NIZHNEKAMSKNEFTEKHIM GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO Nizhnekamskneftekhim

1 We have audited the accompanying consolidated financial statements of OAO Nizhnekamskneftekhim and its subsidiaries (the "Group"), which comprises consolidated balance sheet as of 31 December 2008, 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 2008, 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
15 May 2009

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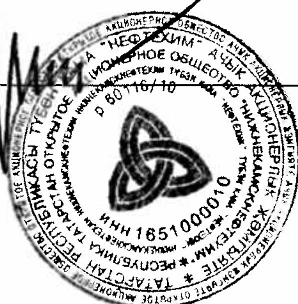
Consolidated Balance Sheet

	Note	31 December 2008	31 December 2007
Assets			
Current assets			
Cash and cash equivalents	5	1,700	152
Restricted cash	5	-	165
Trade accounts receivable and other receivables	6	3,282	3,378
Inventories	8	5,709	6,219
VAT receivable		551	1,026
Other current assets	7	3,696	4,079
Total current assets		**14,938**	**15,019**
Non-current assets			
Investments in associates	9	885	996
Other non-current assets	9	4,117	3,676
Property, plant and equipment	10	37,647	31,707
Total non-current assets		**42,649**	**36,379**
Total assets		**57,587**	**51,398**
Liabilities and Equity			
Current liabilities			
Current borrowings and current portion of non-current borrowings	11	7,707	3,958
Accounts payable and accrued liabilities	12	7,920	7,767
Income tax payable		2	1
Taxes other than income payable	13	399	297
Total current liabilities		**16,028**	**12,023**
Non-current liabilities			
Non-current borrowings	11	12,418	10,831
Deferred tax liability	19	301	451
Deferred income		92	105
Other non-current liabilities		211	99
Total non-current liabilities		**13,022**	**11,486**
Total liabilities		**29,050**	**23,509**
Equity attributable to parent company shareholders			
Share capital	14	6,332	6,332
Currency translation reserve		36	27
Retained earnings		20,962	20,470
Total equity attributable to parent company shareholders		**27,330**	**26,829**
Minority interests		**1,207**	**1,060**
Total equity		**28,537**	**27,889**
Total liabilities and equity		**57,587**	**51,398**



Vladimir M. Busygin
General Director

15 May 2009

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	2008	2007
Revenues			
Product sales	16	75,378	63,422
Processing fees		406	504
Transportation recharges and services		517	646
Other revenue		1,567	611
Total revenues and other income		**77,868**	**65,183**
Operating expenses			
Cost of sales	17	(64,555)	(53,018)
Selling, general and administrative expenses	18	(7,547)	(7,568)
Total operating expenses		**(72,102)**	**(60,586)**
Operating profit		**5,766**	**4,597**
Financial income/(expenses)			
Exchange (loss)/ gain, net		(2,901)	523
Interest income		114	107
Interest expense		(1,183)	(780)
Total financial expenses, net		**(3,970)**	**(150)**
Share of net results of associates	9	**137**	**178**
Profit before taxation		**1,933**	**4,625**
Income tax expense	19	(818)	(1,304)
Profit for the year		**1,115**	**3,321**
Profit attributable to:			
Parent company shareholders		1,532	3,203
Minority interests		(417)	118
Profit for the year		**1,115**	**3,321**
Earnings (basic and fully diluted) per participating share (Russian roubles per share)	14	**0.84**	**1.87**

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

Consolidated Statement of Cash Flows

	2008	2007
Cash flows from operating activities		
Cash receipts from customers	90,002	73,949
Cash paid to suppliers and employees, and taxes other than on income	(78,790)	(69,404)
Interest paid	(1,207)	(961)
Income tax paid	(1,434)	(1,116)
Change in restricted cash	165	253
Net cash from operating activities	**8,736**	**2,721**
Cash flows from investing activities		
Loans given	(97)	(20)
Proceeds from sale of third party promissory notes and other financial assets	66	86
Proceeds from sale of property, plant and equipment	33	2,776
Purchase of property, plant and equipment	(7,938)	(7,074)
Dividends and interest received	46	31
Net cash used for investing activities	**(7,890)**	**(4,201)**
Cash flows from financing activities		
Proceeds from long and short-term borrowings	24,867	21,836
Repayment of long and short-term borrowings	(22,665)	(20,185)
Dividends paid	(1,451)	(561)
Net cash received from financing activities	**751**	**1,090**
Net increase/ (decrease) in cash and cash equivalents before the effects of exchange rate changes	**1,597**	**(390)**
Effect of exchange rate changes	(49)	(27)
Net increase/ (decrease) in cash and cash equivalents	**1,548**	**(417)**
Cash and cash equivalents at the beginning of the year	152	569
Cash and cash equivalents at the end of the year	**1,700**	**152**

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 2006	**6,332**	**(1,394)**	**17,544**	**11**	**22,493**	**966**	**23,459**
Currency translation adjustment	-	-	-	16	16	16	32
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
Gain on disposal of treasury shares	-	-	621	-	621	-	621
Provision on available-for-sale investment (see Note 9)	-	-	(546)	-	(546)	-	(546)
Treasury shares purchases (see Note 14)	-	1,394	664	-	2,058	-	2,058
Dividends*	-	-	(1,016)	-	(1,016)	(40)	(1,056)
Balance at 31 December 2007	**6,332**	**-**	**20,470**	**27**	**26,829**	**1,060**	**27,889**
Currency translation adjustment	-	-	-	9	9	5	14
Fair value adjustment on available for sale investment (see Note 9)	-		232	-	232	-	232
Change in minority interests in OAO SOV-NKNK (see Note 20)	-	-	-	-	-	658	658
Change in minority interests in OY Nizhex Scandinavia (see Note 20)	-	-	(25)	-	(25)	(15)	(40)
Net profit recognised directly in equity	-	-	207	9	216	648	864
Profit for the year	-	-	1,532	-	1,532	(417)	1,115
Total recognized profit for the year	-	-	1,739	9	1,748	231	1,979
Dividends	-	-	(1,247)	-	(1,247)	(83)	(1,330)
Balance at 31 December 2008	**6,332**	**-**	**20,962**	**36**	**27,330**	**1,207**	**28,537**

* Dividends adjusted for dividends attributable to treasury shares

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 25,425 and 25,005 employees during the years ended 31 December 2008 and 2007, respectively.

The main shareholders of the Company as at 31 December 2008 are: OAO Svyazinvetsneftekhim (100% owned by the Republic of Tatarstan) (31 December 2008 – 25.2% of share capital; 31 December 2007 – 25.2% of share capital); and the TAIF Group (31 December 2008 – 44.5% of share capital; 31 December 2007 – 44.5% of share capital). 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 the nature of its ownership interest, 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 52% of total sales during 2008 (51% during 2007) 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. The one exception to this is a subsidiary incorporated in Finland; 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 interpretations became effective for the Group from 1 January 2008:

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);

- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and

- ***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 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Note 2 Basis of preparation (continued)

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group's accounting policy prior to the amendment to the standard was to capitalise borrowing costs relating to such assets, and therefore the amendment does not impact the Group's financial statements.

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. The Group is currently assessing the impact of the amended standard on its financial statements.

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. The Group does not expect the amendment to have a material effect on its financial statements.

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, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. 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. The Group is assessing what impact this may have in the future, if any, business combinations.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programs.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

Note 2 Basis of preparation (continued)

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

Note 3 Critical accounting estimates and 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:

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

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 13% to 10%, then the carrying value of property, plant and equipment would have increased by RR 20 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 10 million (see Note 10).

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. (See Note 7).

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 65 to 91 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.

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.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analyzed the impact of the recent financial crisis on future operations of the Group (see Note 22).

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 reflects the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the investment under assessment. When the level of information available to calculate the net present value of expected future cash inflows makes this exercise impracticable, management uses different valuation techniques (such as net assets test) to estimate whether there is objective evidence of impairment and to determine the likely amount of impairment, if any.

4.3 Cash and cash equivalents

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

4.4 Accounts receivable

Accounts receivable are carried at amortized costs which are approximates 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.

Note 4 Summary of significant accounting policies (continued)

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.

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.

Note 4 Summary of significant accounting policies (continued)

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 2008, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 29.3804 (31 December 2007 USD 1=RR 24.5462). The official Euro to RR exchange rate at 31 December 2008, as determined by the Central Bank of the Russian Federation, was Euro (EUR) 1=RR 41.4411 (31 December 2007 EUR 1=RR 35.9332). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

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

4.12 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.

Note 4 Summary of significant accounting policies (continued)

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 2008	31 December 2007
RR denominated amounts	1,605	107
Euro denominated amounts	13	25
USD denominated amounts	82	20
Total cash and cash equivalents	**1,700**	**152**

The Group placed temporarily available cash denominated in RR into short-term deposits primarily with Sberbank of RF and other banking institutions at total amount RR 1,050 million as at 31 December 2008 (RR nil million as at 31 December 2007).

Restricted cash amounts represented deposits, related to Group's loan agreement with Eximbank (see Note 11). These deposits totalled USD nil million (RR nil million) and USD 6.7 million (RR 165 million) at 31 December 2008 and 31 December 2007, respectively.

Note 6 Trade accounts receivable and other receivables

	31 December 2008	31 December 2007
Receivables from export sales (denominated in USD and Euro)	1,064	1,666
Receivables from domestic sales, net	2,093	1,418
Other accounts receivable, net	125	294
Total trade accounts receivable and other receivables	**3,282**	**3,378**

A provision for impairment of RR 146 million at 31 December 2008 (31 December 2007 – RR 129 million) has been made against receivables from domestic sales to reduce them to their estimated recoverable value. The net increase in the provision of RR 17 million during the year ended 31 December 2008 (year ended 31 December 2007 - decrease of RR 8 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 2008	Year ended 31 December 2007
Balance at the beginning of the year	**129**	**508**
Increase in impairment provision	49	52
Reversal of impairment provision	(32)	(60)
Write-off of previously impaired trade receivables	-	(371)
Balance at the end of the year	**146**	**129**

Other accounts receivable are stated net of provision for impairment of RR 44 million as at 31 December 2008 (31 December 2007 – RR 58 million). The net decrease in the provision of RR 14 million during the year ended 31 December 2008 (during the year ended 2006 – increase of RR 58 million) was recognised in the consolidated income statement as a component of selling, general and administrative expenses.

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

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at the beginning of the year	**58**	**326**
Increase in impairment provision	7	63
Reversal of impairment provision	(21)	(5)
Reclassification (See Note 9)	-	(326)
Balance at the end of the year	**44**	**58**

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

As at 31 December 2008 trade and other receivables of RR 190 million (31 December 2007 - RR 187 million) were fully impaired. The amount of provision was RR 190 million as of 31 December 2008 (31 December 2007 - RR 187 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 2008	31 December 2007
Up to 3 to 6 months	-	28
Over 6 months	190	159
Total	**190**	**187**

As at 31 December 2008 trade receivables of RR 804 million (31 December 2007 - RR 1,203 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:

Note 6 Trade accounts receivable and other receivables (continued)

	31 December 2008	31 December 2007
Not past due	2,353	1,881
Up to 3 months	684	983
3 to 6 months	35	122
Past due more than 6 months	85	98
Total	**3,157**	**3,084**

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

	31 December 2008	31 December 2007
Russian roubles	2,159	1,712
US Dollar	809	797
Euro	314	869
Total	**3,282**	**3,378**

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 2008	31 December 2007
Financial assets		
Short term part of loan to Tatneft-NKNK-Oil	43	92
Non-financial assets		
Advances to suppliers	896	2,754
Taxes paid in advance and VAT receivable on export sales	2,572	968
Prepayments to customs	12	10
Other current non-financial assets	173	255
Total other current assets	**3,696**	**4,079**

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 and in 2008 until 31 December 2011 (RR 43 million should be paid in 2009 and RR 343 – during 2010-2011). Management have assessed the recoverability of this loan and reflected impairment provision of RR 294 million during 2006. As of 31 December 2008 and 2007 this loan had a net carrying value of RR 92 million. Management consideres that the resultant carrying value of RR 92 million (RR 43 million is reported as other current assets and RR 49 million reported as other non-current assets) to be recoverable.

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

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at the beginning of the year	**310**	**299**
Increase in impairment provision	5	15
Reversal of impairment provision	(15)	(1)
Reclassification (See Note 9)	(294)	(3)
Balance at the end of the year	**6**	**310**

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

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

Note 7 Other current assets (continued)

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

	31 December 2008	31 December 2007
Russian Roubles	3,616	3,601
US Dollar	-	108
Euro	80	370
Total	**3,696**	**4,079**

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 2008	31 December 2007
Finished goods and work in progress	1,762	2,266
Raw materials	2,452	1,984
Materials and supplies	1,495	1,969
Total inventories	**5,709**	**6,219**

RR 1,557 million and RR 1,979 million of finished goods and work in progress were pledged as security for borrowings at 31 December 2008 and 2007, respectively.

Raw materials are presented net of provision for obsolescence of RR 51 million as at 31 December 2008 (31 December 2007 - RR 50 million). The increase in the provision of RR 1 million during the year ended 31 December 2008 (for the year ended 31 December 2007 – RR 8 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 2,503 million and RR 2,034 million at 31 December 2008 and 2007, respectively.

Note 9 Investments in associates and other non-current assets

Investments in associates

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at the beginning of the year	**996**	**1,703**
Additions	-	9
Disposals	(118)	(755)
Share of net results for the year	137	178
Dividends	(27)	(16)
Impairment	(103)	(123)
Balance at the end of the year	**885**	**996**

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		Ownership percentage	
		31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Tatneftekhiminvest-holding	Holding company	165	242	7.30%	7.30%
Spurt Bank	Banking services	73	179	5.05%	14.05%
Tatfundbank	Banking services	268	178	3.20%	3.20%
KB Intekhbank	Banking services	168	162	20.00%	20.00%
SP Elastokam	Production of polyurethane	124	130	50.00%	50.00%
Karpov Plant	Production of chemicals	86	96	32.81%	32.81%
Kaminterkhim	Production of chemicals	-	-	49.00%	49.00%
Other	Various	1	9	Various	Various
Total		**885**	**996**		

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.

The Group has disposed 9% of its stake of Spurt Bank to a third parties for RR 99 million. Financial result was recognized in consolidated income statement.

Summaries of the Group's share of associates' revenue, profit and loss, assets and liabilities for the years ended and as at 31 December 2008 and 2007 are as follows:

	Share of associate revenue		Share of associate assets		Share of associate liabilities	
Associate	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
SP Elastokam	594	538	337	264	213	134
Karpov Plant	275	243	286	272	201	177
AK Bars Bank*	-	180	-	-	-	-
Spurt Bank	46	156	514	1,280	441	1,100
Tatfundbank	173	126	1,459	1,374	1,192	1,197
KB Intekhbank	112	98	1,134	1,052	967	891
Kaminterkhim	4	4	28	28	36	36
Tatneftekhiminvest-holding	-	1	148	143	-	1
Other	16	2	173	175	194	161
Total	**1,220**	**1,348**	**4,079**	**4,588**	**3,244**	**3,697**

* for 5 months in respect of 2007

Other non-current assets

Description	31 December 2008	31 December 2007
Financial assets		
Available-for-sale investments, AK Bars Bank	755	755
Available-for-sale investments, other (see Note 14)	2,495	2,263
Long term part of loan to Tatneft-NKNK-Oil (see Note 7)	49	-
Mortgage loans issued to employees	159	138
Non-financial assets		
Other non-current non-financial assets	659	520
Total other non-current assets	**4,117**	**3,676**

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

Available-for-sale investments, other represents the Group's interest in an entity that previously held treasury shares. In year 2007 management re-assessed the Company's ability to control that entity, and as result of deconsolidation the Group recognized as an available-for-sale investment in respect of its interest in this entity at a fair value of RR 2,679 million as at the date of transaction.

Other non-current non-financial assets represent licences, catalysts and prepaid expenses, which will be utilized in the period after 31 December 2009.

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

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at the beginning of the year	**1,224**	**100**
Reclassification (see Note 7)	294	-
Increase in impairment provision	57	131
Reclassification	(326)	447
Fair value adjustment on available for sale investment	(232)	546
Balance at the end of the year	**1,017**	**1,224**

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 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 1 January 2008					
Cost	39,544	41,510	5,816	3,238	90,108
Accumulated depreciation	(24,440)	(31,760)	-	(2,201)	(58,401)
Net book value at 1 January 2008	**15,104**	**9,750**	**5,816**	**1,037**	**31,707**
Depreciation for the year	(1,149)	(1,711)	-	(93)	(2,953)
Additions	-	-	9,508	-	9,508
Transfers	7,495	5,043	(12,642)	104	-
Disposals at cost	(237)	(275)	(370)	(43)	(925)
Impairment provision	-	-	(39)	-	(39)
Accumulated depreciation on disposals	70	257	-	22	349
Net book value at 31 December 2008	**21,283**	**13,064**	**2,273**	**1,027**	**37,647**
At 31 December 2008					
Cost	46,802	46,278	2,273	3,299	98,652
Accumulated depreciation	(25,519)	(33,214)	-	(2,272)	(61,005)
Net book value at 31 December 2008	**21,283**	**13,064**	**2,273**	**1,027**	**37,647**

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

Note 10 Property, plant and equipment (continued)

	31 December 2008	31 December 2007
Cost capitalized finance leases	227	201
Accumulated depreciation	(45)	(18)
Net book value	**182**	**183**

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 2008	31 December 2007
No later than 1 year	71	73
Later than 1 year and no later than 5 years	54	99
Future finance charges on finance leases	(20)	(41)
Present value of finance lease liabilities	**105**	**131**

The present value of finance lease liabilities is as follows:

	31 December 2008	31 December 2007
No later than 1 year	55	47
Later than 1 year and no later than 5 years	50	84
Net book value	**105**	**131**

Property, plant and equipment is presented net of an accumulated impairment provision of RR 3,881 million at 31 December 2008 (RR 3,516 million at 31 December 2007). The increase in the provision of RR 39 million during the year ended 31 December 2008 (during the year ended 31 December 2007 – increase of RR 385 million) was recognised in the consolidated income statement as a component of selling, general and administrative expenses. The future economic returns on these assets, measured as the expected value in use, were not sufficient to cover their carrying value. The most significant component of the impairment charge of RR 200 million for 2007 relates to a charge in respect of an OAO SOV-NKNK 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 37,120 million and RR 36,452 million at 31 December 2008 and 2007, respectively.

Included in additions is capitalised interest of RR 339 million for the year ended 31 December 2008 (year ended 31 December 2007 – RR 170 million). The effective capitalization rate for the year ended 31 December 2008 was 7.62% (for the year ended 31 December 2007 – 7.19%).

RR 1,930 million and RR 2,812 million of property, plant and equipment at carrying value were pledged as security for borrowings at 31 December 2008 and 2007, respectively (see Note 11).

Note 11 Borrowings

	31 December 2008	31 December 2007
Bonds payable	7,308	6,332
Other borrowings	12,817	8,457
Total borrowings	**20,125**	**14,789**
Less current bonds payable and current portion of non-current borrowings	(7,707)	(3,958)
Total non-current borrowings	**12,418**	**10,831**

The fair value of borrowings and bonds are as follows:

	Fair value	
	31 December 2008	31 December 2007
Bonds payable	6,559	6,133
Other borrowings	10,675	7,628
Total borrowings and bonds	**17,234**	**13,761**

Note 11 Borrowings (continued)

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 15% (for the year ended 31 December 2007 - 10%).

Borrowings include amounts denominated in RR, USD and Euro:

	31 December 2008	31 December 2007
Borrowings in USD	15,013	9,533
Borrowings in RR	3,382	3,696
Borrowings in Euro	1,730	1,560
Total borrowings	**20,125**	**14,789**

Scheduled maturity of non-current borrowings was as follows:

	31 December 2008	31 December 2007
Due for repayment:		
Between one and two years	8,303	2,702
Between two and four years	2,063	5,163
After four years	2,052	2,966
Total non-current borrowings	**12,418**	**10,831**

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 4 April 2005, maturing 26 March 2012, RR denominated	9.99%* for first 4 years	1,500
Unamortized discount		(8)
Balance as at 31 December 2008		**1,492**
Issued 22 December 2005, maturing 22 December 2015**, USD denominated	8.5% paid semi-annually	5,876
Unamortized discount		(60)
Balance as at 31 December 2008		**5,816**
Total balance as at 31 December 2008		**7,308**

*- 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. See Note 24.

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

Description	Coupon	Amount
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**

Note 11 Borrowings (continued)

Other borrowings

The other borrowings received by the Group:

Borrowing facilities	Interest rate description	Currency	Year of redemption	31 December 2008 Current portion	31 December 2008 Non-current portion	31 December 007 Current portion	31 December 007 Non-current portion
			Current borrowings				
Nordea (credit line of Oy. Nizhex Scandinavia Ltd.)	Floating	EUR	2009	257	-	387	-
BNP (credit line of Oy. Nizhex Scandinavia Ltd.)	Floating	EUR	2008	-	-	62	-
ZAO KB Citibank credit line	Fixed	USD	2009	153	-	918	-
ZAO Unicredit bank credit line	Floating	USD	2008	-	-	455	-
AK Bars Bank credit line	Fixed	RR	2009	150	-	-	-
Sberbank credit line	Fixed	RR	2009	800	-	1,374	-
Other	Various	Various	2009	188	-	-	-
			Non-current borrowings				
Citibank N.A. (SACE) $65m	Fixed	USD	2013	285	998	238	1,072
Eximbank	Floating	USD	2008	-	-	151	-
Citibank (GOVCO)	Floating	USD	2013	60	241	50	252
Citibank N.A. (SACE) $120m	Fixed	USD	2015	419	2,512	-	972
HSBC	Floating	USD	2009	588	-	-	736
HVB and HSBC	Floating	USD	2010	2,742	1,371	-	-
HVB Bank (SLA 02)	Floating	EUR	2011	36	54	31	78
HVB Bank (SLA 03)	Floating	EUR	2014	64	323	56	335
HVB Bank (SLA 04)	Floating	EUR	2015	84	421	73	438
HVB Bank (SLA 05)	Floating	EUR	2017	34	506	-	-
Other	Various	Various	Various	355	176	163	616
Total other borrowings				**6,215**	**6,602**	**3,958**	**4,499**

Sberbank credit line. Starting from January 2007 the Group enteres into a credit line agreement with Sberbank, according to which the Group receives money installments on as-needed basis for its operating needs. Maturity of each installment is one month. 14 installments took place through the year 2008 with total amount of RR 15,056 mln. 12 of them were paid back. As at 31 December 2008 there was two unpaid loans in the amount of RR 800 mln (redemption date is March and May 2009; inventory pledged as collateral for this loan equals to RR 1,514 mln).

Note 11 Borrowings (continued)

Citibank N.A. (SACE) $65m. In 2008 the Group did not utilize financing from Citibank N.A. (SACE). 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 43.7 million (RR 1,283 million) at 31 December 2008 (31 December 2007 – USD 53.4 million (RR 1,310 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 nil million (RR nil million) at 31 December 2008 (31 December 2007 – USD 6.2 million (RR 151 million)). 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. Citibank serves as the agent for the lender (GOVCO). The outstanding amount of the loan was USD 10.2 million (RR 301 million) at 31 December 2008 (31 December 2007 – USD 12.3 million (RR 302 million)).

Citibank N.A. (SACE) $120m. In 2008 the Group received financing from Citibank N.A. (SACE) for USD 60.2 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 99.8 million (RR 2,931 million) at 31 December 2008 (31 December 2007 – USD 39.6 million (RR 972 million)).

HSBC. In December 2007 the Group received financing from HSBC for USD 30 million (RR 736 million). The outstanding amount of the loan is USD 20.0 million (RR 588 million) at 31 December 2008 (31 December 2007 – USD 30.0 million (RR 736)).

HVB and HSBC. In April 2008 a new credit line agreement was signed and utilized through HVB and HSBC. The total amount of credit line is USD 140 million. Group received financing for USD 140 million (RR 3,298 million). The outstanding amount of the loan as at 31.12.2008 was USD 140 million (RR 4,113).

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 2008 EUR 13.0 million (RR 478 million) was received by the Group (EUR 20.1 million (RR 722 million) in 2007).

- The outstanding amount of the SLA #02 was EUR 2 million (RR 90 million) at 31 December 2008 (31 December 2007 – EUR 3 million (RR 110 million)).
- The outstanding amount of the SLA #03 was EUR 9 million (RR 387 million) at 31 December 2008 (31 December 2007 – EUR 11 million (RR 391 million)).
- The outstanding amount of the SLA #04 was EUR 12 million (RR 505million) at 31 December 2008 (31 December 2007 – EUR 14 million (RR 511 million)).
- The outstanding amount of the SLA #05 was EUR 13 million (RR 540 million) at 31 December 2008 (31 December 2007 – nil).

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

	31 December 2008	31 December 2007
US$ denominated floating rate	3.93%	6.93%
US$ denominated fixed rate	6.88%	7.09%
RR denominated bonds	9.99%	9.99%
RR denominated fixed rate	13.08%	8.00%
EUR denominated floating rate	4.78%	5.00%

Certain loan agreements entered by the Group are secured by property, plant and equipment (see Note 10) and inventory (see Note 8). A number of loan agreements require the Group to maintain certain minimum financial ratios, and majority of those are related to EBIDTA. Management believes that calculation of EBIDTA should exclude the impact of foreign exchange gains and losses.

The Group has undrawn credit facilities in amount of RR 4,407 million (USD 95 million and EUR 16 million) at 31 December 2008 (31 December 2007 – RR 2,565 million (USD 104.5 million and EUR nil million)).

Note 12 Accounts payable and accrued liabilities

	31 December 2008	31 December 2007
Financial liabilities		
Trade accounts payable	5,418	4,364
Accrued interest	101	100
Non-financial liabilities		
Advances from customers	987	1,658
Dividends payable	473	606
Salaries payable	301	369
Vacation pay accrual	353	320
Other	287	350
Total accounts payable and accrued liabilities	**7,920**	**7,767**

Accounts payable and accrued liabilities are predominantly RR denominated.

Note 13 Taxes other than income payable

	31 December 2008	31 December 2007
Unified social tax	55	103
Property tax	101	76
Personal income tax	69	57
VAT (including deferred)	75	31
Tax on land	63	9
Other taxes	36	21
Total taxes other than income payable	**399**	**297**

Note 14 Shareholders' equity and earnings per share

As of 31 December 2008 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 shares (31 December 2007 – 1,611,256,000 shares). As of 31 December 2008 the Company had authorised, issued and paid up non-voting preferred share capital of 218,983,750 shares (31 December 2007 – 218,983,750 shares).

Earnings per share

	Year ended 31 December 2008	Year ended 31 December 2007
Profit attributable to parent company shareholders	1,532	3,203
Weighted average number of participating shares, adjusted for treasury shares	1,830,239,750	1,715,465,350
Earnings (basic and fully diluted) per participating share (RR per share)	**0.84**	**1.87**

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 2008 Group entity owned nil shares of the Company (as at 31 December 2007 - nil shares of the Company). In April 2007 threasury shares were disposed by the Group. See Note 9.

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

Rights attributable to preferred shares

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

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

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

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

Dividends and distributable reserves

Dividends declared:

For the year ended 31 December 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

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 following amounts have not been included in the consolidated financial statements since they were proposed by Board of Directors after the balance sheet date:

For the year ended 31 December 2008, as proposed by Board of Directors to the annual general shareholders' meeting on 23 April 2009:

Per ordinary share in RR	0.3098
Per preferred share in RR	0.3098

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 2008, the current year statutory net profit for the Company as reported in the published annual statutory reporting forms was RR 1,764 million (for the year ended 31 December 2007 – RR 4,096 million) and the closing balance of the accumulated profit including the current year statutory net profit totalled RR 16,334 million as at 31 December 2008 (as at 31 December 2007 – RR 16,069 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.

Note 15 Related party transactions (continued)

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 2008 and 2007 the Group has transactions and balances with the following state controlled entities and government bodies which are treated as related parties by IAS 24 "Related Party Disclosures".

Transactions and balances with the ultimate controlling entity

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

Related party	Description	Year ended 31 December 2008	Year ended 31 December 2007
The TAIF Group (OAO TAIF-NK, NMU-3 and other)	Purchase of materials and services	16,436	12,261
The TAIF Group (OAO TAIF-NK, OAO Kazanorgsintez and other)	Sale of products	5,468	4,036
The TAIF Group	Disposal of treasury shares	-	2,679

Disposal of treasury shares is discussed in Note 9.

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 2008	31 December 2007
Accounts receivable	973	73
Advances given	301	1,375
Accounts payable and accrued liabilities	1,064	669

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 2008	Year ended 31 December 2007
OAO Tatenergo (including its subsidiaries)	Purchase of electric energy and heat	10,044	8,157
The Tatneft Group (URNiN Tatneft, Tatneft Neftekhimsnab and other)	Sale of products	5,625	4,382
OAO Gazenergoset	Purchase and sale of products	3,696	2,525
OAO Russian railroads	Purchase of transport services	1,209	1,154
The Tatneft Group (URNiN Tatneft, Tatneft Neftekhimsnab and other)	Purchase of materials	1,061	1,151
ZAO Tatgazinvest	Purchase of natural gas used as fuel	1,534	696
OAO Sibur	Sale of products	565	488
OAO Oil Company Rosneft	Purchase of materials	437	374
Minzemimuschestvo RT	Lease of land	300	276
OAO Sibur	Purchases of materials	954	146
OAO Tatenergo (including its subsidiaries)	Sale of products	47	113
Customs of RT	Custom fees and custom services	89	67
Others	Sale of products	714	317
Others	Various purchases	2,015	61

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

Note 15 Related party transactions (continued)

Item	31 December 2008	31 December 2007
Accounts receivable	613	826
Accounts payable and accrued liabilities	806	891
Bank deposits (Sberbank)	1,050	-
Loans received (AK Bars Bank)	939	495
Loans received (Sberbank)	1,410	1,376
Cash and cash equivalents (MKB Avers, AK Bars Bank)	32	43

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 2008 were RR 409 million (year ended 31 December 2007 – RR 477 million), and purchases from associates in 2008 were 55 RR million (year ended 31 December 2007 - RR 101 million).

Balances with associates were as follows:

Item	31 December 2008	31 December 2007
Accounts receivable	192	121
Accounts payable and accrued liabilities	6	36
Cash and cash equivalents (AKB Spurt, Tatfundbank)	7	31

Transactions and balances with other related parties

Sales to other related parties in 2008 were RR 157 million (year ended 31 December 2007 – RR 202 million), and purchases from related parties in 2008 were 179 RR million (year ended 31 December 2007 - RR 668 million).

Balances with related parties were as follows:

Item	31 December 2008	31 December 2007
Accounts receivable	1	80
Accounts payable and accrued liabilities	75	-

Shares owned by directors and senior management

The total number of shares owned directly by the directors and senior management comprised 851,175 ordinary and 693,772 preferred shares (in total approximately 0.08% of the Company's share capital) at 31 December 2008 (at 31 December 2007 – 837,175 ordinary and 690,522 preferred shares (in total approximately 0.08% 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 188 million for the year ended 31 December 2008 (year ended 31 December 2007 – RR 176 million).

Note 16 Product sales

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

	Year ended 31 December 2008	Year ended 31 December 2007
Russia and CIS	39,674	34,939
Other Europe	33,852	26,523
North America	1,158	715
Other	694	1,245
Total product sales	**75,378**	**63,422**

Note 17 Cost of sales

	Year ended 31 December 2008	Year ended 31 December 2007
Raw materials	39,735	31,866
Energy and fuel	11,268	8,394
Personnel costs	5,102	4,480
Services and other	2,549	3,122
Depreciation	2,806	2,305
Unified social tax	1,190	1,008
Repairs and maintenance	784	888
Taxes other than income tax	737	667
Rental payment for land	383	280
Impairment provision for obsolete stock	1	8
Total cost of sales	**64,555**	**53,018**

The rent agreements for land is renegotiated annually. The expected amount of rent payments for 2009 year is RR 220 million (for 2008 – 294 million).

Note 18 Selling, general and administrative expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Transportation expenses	1,750	2,021
Maintenance of social infrastructure	989	1,019
Personnel costs	1,215	956
Materials	1,288	947
Impairment provision on fixed assets	39	385
Insurance	538	216
Unified social tax	234	201
Repairs and maintenance	213	186
Depreciation	147	166
Consulting, audit and information services	13	126
Impairment provision on investments	-	123
Energy and fuel	97	82
Fire security	106	78
Custom service fees	89	71
Bad debt provision (release)/ charge	(7)	62
Legal provisions charge/ (release) (see Note 22)	-	(15)
Other	836	944
Total selling, general and administrative expenses	**7,547**	**7,568**

Depreciation totaling RR 2,953 million (for the year ended 31 December 2007 – RR 2,471 million) and personnel costs totaling RR 6,317 million (for the year ended 31 December 2007 – RR 5,436 million) were included in the consolidated income statement for the year ended 31 December 2008.

Note 19 Income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax expense	968	1,422
Deferred income tax (benefit)	(150)	(118)
Total income tax expense	**818**	**1,304**

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 was 24%, which reflects the fact that the regional and local tax authorities decided to assess the maximum supplementary amount in respect of year 2007 and prior years.

Note 19 Income tax expense (continued)

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented below represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

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 2008	Year ended 31 December 2007
Profit before taxation	1,933	4,625
Theoretical tax charge at statutory rate of 24%	464	1,110
Tax effects of items not deductible or assessable for taxation purposes:		
Non-taxable income	(55)	(227)
Non-deductible expenses	348	418
Impairment of property, plant and equipment of social nature	9	91
Other	111	(87)
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	(60)	-
Total income tax expense	**818**	**1,304**

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 20 percent (for the year ended 31 December 2007 - 24 percent).

	31 December 2006	Tax effect of movement in temporary differences	31 December 2007	Tax effect of movement in temporary differences	31 December 2008
Property, plant and equipment	692	(85)	607	(200)	407
Inventories	18	(18)	-	(33)	(33)
Long-term investments	(6)	(16)	(22)	33	11
Long-term borrowings	61	21	82	(24)	58
Accounts payable	(79)	(30)	(109)	47	(62)
Deferred income	(15)	3	(12)	14	2
Other non-current liabilities	-	-	-	(24)	(24)
Accounts receivable and prepayments	(116)	21	(95)	37	(57)
Net deferred income tax liability	**569**	**(118)**	**451**	**(150)**	**301**

The Group has not recognised a deferred tax liability of RR 3 million as at 31 December 2008 (31 December 2007 – RR 17 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 2008 and 2007, the Group's effective tax rate was 42 percent and 28 percent, respectively. During 2008 the Group's effective tax rate increased due to decrease in non-taxable income.

Note 20 Principal subsidiaries

Subsidiary	Business	Percentage of voting interest held 31 December 2008	31 December 2007
OOO Trest TSNKhRS	General equipment repairs and construction	100%	100%
OOO RMZ-NKNK	Repair and maintenance	100%	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-NKNK	Water purification	52%	100%
OOO SCC Neftekhimik	Ice sports complex	87%	87%
OAO Neftekhimsevilen	Plastic products	51%	51%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56%	50%
OOO Nizhnekamskneftekhim –Divinil	Butadiene production	50%	50%

As at 31 December 2008 and 2007 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.

In year 2008 the Group purchased one share of its existing subsidiary, OY Nizhex Scandinavia Ltd, from minority shareholder for RR 40 million. The transaction resulted in increase of Group's stake in its subsidiary from 50% to 56%. The excess amount between consideration paid and respective share of net assets received amounted to RR 25 million, which was recognized in consolidated statement of changes in equity.

In 2008 decision about additional shares issue by OAO SOV-NKNK was undertaking. Total amount of additional shares issue RR 1,186 million (1,186,560,846 shares with 1 RR nominal each). The other shareholders, Ministry of Land and Property Relations of Republic of Tatarstan, city administration of Nizhnekamsk and OAO Tatneft, contributed assets of fair value of RR 658 million. The respective change in minority interest was recognized in in consolidated statement of changes in equity. Additional shares issue performed by SOV-NKNK was registered by relevant government authorities on 5 February 2009.

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.

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.

At 31 December 2008, if the Euro had weakend by 15% 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 2008	Year ended 31 December 2007
Effect on post tax profit	243	65

Note 21 Financial instruments and financial risk factors (continued)

At 31 December 2008, if the US dollar had weakened by 15% 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 2008	Year ended 31 December 2007
Effect on post tax profit	2,125	1,092

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 15 basis point shift would be:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit and loss	146	87

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.

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;
Rating C – others, creditworthiness difficulties are anticipated.

	Rating "A"	Rating "B"	Rating "C"
At 31 December 2008			
Cash and cash equivalents	1,700	-	-
Trade accounts receivable and other receivables	3,162	120	-
Other current financial assets	-	-	43
Non-current financial assets	3,409	-	49
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	3,156	-	-

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 2008				
Trade accounts payable	5,418	-	-	-
Other payables	101	155	56	-
Borrowings (principal)	7,707	8,303	2,063	2,052
Borrowings (interest)	1,068	842	482	95
At 31 December 2007				
Trade accounts payable	4,364	-	-	-
Other payables	100	25	74	-
Borrowings (principal)	3,958	1,202	6,663	2,966
Borrowings (interest)	856	796	703	30

The ability to ensure compliance with borrowing covenants is critical to the Group managing its liquidity risks. Any breach of a covenant can have significant impact on the ability of the Group to repay its obligations in a structured manner.

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 2008 and 31 December 2007. At 31 December 2008 and 31 December 2007 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, unless otherwise stated, 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 2008 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 2008 no provision for potential tax liabilities had been recorded (31 December 2007 – 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 2008 and 2007 and, consequently, provision of RR 71 million was reflected in the consolidated balance sheet as of both 31 December 2008 and 2007.

No other legal provisions were accrued in 2008.

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 2008 the Group had entered into capital commitments equal to RR nil (31 December 2007 - 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 expensed 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 2008, the Group's remaining supply commitment under this agreement is RR nil (31 December 2007 – RR nil million (USD nil million)). This supply commitment agreement was cancelled in April 2007. The credit was repaid in March 2008.

According to purchase agreement of OY Nizhex Scandinavia Ltd share (see Note 20) the Group has commitment of delivery of 152 thousands metric tones of petrochemical products till 30 June 2011 to that subsidiary.

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 2008 is RR 35 million, including AK Bars Bank as beneficiary – RR 35 million (31 December 2007 – RR 95 million, including AK Bars Bank as beneficiary – RR 70 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 2008 for RR 961 million (RR 28 million – as at 31 December 2007).

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 2008 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

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.3718 at 1 October 2008 to RR 29.3804 at 31 December 2008 and RR 33.2491 at 30 April 2009.

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. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

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

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. Since September 2008 several large Russian banks have been acquired by state-controlled banks and companies due to their liquidity problems. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business in the current circumstances.

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 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 2008, the Group’s strategy, which was unchanged from 2007, 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 2008 and 2007 were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Total borrowings (Note 11)	20,125	14,789
Less: cash and cash equivalents (Note 5)	(1,700)	(152)
Net debt	**18,425**	**14,637**
Total equity	28,537	27,889
Total capital	**46,962**	**42,526**
Indebtness ratio	**65%**	**53%**
Gearing ratio	**39%**	**34%**

The increase in the Indebtness ratio during 2008 mainly caused by lower 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 23 April 2009 the Board of Directors meeting proposed a dividend of RR 567 million. This need to be ratified by annual general shareholders meeting.

Early redemption of bonds

On 2 April 2009 the Group executed the option and redeemed the bonds in advance of its original maturity for the amount of RR 1,493 million with fixed coupon rate of 10.00%.