (31 December 2006 – EUR 3.9 million (RR 136 million)). The outstanding amount of the SLA #03 was EUR 10.9 million (RR 391 million) at 31 December 2007 (31 December 2006 –EUR 0.9 million (RR 31 million)). The outstanding amount of the SLA #04 was EUR 14.2 million (RR 511 million) at 31 December 2007 (31 December 2006 – EUR 7.6 million (RR 262 million)).

IMB (Unicredit) Bank. In August 2005 the Group signed a credit line to finance the modernisation of the ethylene plant for a total amount of EUR 13.6 million. During 2007 the Group drew down EUR 2.9 million (RR 104 million) (EUR 10.1 million (RR 353 million) during 2006). The maturity date of the credit line was 2010. However, the loan was repaid in advance of scheduled maturity in February 2007.

AK Bars Bank. In May 2007 SOV-NKNK (Subsidiary) signed a credit line agreement with AK Bars Bank. The credit line was fully drawn down during 2007 with RR 300 million being received. The maturity date of the credit line is May 2012.

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

	31 December 2007	31 December 2006
US$ denominated floating rate	6.93%	7.70%
US$ denominated fixed rate	7.09%	7.30%
RR denominated bonds	9.99%	9.90%
RR denominated fixed rate	8.00%	9.80%
EUR denominated floating rate	5.00%	5.40%
EUR denominated fixed rate	-	6.10%

Note 11 Borrowings (continued)

Certain loan agreements entered by the Group are secured by 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 2,565 million (USD 104.5 million and EUR nil million) at 31 December 2007 (31 December 2006 – RR 3,285 million (USD 120 million and EUR 3.6 million)).

Note 12 Accounts payable and accrued liabilities

	31 December 2007	31 December 2006
Financial liabilities		
Trade accounts payable	4,364	4,012
Accrued interest	100	103
Non-financial liabilities		
Advances from customers	1,658	1,860
Dividends payable	606	82
Salaries payable	369	255
Vacation pay accrual	320	253
Other	350	147
Total accounts payable and accrued liabilities	**7,767**	**6,712**

Accounts payable and accrued liabilities are predominantly RR denominated.

Note 13 Taxes other than income payable

	31 December 2007	31 December 2006
Unified social tax	103	64
Property tax	76	107
Personal income tax	57	39
VAT (including deferred)	31	540
Tax on land	9	1
Other taxes	21	40
Total taxes other than income payable	**297**	**791**

Note 14 Shareholders' equity and earnings per share

As of 31 December 2007 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 shares (31 December 2006 – 1,611,256,000 shares). As of 31 December 2007 the Company had authorised, issued and paid up non-voting preferred share capital of 218,983,750 shares (31 December 2006 – 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 2007 and 2006	**1,830,239,750**	**6,332**
Treasury shares at 31 December 2006 and 31 December 2005	**(402,814,001)**	**(1,394)**
Disposal of treasury shares in 2007	402,814,001	1,394
Treasury shares at 31 December 2007	**-**	**-**

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

Earnings per share

	Year ended 31 December 2007	Year ended 31 December 2006
Profit attributable to parent company shareholders	3,203	2,713
Weighted average number of participating shares, adjusted for treasury shares	1,715,465,350	1,427,425,749
Earnings (basic and fully diluted) per participating share (RR per share)	**1.87**	**1.90**

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.

Treasury shares

As at 31 December 2007 Group entity owned nil shares of the Company (as at 31 December 2006 - 402,814,001 shares of the Company). These shares were accounted for as treasury shares as at 31 December 2006. See further discussion of this matter in Note 15.

Rights attributable to preferred shares

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

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

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

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

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

Dividends and distributable reserves

Dividends declared:

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

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 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 2007, approved in the annual general shareholders' meeting on 18 April 2008:

Per ordinary share in RR	0.6715
Per preferred share in RR	0.6715

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 2007, the current year statutory net profit for the Company as reported in the published annual statutory reporting forms was RR 4,096 million (for the year ended 31 December 2006 – RR 3,324 million) and the closing balance of the accumulated profit including the current year statutory net profit totalled RR 16,069 million as at 31 December 2007 (as at 31 December 2006 – RR 12,940 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 the Group's activities (see Note 14), the Government of the Republic of Tatarstan is also in a position to influence OAO Tatneft, which is the Group's supplier of raw materials. The TAIF Group, which is ordinary shareholder of 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.

In 2007 and 2006 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".

Note 15 Related party transactions (continued)

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 2007	Year ended 31 December 2006
The TAIF Group (OAO TAIF-NK, NMU-3 and other)	Purchase of materials and services	12,261	9,399
The TAIF Group (OAO TAIF-NK, OAO Kazanorgsintez and other)	Sale of products	4,036	2,086
The TAIF Group	Disposal of treasury shares	2,679	-

Balances due to or from TAIF Group companies, excluded those balances mentioned separately in these consolidated financial statements (see Note 6), include:

Item	31 December 2007	31 December 2006
Accounts receivable	73	91
Advances given	1,375	52
Accounts payable and accrued liabilities	494	35

Following the developments of 2007 management reassessed the Company's ability to control an entity that held 402,814,001 shares in the Company, these shares were accounted for as treasury shares as of 31 December 2006. This entity was deconsolidated primarily due to the entity's disposal of the Company's shares to a related party of the Group for RR 2,679 million. The terms of the sale agreement were concluded on 27 December 2006, and the transfer of title, according to the terms of the agreement took place on 17 April 2007. The Company's shares minimum quoted price was RR 6.60 on 27 December 2006 and RR 15.89 on 17 April 2007. As a result of the deconsolidation the Group recognised an available-for-sale investment in respect of its interest in this entity at a fair value of RR 2,679 million. Total equity increased by RR 2,679 million, through a reduction in the par value treasury shares of RR 1,394 million; and an increase of RR 1,285 million in retained earnings (representing the differences between proceeds and total par value of treasury shares).

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 2007	Year ended 31 December 2006
OAO Tatenergo (including its subsidiaries)	Purchase of electric energy and heat	8,157	6,718
The Tatneft Group (URNiN Tatneft, Tatneft Neftekhimsnab and other)	Sale of products	4,382	4,640
OAO Gazenergoset	Purchase and sale of products	2,525	1,702
OAO Russian railroads	Purchase of transport services	1,154	773
The Tatneft Group (URNiN Tatneft, Tatneft Neftekhimsnab and other)	Purchase of materials	1,151	926
ZAO Tatgazinvest	Purchase of natural gas used as fuel	696	509
OAO Sibur	Sale of products	488	680
OAO Oil Company Rosneft	Purchase of materials	374	-
Minzemimuschestvo RT	Lease of land	276	241
OAO Sibur	Purchases of materials	146	320
OAO Tatenergo (including its subsidiaries)	Sale of products	113	-
Customs of RT	Custom fees and custom services	67	67
Astrakhanskaya toplivnaya company	Purchase of electric energy and heat	-	168
Others	Sale of products	317	145
Others	Various purchases	61	9

Note 15 Related party transactions (continued)

Balances due to or from the above related parties (entities under common control) include:

Item	31 December 2007	31 December 2006
Accounts receivable	826	741
Accounts payable and accrued liabilities	891	633
Loans received (AK Bars Bank)	495	-
Loans received (Sberbank)	1,376	-
Cash and cash equivalents (MKB Avers, AK Bars Bank)	43	58

An impairment of a loan given to an associate is discussed in Note 7. Amount of guarantees issued to third parties, when beneficiary is related party, disclosed in Note 22.

Transactions and balances with associates

Sales to associates in 2007 were RR 477 million (year ended 31 December 2006 – RR 251 million), and purchases from associates in 2007 were 101 RR million (year ended 31 December 2006 - RR 28 million).

Balances with associates were as follows:

Item	31 December 2007	31 December 2006
Accounts receivable	121	10
Accounts payable and accrued liabilities	36	3
Cash and cash equivalents (AKB Spurt, Tatfundbank)	31	301
Loans received (AK Bars Bank)	-	240

Transactions and balances with other related parties

Sales to other related parties in 2007 were RR 202 million (year ended 31 December 2006 – RR 55 million), and purchases from related parties in 2007 were 668 RR million (year ended 31 December 2006 - RR 375 million).

Balances with related parties were as follows:

Item	31 December 2007	31 December 2006
Accounts receivable	80	8
Accounts payable and accrued liabilities	-	14

Shares owned by directors and senior management

The total number of shares owned directly by the directors and senior management comprised 837,175 ordinary and 690,522 preferred shares (in total approximately 0.08% of the Company's share capital) at 31 December 2007 (at 31 December 2006 – 3,007,732 ordinary and 821,496 preferred shares (in total approximately 0.21% 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 176 million for the year ended 31 December 2007 (year ended 31 December 2006 – RR 184 million).

Note 16 Product sales

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

	Year ended 31 December 2007	Year ended 31 December 2006
Russia and CIS	34,939	24,900
Other Europe	26,523	21,860
North America	715	2,565
Other	1,245	2,625
Total product sales	**63,422**	**51,950**

Note 17 Cost of sales

	Year ended 31 December 2007	Year ended 31 December 2006
Raw materials	31,866	25,551
Energy and fuel	8,394	7,118
Personnel costs	4,480	3,817
Services and other	3,123	2,623
Depreciation	2,305	2,095
Unified social tax	1,008	845
Repairs and maintenance	888	797
Taxes other than income tax	667	627
Rental payment for land	280	250
Impairment provision for obsolete stock	8	10
Total cost of sales	**53,018**	**43,733**

The rent agreements for land is renegotiated annually. The expected amount of rent payments for 2008 year is RR 294 million (for 2007 – 280 million).

Note 18 Selling, general and administrative expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Transportation expenses	2,021	1,940
Maintenance of social infrastructure	1,019	942
Personnel costs	956	801
Materials	947	575
Impairment provision on fixed assets	385	252
Insurance	216	178
Unified social tax	201	195
Repairs and maintenance	186	152
Depreciation	166	152
Consulting, audit and information services	126	102
Impairment provision on investments	123	121
Energy and fuel	82	62
Fire security	78	63
Custom service fees	71	67
Bad debt provision charge/ (release)	62	(48)
Impairment provision on other current assets	-	275
Legal provisions (release)/ charge (see Note 22)	(15)	15
Other	944	814
Total selling, general and administrative expenses	**7,568**	**6,658**

Depreciation totaling RR 2,471 million (for the year ended 31 December 2006 – RR 2,247 million) and personnel costs totaling RR 5,436 million (for the year ended 31 December 2006 – RR 4,618 million) were included in the consolidated income statement for the year ended 31 December 2007.

Note 19 Income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax expense	1,422	1,301
Deferred income tax (benefit)	(118)	(263)
Total income tax expense	**1,304**	**1,038**

Note 19 Income tax expense (continued)

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 2007 and 2006 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.

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 2007	Year ended 31 December 2006
Profit before taxation	4,625	3,817
Theoretical tax charge at statutory rate of 24%	1,110	916
Tax effects of items not deductible or assessable for taxation purposes:		
Non-taxable income	(114)	(61)
Non-deductible expenses:		
Impairment of property, plant and equipment of social nature	91	60
Other expenses	217	123
Total income tax expense	**1,304**	**1,038**

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 (for the year ended 31 December 2006 - 24 percent).

	31 December 2005	Tax effect of movement in temporary differences	31 December 2006	Tax effect of movement in temporary differences	31 December 2007
Property, plant and equipment	833	(141)	692	(85)	607
Inventories	80	(62)	18	(18)	-
Long-term investments	73	(79)	(6)	(16)	(22)
Long-term loans	35	26	61	21	82
Suppliers	-	(79)	(79)	(30)	(109)
Deferred income	(29)	14	(15)	3	(12)
Accruals	(74)	88	14	(14)	-
Accounts receivable and prepayments	(86)	(30)	(116)	22	(94)
Net deferred income tax liability	**832**	**(263)**	**569**	**(118)**	**451**

The Group has not recognised a deferred tax liability of RR 17 million as at 31 December 2007 (31 December 2006 – RR 20 million) 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 2007 and 2006, the Group's effective tax rate was 28 percent and 27 percent, respectively. During 2007 the Group's effective tax rate increased due to a increase of non-deductible expenses, primarily related to social expenses and impairment of property, plant and equipment.

Note 20 Principal subsidiaries

Subsidiary	Business	Percentage of voting interest held 31 December 2007	31 December 2006
OOO Trest TSNKhRS	General equipment repairs and construction	100%	100%
OOO RMZ-NKHH	Repair and maintenance	100%	-
OOO Transport-express	Transportation	100%	100%
OOO Neftekhimagroprom	Agricultural	100%	100%
OOO Neftekhim-Invest	Asset management	100%	100%
OOO Nizhnekamskneftekhim – Service	Wholesale and retail trade	100%	100%
OOO UOP Neftehim	Food supplies and catering	100%	100%
OAO SOV-NKNH	Water purification	100%	-
OOO SCC Neftekhimik	Ice sports complex	87%	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 2007 and 2006 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 instruments and financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's overall strategy is to have no significant net exposure to currencies other than the Russian rouble, Euro or the US dollar, and it does not enter into forward foreign exchange contracts to mitigate this risk. Management has not set any limit on its exposure to foreign exchange risk but periodically reviews its exposure of foreign exchange movements. The Group's financial assets and liabilities denominated in US dollars and Euro are listed in notes 5, 6, 7, 9, 11 and 12. Management believes the Group's exposure to fluctuations in foreign exchange rates is limited to the aforementioned and to the proceeds from export sales.

The sensitivity analysis of the foreign exchange risk is shown in the table below:

At 31 December 2007, if the Euro had weakened by 5% against the Russian Rubles with all other variables held constant, post tax profit for the year would be higher by the following:

	Year ended 31 December 2007	Year ended 31 December 2006
Effect on post tax profit	13	55

Post tax profit would have been higher mainly as a result of foreign exchange gains on translation of foreign currency denominated trade receivables, financial assets at fair value through profit and loss and foreign currency denominated borrowings.

The group's sensitivity to changes in Euro exchange rate is low as most of the Group's borrowings are US dollar denominated.

Note 21 Financial instruments and financial risk factors (continued)

At 31 December 2007, if the US dollar had weakened by 5% against the Russian Rubles with all other variables held constant, post tax profit for the year would be higher by the following:

	Year ended 31 December 2007	Year ended 31 December 2006
Effect on post tax profit	364	385

Post tax profit is higher mainly as a result of foreign exchange gains has the effect from foreign currency denominated trade receivables, borrowings and financial assets at fair value through profit and loss.

The Group's sensitivity to the US dollar exchange rate is relatively high due to the current US dollar denominated borrowings. The Group's policy is to repay US dollar denominated borrowings by US dollar revenues received from customers.

Cash flow and fair value 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.

The Group's interest rate risk arises from long term borrowings (Note 11). Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk.

The policy of the Group is to have its non-current borrowings denominated primarily in US Dollars and to price its export sales in US Dollars also. Through this structure Group management believes that an element of natural hedging of US Dollar currency risk arises from these transactions and consequently there is no need to formally hedge the US Dollar to mitigate this risk. The major use of proceeds from borrowings is the funding of capital investments. The Group makes every effort to have such borrowings at fixed rates so that the return on capital projects is as predictable as possible, thus reducing the risk that the effectiveness of capital investments will go down due to changes in the market interest rate. The Group management does not eliminate the possibility of using certain arrangements to hedge interest-rate risks in order to be able to mitigate the risk of fixed interest rates being inconsistent with the current cost of borrowings on the market.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing options and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed the impact on profit and loss and equity of a 10 basis point shift would be:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit and loss	58	73

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.

Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables, cash and cash equivalents, restricted cash and non-current assets. 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 for impairment of receivables already recorded.

The Group does not hold or issue financial instruments for trading purposes.

Cash is placed in financial institutions, which are considered at the time of the deposit to have minimal risk of default. The cash held in financial institutions at 31 December 2007 is immaterial to the financial statements.

Note 21 Financial instruments and financial risk factors (continued)

Credit risk is managed on a Group basis. For wholesale customers there is no independent rating and therefore Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The following ratings have been assigned to Groups' financial assets:

Rating A – history of business relations more than one year, no creditworthiness difficulties;
Rating B –history of business relations more than one year, potential creditworthiness difficulties are anticipated and
Rating C – others, credit worthiness difficulties are anticipated.

	Rating "A"	Rating "B"	Rating "C"
At 31 December 2007			
Cash and cash equivalents	152		-
Restricted cash	165		-
Trade accounts receivable and other receivables	3,272	106	-
Other current financial assets	-	92	-
Non-current financial assets	3,487		-
At 31 December 2006			
Cash and cash equivalents	569		-
Restricted cash	418		-
Trade accounts receivable and other receivables	5,129	13	-
Other current financial assets	-	92	-
Non-current financial assets	538	-	-

Management does not expect any losses from non-performance by these counterparties, other than those amounts already provided for.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2007				
Trade accounts payable	4,364	-	-	-
Other payables	3,702	25	74	-
Borrowings	3,958	1,202	1,754	7,875
At 31 December 2006				
Trade accounts payable	4,012	-	-	-
Other payables	3,506	46	9	-
Borrowings	3,006	1,261	1,609	7,949

Note 21 Financial instruments and financial risk factors (continued)

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 2007 and 31 December 2006. At 31 December 2007 and 31 December 2006 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.

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 2007 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 2007 no provision for potential tax liabilities had been recorded (31 December 2006 – RR nil 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. The management assessment of this provision did not change during 2007.

During 2007 the Group has utilised a provision of RR 15 million, which was accrued in 2006 in respect of a legal proceeding from TatDevelopment and Oktan Resurs.

No other legal provisions were accrued in 2007.

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 2007 the Group had entered into capital commitments equal to RR nil (31 December 2006 - RR nil).

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

Social assets

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

Supply commitments

Under the terms of the Eximbank loan agreement (see Note 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 2007, the Group's remaining supply commitment under this agreement is RR nil (31 December 2006 – RR 850 million (USD 32.3 million)). This supply commitment agreement was cancelled in April 2007. The credit was repaid in March 2008.

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 2007 the Group's remaining commitment under the contract was RR nil (31 December 2006 – RR 2,420 million (USD 91.9 million)). The credit was repaid in February 2007 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 2007 the Group's remaining commitment under the contract was RR nil (31 December 2006 – RR 2,465 million (USD 93.6 million)). The credit was repaid in February 2007 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 2007 is RR 95 million, including AK Bars Bank as beneficiary – RR 70 million (31 December 2006 – RR 421 million, including AK Bars Bank as beneficiary – RR nil 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 2007 for RR 28 million (RR 101 million – as at 31 December 2006).

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.

As at 31 December 2007 the Company, which represents the majority of the Group operations, had in place insurance in respect of physical assets and compensations to personal.

Operating environment of the Group

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

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

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

Recent volatility in global financial markets

Since the second half of 2007 there has been a sharp rise in foreclosures in the US sub-prime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond or other debt financing by banks has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed.

Management estimate the effects on the financial position of deterioration in liquidity of the financial markets and their increased volatility to be low for the Group.

Note 23 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the its gearing ratio and indebtness ratio. The gearing ratio ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. The indebtness ratio is calculated as net debt divided by total equity.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the indebtness ratio not be greater than 75% and a gearing ratio not greater than 45%. The gearing ratios and indebtness ratios at 31 December 2007 and 2006 were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Total borrowings (note 11)	14,789	13,825
Less: cash and cash equivalents (note 5)	(152)	(569)
Net debt	**14,637**	**13,256**
Total equity	27,889	23,459
Total capital	**42,526**	**36,715**
Indebtness ratio	**53%**	**57%**
Gearing ratio	**34%**	**36%**

The decrease in the Indebtness ratio during 2007 mainly caused by higher rate of growth of retained earnings in comparison with growth of net debt.

Note 24 Events after the Balance Sheet Date

Dividends

As discussed in Note 14, on 18 April 2008 the annual general shareholder's meeting approved a dividend of RR 1,229 million.

New loans

A new credit line agreement was signed with HVB and HSBC as loan arrangers in April 2008. The total amount of the credit line is USD 140 million. The term of the credit line is two years and it is free of any collateral.