Open Joint Stock Company
“Kazanorgsintez”

Consolidated interim financial statements
for the six months ended 30 June 2007
(unaudited)

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007

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FOR THE SIX MONTHS ENDED 30 JUNE 2007:

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group at 30 June 2007, and the results of its operations, changes in shareholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the six months, ended 30 June 2007 were approved on 24 September 2007 in Kazan, Republic of Tatarstan, Russian Federation, by:

L. S. Alekhin
General Director

N. F. Gainullina
Chief Financial Officer

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ"

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(in thousands of Russian roubles)

	Notes	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006
Sales	5	10,318,758	7,185,399
Cost of sales	6	(6,866,509)	(5,315,995)
Gross profit		**3,452,249**	**1,869,404**
Selling, general and administrative expenses	7	(1,171,394)	(874,518)
Income/(loss) from other sales		20,535	(29,832)
Finance costs, net	8	(110,890)	(85,237)
(Loss)/income from investments, net	9	14,051	3,853
Foreign exchange gain/(loss), net		169,768	(5,400)
Other expenses, net	10	(77,197)	(71,132)
Profit before income tax		**2,297,122**	**807,138**
Income tax	11	(642,158)	(207,280)
Profit for the period		**1,654,964**	**599,858**
Attributable to:			
Shareholders of the parent company		1,662,744	608,950
Minority interest		(7,780)	(9,092)
		1,654,964	**599,858**
EARNINGS PER SHARE (RUR)			
Basic		0.93	0.34
Diluted		0.87	0.32

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ"

CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2007
(in thousands of Russian roubles)

	Notes	Unaudited 30 June 2007	Audited 31 December 2006
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	29,967,079	24,873,904
Intangible assets	13	28,426	32,599
Long-term investments	14	52,100	52,100
Investments in associates	15	18,582	29,278
Advances paid for licenses	16	1,039,946	1,039,946
		31,106,133	26,027,827
CURRENT ASSETS:			
Inventories	17	2,705,379	2,257,163
Trade and other receivables	18	1,166,198	1,748,689
Prepaid and recoverable taxes	19	1,014,732	472,935
Cash and cash equivalents	20	615,779	784,163
		5,502,088	5,262,950
TOTAL ASSETS		**36,608,221**	**31,290,777**
EQUITY AND LIABILITIES			
EQUITY AND RESERVES:			
Share capital	21	1,904,710	1,904,710
Treasury shares	21	(4,134)	(46,251)
Additional paid-in capital	21	1,515,015	1,515,015
Retained earnings		10,801,510	9,801,397
Equity attributable to shareholders of the parent company		14,217,101	13,174,871
Minority interest		23,544	31,324
		14,240,645	13,206,195
NON-CURRENT LIABILITIES:			
Long-term borrowings	22	14,380,112	11,301,384
Deferred tax liabilities	11	1,411,514	1,214,125
Obligations under finance leases	23	153,725	79,082
		15,945,351	12,594,591
CURRENT LIABILITIES:			
Short-term borrowings	24	2,742,168	925,145
Taxes payable	25	118,089	171,647
Other payables and accrued liabilities	26	1,184,995	686,942
Trade payables		2,104,242	2,325,933
Advances received from customers		272,731	1,380,324
		6,422,225	5,489,991
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**36,608,221**	**31,290,777**

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ"

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(in thousands of Russian roubles)

		Equity attributable to shareholders of the parent company						
	Notes	**Share capital**	**Additional paid-in capital**	**Treasury Stock**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2005		**1,904,710**	**1,515,015**	**-**	**7,577,999**	**10,997,724**	**43,590**	**11,041,314**
Profit for the period		-	-	-	2,523,545	2,523,545	(12,266)	**2,511,279**
Dividends	27	-	-	-	(300,147)	(300,147)	-	**(300,147)**
Re-acquisition of issued shares		-	-	(81,300)	-	(81,300)	-	**(81,300)**
Re-issuance of ordinary shares from treasury shares		-	-	35,049	-	35,049	-	**35,049**
Balance at 31 December 2006		**1,904,710**	**1,515,015**	**(46,251)**	**9,801,397**	**13,174,871**	**31,324**	**13,206,195**
Profit for the period		-	-	-	1,662,744	1,662,744	(7,780)	**1,654,964**
Dividends	27	-	-	-	(662,631)	(662,631)	-	**(662,631)**
Re-acquisition of issued shares		-	-	(4,134)	-	(4,134)	-	**(4,134)**
Re-issuance of ordinary shares from treasury shares		-	-	46,251	-	46,251	-	**46,251**
Balance at 30 June 2007		**1,904,710**	**1,515,015**	**(4,134)**	**10,801,510**	**14,217,101**	**23,544**	**14,240,645**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(IN THOUSANDS OF RUSSIAN ROUBLES)

	Notes	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006
OPERATING ACTIVITIES:			
Cash flows from operations	28	**2,059,369**	**613,700**
Income tax paid		(448,228)	(103,022)
Interest paid		(558,698)	(309,607)
Net cash generated from operating activities		**1,052,443**	**201,071**
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(5,611,711)	(4,516,600)
Proceeds on disposal of property, plant and equipment		3,788	792
Proceeds on disposal of equity investments		19,393	-
Interest received		5,355	1,160
Dividends received		-	5,445
Net cash used in investing activities		**(5,583,175)**	**(4,509,203)**
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		1,921,969	1,094,953
Repayments of short-term borrowings		(568,984)	(742,851)
Proceeds from long-term borrowings		4,221,934	5,436,335
Repayments of long-term borrowings		(872,320)	(437,053)
Dividends paid		(299,974)	(80,923)
Re-acquisition of issued shares		(4,134)	(21,977)
Proceeds on re-issuance of ordinary shares from treasury shares		46,251	-
Repayment of obligations under finance lease		(91,112)	(85,314)
Net cash generated from financing activities		**4,353,630**	**5,163,170**
Net increase in cash and cash equivalents		**(177,102)**	**855,038**
Cash and cash equivalents at beginning of the period		**784,163**	**426,320**
Effect of exchange rate changes on cash held in foreign currencies		8,718	14,458
Cash and cash equivalents at end of the period		**615,779**	**1,295,816**

(in thousands of Russian roubles)

1. GENERAL

Organisation

Open Joint Stock Company "Kazanorgsintez" (the "Company") was incorporated in Kazan, Republic of Tatarstan, Russian Federation on 1 September 1993. The principal activity of the Company and its subsidiaries (the "Group") is production of chemical products and derivatives thereof (mainly polyethylene) which are marketed and sold primarily in the Russian Federation.

Major production facilities of the Group are located in Kazan, Republic of Tatarstan, Russian Federation. The registered office of the Company is situated at the following address: 101, Belomorskaya street, 420051, Kazan, Republic of Tatarstan, Russian Federation.

Details of the Company's subsidiaries are in Note 33.

2. ADOPTION OF NEW AND REVISED STANDARDS

During six months ended 30 June 2007 the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not significantly affected the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation	Effective for annual periods beginning on or after
• IFRS 8 "Operating Segments"	1 January 2009
• IFRIC 12 "Service Concession Agreements"	1 January 2008

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the valuation of certain financial instruments. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method.
The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Special purpose entities

Special purpose entities ("SPEs") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or exposed to risks associated with activities of the SPE.

SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

<u>Sale of goods</u>

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods, which is typically at the date of loading to third party for transportation;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend, interest and other revenue

Dividend revenue from investments is recognised when the Group’s right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

The income from other sales includes revenues from sale of ancillary items, net of cost of sales. Other sales primarily consist of sales of electricity, water and heat.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

The functional currency of the Company and all its subsidiaries, which reflects the economic substance of their operations, and presentation currency of the consolidated financial statements of the Group, is the Russian rouble (‘RUR”).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost less any accumulated depreciation and accumulated impairment losses.

Capitalised cost includes acquisition cost and major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repair and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to the income statement as incurred.

Deprecation is computed under the straight-line method utilizing the estimated useful lives of the assets, which are:

Buildings	25-40 years
Machinery and equipment	10-22 years
Other	3-10 years

Land occupied by the Group's facilities is owned by the Group. Land is not depreciated and is included in property, plant and equipment.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as similar owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Construction in progress

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of constructed assets commences when the assets are put into operation.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Software costs incurred for the development, implementation and enhancement of the operating systems, are capitalised and amortised over the expected useful life of the system. Software costs relating to the maintenance of the operating system are recognised as an expense in the period in which they occur.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour, transportation, handling costs and those overhead costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Work in progress and semi-finished products are valued at the net unit cost of production allocated to the estimated stage of completion.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash with banks, deposits and marketable securities with original maturity of three months or less.

Financial assets

Financial assets, except for cash and cash equivalents and financial assets out of scope of IAS 39 (Revised), *Financial Instruments: Recognition and Measurement*, are classified into the following specified categories: financial assets as "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" ("HTM") investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

The Group classifies financial assets as at FVTPL if:

- they have been acquired principally for the purpose of selling in the near future; or
- they are a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

HTM investments

Debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the closing of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques.

Dividends on AFS equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

Loans and receivables

Loans and receivables include trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised. Any increase in fair value of AFS equity securities subsequent to an impairment loss is recognised directly in equity.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities, including borrowings, trade and other payables are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period are recognised as an expense in that period.

The Group contributes to the Pension fund of the Russian Federation and Medical and Social Insurance funds on behalf of all its employees. These contributions are recognised in the income statement as incurred.

Segment reporting

The majority of the Group's business operations are located in the Russian Federation and relate primarily to the production and marketing of chemical products and derivatives thereof (mainly ethylene and polyethylene). Therefore, business activities are subject to the same risks and returns and are addressed in the consolidated financial statements of the Group as one reportable segment.

Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profit legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Treasury shares

Treasury shares are recorded at cost and disclosed as a deduction from equity.

Value-added taxes

Value-added taxes ("VAT") related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Taxation

Judgments are required in determining current income tax liabilities. The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact income tax and deferred tax provisions in the period in which such determination is made.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries. The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

Environmental obligations

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group pays fees to the regulatory authorities for the right to discharge within legal norms. Management believes this fee covers all environmental obligations, and this fee is recorded as an expense in the period incurred. No other provisions for environmental obligations are recorded.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful economic lives of property, plant and equipment

Management assesses the useful economic lives of property, plant and equipment considering the current technical condition of assets and potential changes in technology and demand. Any changes of these conditions could affect prospective depreciation of property, plant and equipment and their carrying value.

(in thousands of Russian roubles)

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

	Unaudited six months ended 30 June 2007	**Unaudited six months ended 30 June 2006**
5. SALES		
By geographic region:		
Domestic sales	7,724,387	5,747,404
Export sales	2,594,371	1,437,995
Total	**10,318,758**	**7,185,399**
By production plant:		
High density polyethylene plant	3,192,058	2,972,106
Low density polyethylene plant	4,375,730	2,090,203
Organic products plant	708,076	780,981
Ethylene plant	1,342,400	788,613
Plastic goods plant	700,494	553,496
Total	**10,318,758**	**7,185,399**
6. COST OF SALES		
Raw materials	4,072,873	2,989,004
Energy and water	952,981	766,754
Labour costs	805,240	783,151
Depreciation	562,544	226,979
Services	133,168	123,862
Auxiliary materials	203,925	273,322
Obsolescence provision released	(15,421)	(4,173)
Other	151,199	157,096
Total	**6,866,509**	**5,315,995**

(in thousands of Russian roubles)

	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses	776,552	660,776
Selling expenses	228,360	142,709
Taxes, other than income tax	145,430	49,181
Bank charges	21,052	21,852
Total	**1,171,394**	**874,518**

8. FINANCE COSTS, NET

Interest expense	96,619	72,818
Interest under finance leases	13,154	13,498
Other expense/(income)	1,117	(1,079)
Total	**110,890**	**85,237**

9. (LOSS)/INCOME FROM INVESTMENTS, NET

Income from disposal of associate	14,766	-
Interest income	5,355	1,160
Dividends received	-	5,445
Loss from associates	(6,070)	(2,752)
Total	**14,051**	**3,853**

10. OTHER EXPENSES, NET

Rent of land	72,500	66,984
Maintenance of social infrastructure	5,082	3,728
Other (income)/expenses	(385)	420
Total	**77,197**	**71,132**

Maintenance of social infrastructure comprises primarily operating costs of facilities such as hotel, dormitory, hunting ground etc.

Expenses for rent of land related to rent of an idle plot of land in the remote region of Tatarstan Republic, the agreement was concluded at the request of the local tax authorities to increase tax collection in Tatarstan Republic.

(in thousands of Russian roubles)

11. INCOME TAX

The Group's provision for income tax is as follows:

	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006
Current income tax charge	444,769	117,433
Deferred tax charge	197,389	89,847
Total	**642,158**	**207,280**

The following presents a reconciliation of theoretical income tax calculated at the rate effective in the Russian Federation (24%) to the amount of actual income tax expense recorded in the income statement:

	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006
Profit before income tax	2,297,122	807,138
Theoretical income tax expense at 24%	551,309	193,713
Effect of non-deductible expenses and other permanent differences, net	90,849	13,567
Income tax expense	**642,158**	**207,280**

Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax liabilities:

	Unaudited 30 June 2007	Audited 31 December 2006
Property, plant and equipment	1,451,453	1,227,489
Provision for doubtful debts	(12,174)	(8,208)
Accrued expenses/(income)	(1,837)	(1,837)
Other	(25,928)	(3,319)
Deferred tax liabilities, net	**1,411,514**	**1,214,125**

Deferred tax rollforward

	Unaudited 30 June 2007	Audited 31 December 2006
Balance at beginning of period	1,214,125	800,581
Charge to income statement	197,389	413,544
Balance at end of the period	**1,411,514**	**1,214,125**

(in thousands of Russian roubles)

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
At 1 January 2006	**8,350,198**	**10,586,690**	**559,215**	**6,293,483**	**25,789,586**
Additions	-	48,425	-	11,519,978	**11,568,403**
Disposals	(16,454)	(206,700)	(6,600)	(159,477)	**(389,231)**
Transfers	916,908	2,767,831	76,788	(3,761,527)	**-**
At 31 December 2006	**9,250,652**	**13,196,246**	**629,403**	**13,892,457**	**36,968,758**
Additions	-	-	1,114	5,652,625	**5,653,739**
Disposals	(1,557)	(36,402)	(3,833)	(6,268)	**(48,060)**
Transfers	22,571	848,567	151,984	(1,023,122)	**-**
At 30 June 2007	**9,271,666**	**14,008,411**	**778,668**	**18,515,692**	**42,574,437**
Accumulated depreciation					
At 1 January 2006	**(5,091,585)**	**(6,232,052)**	**(243,101)**	**-**	**(11,566,738)**
Charge for the year	(163,700)	(514,017)	(54,539)	-	**(732,256)**
Eliminated on disposals	12,194	185,410	6,536	-	**204,140**
At 31 December 2006	**(5,243,091)**	**(6,560,659)**	**(291,104)**	**-**	**(12,094,854)**
Charge for the period	(89,631)	(445,817)	(17,495)	-	**(552,943)**
Eliminated on disposals	1,555	36,210	2,675	-	**40,440**
At 30 June 2007	**(5,331,167)**	**(6,970,267)**	**(305,923)**	**-**	**(12,607,358)**
Net book value					
At 31 December 2006	**4,007,561**	**6,635,587**	**338,299**	**13,892,457**	**24,873,904**
At 30 June 2007	**3,940,499**	**7,038,144**	**472,745**	**18,515,692**	**29,967,079**

The Group's plant sites presently occupy approximately 386 hectares of land for which the Group holds the title. Currently, there is no charge to the Group for land use, except for certain annual taxes, which are expensed as incurred.

At 30 June 2007 property, plant and equipment with the carrying value of RUR 1,300,624 thousand (31 December 2006 – RUR 457,509 thousand) were pledged to secure certain short-term and long-term loans granted to the Group (refer to notes 24 and 22).

(in thousands of Russian roubles)

During six months ended 30 June 2007 the interest of RUR 489,323 thousand have been capitalized in property, plant and equipment (six months ended 30 June 2006 – RUR 303,407 thousand).

13. INTANGIBLE ASSETS

Intangible assets primarily comprise of costs incurred in connection with acquisition and implementation of management information system SAP R/3 and are amortised over a period of thirteen years.

	Unaudited 30 June 2007	**Audited 31 December 2006**
Book value	109,351	109,351
Accumulated amortisation	(80,925)	(76,752)
Net book value	**28,426**	**32,599**

14. LONG-TERM INVESTMENTS

	30 June 2007		**31 December 2006**	
	% ownership	**Amount**	**% ownership**	**Amount**
OJSC "Tatneftekhiminvestholding"	7%	38,537	7%	38,537
National non-state pension fund	5%	10,557	5%	10,557
OJSC "Kazanskaya yarmarka"	2%	2,950	2%	2,950
Other	-	56	-	56
Total		**52,100**		**52,100**

15. INVESTMENTS IN ASSOCIATES

		% of ownership interest	
Name of associate	**Principal activities**	**Unaudited 30 June 2007**	**Audited 31 December 2006**
LLC "Taif-Invest"	Investing activities	40	40
CJSC "Ankorit"	Trading company	-	39
LLC "Novomoskovsky trubny zavod"	Manufacturing	26	26

(in thousands of Russian roubles)

	Unaudited 30 June 2007	Audited 31 December 2006
Total assets	116,582	1,046,965
Total liabilities	(88,250)	(992,863)
Net assets	28,332	54,102
Group's share of associates' net assets	**16,813**	**29,278**
Total revenue	800,872	1,254,774
Total loss for the period	(10,692)	(11,036)
Group's share of associates' loss for the period	**(6,070)**	**(2,523)**

In January 2007 Group sold its share in associate CJSC "Ankorit" for RUR 19,393 thousands.

16. ADVANCES PAID FOR LICENSES

Advances paid for licenses are comprised of prepaid amounts for licenses for bisphenol and polycarbone plastic and high density polyethylene production technologies.

17. INVENTORIES

Stores and materials	2,099,752	1,615,488
Work in progress and semi-finished products	285,577	241,771
Finished goods	304,185	415,560
Goods for resale	16,100	-
Less: obsolescence allowance	(235)	(15,656)
Total	**2,705,379**	**2,257,163**

Several of the Group's subsidiaries are engaged in agricultural activity of breeding livestock intended for the production of meat and planting and harvesting of potato and other agricultural products. The aggregated biological assets of these subsidiaries are not material to the accompanying Group's consolidated financial statements and are included in stores and materials.

18. TRADE AND OTHER RECEIVABLES

Trade receivables	525,875	1,102,457
Advances paid	565,821	441,960
Other receivables and prepaid expenses	185,247	294,634
Less: provision for doubtful debts	(110,745)	(90,362)
Total	**1,166,198**	**1,748,689**

(in thousands of Russian roubles)

	Unaudited 30 June 2007	Audited 31 December 2006

19. PREPAID AND RECOVERABLE TAXES

Value added tax	872,126	472,764
Income tax	142,606	-
Other taxes	-	171
Total	**1,014,732**	**472,935**

20. CASH AND CASH EQUIVALENTS

Cash in banks, denominated in RUR	255,157	400,921
Cash in banks, denominated in currency	42,154	55,582
Letters of credit	267,275	310,602
Deposits	47,275	8,674
Other cash and cash equivalents	3,918	8,384
Total	**615,779**	**784,163**

21. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

	Unaudited 30 June 2007 '000 shares	Audited 31 December 2006 '000 shares
Authorised number of shares		
Ordinary shares at par value of RUR 1 each	2,505,114	2,505,114
Preferred shares at par value of RUR 1 each	119,596	119,596
Total authorised	**2,624,710**	**2,624,710**
Issued and fully paid number of shares		
Ordinary shares at par value of RUR 1 each	1,785,114	1,785,114
Preferred shares at par value of RUR 1 each	119,596	119,596
Total issued and fully paid	**1,904,710**	**1,904,710**
Treasury shares		
At the beginning of the year	3,300	-
Re-acquired by the Group	423	5,694
Re-issued from treasury shares	(3,400)	(2,394)
At the end of the period	**323**	**3,300**

(in thousands of Russian roubles)

Treasury shares are recorded as a deduction from issued and fully paid share capital at 30 June 2007 in the amount of RUR 4,134 thousand (31 December 2006 – RUR 46,251 thousands).

Share capital balance was adjusted for the effects of inflation in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”. The effect of such adjustments was recorded as Additional paid-in capital. The adjustment was determined using the inflation rate index from 1 September 1993, the date the Company was established as a joint stock company, through 31 December 2002.

Group’s ownership structure was as follows:

	% of ownership	
	Unaudited 30 June 2007	**Audited 31 December 2006**
OJSC “Svyazinvestneftekhim”	26.6%	26.6%
LLC “Telecom-Management”	50.2%	50.0%
Other legal entities and individuals	23.2%	23.4%
Total	**100.0%**	**100.0%**

Common shareholders are allowed one vote per share. Preferred shares are non-voting. All common shares and preferred shares are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations. Preferred shares holders are entitled to an annual payment of dividends in the amount equal to 25% of their par value. Shareholders of preferred shares have a preferred right to recover the par value of preferred shares in liquidation.

One share of the Company, held by the Government of Tatartstan, carries the right to veto certain decisions taken at shareholders' and Board of Directors' meetings. Decisions subject to veto include: increases and decreases in share capital, amendments to the Company's charter, liquidation or reorganization of the Group or any of its subsidiaries or branches and investments in other legal entities. This veto right is referred to as “Golden Share”, and the term was extended indefinitely in 1998 by a decree of the President of Tatarstan and may be utilized by the Government of Tatarstan notwithstanding its voting rights are less than 25% of the Group.

Ultimate beneficial owners of the Group are:

- OJSC “TAIF” (“TAIF”), which controls LLC “Telecom-Management”; and
- The Government of Tatarstan, through its control of OJSC “Svyazinvestneftekhim”.

(in thousands of Russian roubles)

22. LONG-TERM BORROWINGS

	Unaudited 30 June 2007	Audited 31 December 2006
International Moscow Bank		
A multicurrency loan facility of USD 50,000 thousand bearing the interest rates of 11% (for RUR loans), LIBOR + 1.9% (for USD loans) and EURIBOR + 1.9% (for EUR loans) per annum with final repayment due on 12 December 2009. The principal is repayable monthly starting from September 2009. The loan is unsecured.	860,652	50,395
Sberbank		
A USD denominated loan facility with a limit of USD 40,000 thousand bearing a maximum interest rate of 9.5% per annum with final repayment due on 17 March 2014. The principal is repayable in quarterly instalments ranging from 1% to 10% of principal beginning on 27 December 2009. The loan is secured by the pledge of equipment with the carrying book value of RUR 1,173,418 thousand.	1,030,322	-
A USD-denominated loan facility up to USD 81,200 thousand bearing a varying interest rate with a maximum of 6.9% per annum with final repayment due on 24 January 2016. The principal is repayable in equal semi-annual installments beginning after ten quarters from the date of drawing the facility. The loan is unsecured.	2,132,143	2,177,575
A USD-denominated loan facility up to USD 6,673 thousand bearing a maximum interest rate of 7.92% per annum with final repayment due on 24 April 2015. The principal is repayable in equal semi-annual installments beginning after six quarters from the date of drawing the facility. The loan is unsecured.	164,471	178,285
A USD-denominated loan facility up to USD 40,000 thousand bearing interest rate 9.5% per annum based on quarter revenue received with final repayment due on 10 August 2013. The principal is repayable in equal quarterly installments beginning on 27 August 2009. The loan is secured by the pledge of equipment with the carrying value of RUR 28,501 thousand.	1,066,645	254,733
A USD-denominated loan facility up to USD 35,000 thousand bearing interest rate 9.5% per annum based on quarter revenue received with final repayment due on 29 August 2013. The principal is repayable in quarterly installments ranging from 1% to 10% of principal beginning on 27 June 2009. The loan is secured by the pledge of equipment with the carrying value of RUR 96,852 thousand.	930,939	125,158

(in thousands of Russian roubles)

	Unaudited 30 June 2007	Audited 31 December 2006
ABN AMRO		
A EUR-denominated loan facility up to EUR 35,560 thousand bearing interest at EURIBOR + 1.25% per annum with the final repayment due on 6 September 2011. The principal is repayable in equal semi-annual installments starting from sixth month after delivery date. As a term of the loan, the Company has taken out credit insurance on behalf of ABN AMRO.	867,682	956,475
A EUR-denominated loan facility up to EUR 20,025 thousand bearing interest at EURIBOR + 0.4% per annum with the final repayment due on 24 January 2017. The principal is repayable in equal semi-annual installments starting from sixth month after delivery date. As a term of the loan, the Company has taken out credit insurance on behalf of ABN AMRO.	696,671	696,881
A EUR-denominated loan facility up to EUR 7,800 thousand bearing interest at EURIBOR + 2.75% per annum with the final repayment due on 22 June 2007. The principal is repayable in equal semi-annual installments starting from sixth month after delivery date.	-	135,535
A EUR-denominated loan facility up to EUR 54,917 thousand bearing interest at EURIBOR + 0.4% per annum with the final repayment due on 27 July 2017. The principal is repayable in equal semi-annual installments starting from sixth month after equipment start-up date. As a term of the loan, the Company has taken out credit insurance on behalf of ABN AMRO.	1,301,506	782,347
A USD-denominated loan facility up to USD 30,000 thousand bearing an interest rate of LIBOR + 2,45% per annum with final repayment due on 06 July 2009. The loan is secured by the pledge of equipment with the carrying value of RUR 1,853 thousand.	805,218	822,446
Corporate bonds		
Loan participation notes in the amount of USD 200,000 thousand, bearing interest at 9.25%, due on 30 October 2011 and issued by Kazanorgsintez S.A., special purpose entity, on a limited recourse basis for the sole purpose of funding a loan to the Company. The notes are fully and unconditionally guaranteed by the Company. Interest payments on the notes are due semi-annually in April and October of each year, commencing on 30 April 2007.	5,244,167	5,350,114
RZB Finance LLC		
A USD denominated debt instrument of USD 1,717 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 25 September 2011. The principal is repaid in 10 semi-annual installments starting from 25 September 2006.	37,605	42,875

(in thousands of Russian roubles)

	Unaudited 30 June 2007	Audited 31 December 2006
Manufacturers and Traders Trust Company		
A USD-denominated debt instrument of USD 1,371 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 12 January 2013. The principal is repaid in 13 equal semi-annual installments starting from 12 January 2007. The loan is uncesured.	32,678	36,107
A USD-denominated debt instrument of USD 1,628 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 12 January 2013. The principal is repaid in 13 equal semi-annual installments starting from 12 January 2007. The loan is unsecured.	38,801	42,873
A USD-denominated debt instrument of USD 1,371 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 12 January 2013. The principal is repaid in 13 equal semi-annual installments starting from 12 January 2007. The loan is unsecured.	32,678	36,107
A USD-denominated debt instrument of USD 3,428 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 12 January 2013. The principal is repaid in 13 equal semi-annual installments starting from 12 January 2007. The loan is unsecured.	81,695	90,280
A USD-denominated debt instrument of USD 2,743 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 12 January 2013. The principal is repaid in 13 equal semi-annual installments starting from 12 January 2007. The loan is unsecured.	65,357	72,215
Other borrowings	6,057	6,056
Total	**15,395,287**	**11,856,457**
Less: Current portion repayable within one year and shown under short-term borrowings (refer to note 24)	(1,015,175)	(555,073)
Net long-term borrowings	**14,380,112**	**11,301,384**

The long-term borrowings are repayable as follows:

Within one year	1,015,175	555,073
Later than one year and not later than five years	11,079,716	8,967,603
Later than five years	3,300,396	2,333,781
Total	**15,395,287**	**11,856,457**

23. OBLIGATIONS UNDER FINANCE LEASES

Minimum lease payments		
Due within one year	192,341	91,539
Due later than one year and not later than five years	163,634	83,443
Total future lease payments	**355,975**	**174,982**
Less: future finance charges	(33,189)	(15,545)
Present value of minimum lease payments	**322,786**	**159,437**
Less: current portion of finance lease obligations (refer to note 26)	(169,061)	(80,355)
Non-current finance lease obligations	**153,725**	**79,082**

(in thousands of Russian roubles)

24. SHORT-TERM BORROWINGS

	Unaudited 30 June 2007	Audited 31 December 2006
ABN Amro, EURO-denominated	306,984	305,759
Sberbank, RUR-denominated	1,300,656	-
Other, RUR-denominated	119,353	64,313
Current portion of long-term borrowings repayable within one year	1,015,175	555,073
Total	**2,742,168**	**925,145**

The interest rates per annum on these borrowings vary as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
EURO-denominated	EURIBOR + 2,25%	EURIBOR + 2.75%
RUR-denominated	6,8%	From 6% to 13%

25. TAXES PAYABLE

	Unaudited 30 June 2007	Audited 31 December 2006
Property tax	33,892	35,262
Unified social tax	24,103	33,846
Land tax	32,052	31,643
Personal income tax	18,305	17,890
Income tax	-	13,560
Other taxes	9,737	39,446
Total	**118,089**	**171,647**

(in thousands of Russian roubles)

26. OTHER PAYABLES AND ACCRUED LIABILITIES

	Unaudited 30 June 2007	Audited 31 December 2006
Dividends payable	662,867	300,211
Wages and salaries payable	209,514	105,401
Customs duties	-	94,380
Current portion of finance lease obligations (refer to note 23)	169,061	80,355
Deferred income	8,209	4,554
Other payables and accrued liabilities	135,344	102,041
Total	**1,184,995**	**686,942**

27. DIVIDENDS

	Unaudited 30 June 2007	Audited 31 December 2006
Dividends declared in respect of the year ended 31 December 2005:		
- ordinary shares (RUR 0.1514 per share)	-	270,248
- preferred shares (RUR 0.25 per share)	-	29,899
Dividends declared in respect of the year ended 31 December 2006:		
- ordinary shares (RUR 0.3545 per share)	632,732	-
- preferred shares (RUR 0.25 per share)	29,899	-
Total	**662,631**	**300,147**

(in thousands of Russian roubles)

28. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS

	Unaudited 30 June 2007	Unaudited 30 June 2006
OPERATING ACTIVITIES:		
Profit before income tax	**2,297,122**	**807,138**
Adjustments for:		
Depreciation and amortisation	557,117	292,704
Income from investments, net	(14,051)	1,592
Change in provision for doubtful debts	20,383	28,642
Change in obsolescence provision	(15,421)	(4,173)
Loss on disposal of property, plant and equipment	3,832	17,090
Finance costs, net	110,890	85,237
Foreign exchange gain/(loss), net	169,768	(5,400)
Other	159	-
Operating cash flow before movements in working capital	**3,129,799**	**1,222,830**
Decrease/(increase) in trade and other receivables	562,109	(29,776)
Increase in taxes recoverable and prepaid, other than income tax	(541,797)	(249,224)
(Inrease) Decrease in other non-current assets	-	(360,600)
Increase in inventories	(432,795)	(20,168)
Increase in available for sale investment	-	(422)
Increase/(decrease) in trade payables	475,088	(135,638)
(Decrease)/increase in advances received from customers	(1,107,593)	228,871
Increase in other current liabilities	24,818	11,577
Decrease in taxes payable	(50,259)	(53,750)
Cash flows from operations	**2,059,369**	**613,700**

29. RELATED PARTIES

Related parties are considered to include shareholders, affiliates, entities under common ownership and control and members of key management personnel.

Included in financial statements are the following transactions and balances with related parties:

	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006
Sales of goods and services	357,263	92,534
Purchase of goods and services	4,009,669	1,623,335

	Unaudited 30 June 2007	Audited 31 December 2006
Cash and cash equivalents	31,003	22,077
Trade accounts receivables and advances given	159,948	188,218
Trade accounts payables and advances received	296,608	1,210,413

Key management compensation for the six months ended 30 June 2007 amounted to RUR 18,992 thousand (for the six months ended 30 June 2006 – RUR 25,545 thousand) and included salaries and bonuses to employees of the Group and remuneration to members of Board of Directors.

30. COMMITMENTS AND CONTINGENCIES

Litigation

Unresolved tax litigation at 30 June 2007 amounted to approximately RUR 228,813 thousand. Management believes that the risk of an unfavorable outcome to the litigation is possible.

The Group has been and continues to be the subject of other legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group’s financial position or operating results.

Russian taxation contingencies

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The Government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax laws. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with the practical application of new legislation are unclear and complicate the Group’s tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group’s previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to issues of interpretation. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterized by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group’s business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

(in thousands of Russian roubles)

Environmental matters

The Group's management believes that it is in compliance with all current existing environmental laws and regulations of the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernize technology to meet more stringent standards.

Russian insurance environment

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available in Russia.

The Group maintains insurance cover for major production assets including insurance cover for damage related to explosion or environmental damage arising from accidents on the Group's property or related to the Group's operations. The Group does not have coverage for business interruption. Management believes that the existing level of insurance coverage addresses all major risks which could have a material effect on the Group's operations and financial position.

31. FINANCIAL INSTRUMENTS

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk at following dates:

	Within one year	After one year but before five years	After five years	Total
30 June 2007				
Finance lease liabilities	169,061	153,725	-	**322,786**
Short-term borrowings	1,727,173	-	-	**1,727,173**
Long-term borrowings	1,015,175	11,079,716	3,300,396	**15,395,287**
Total	**2,911,409**	**11,233,441**	**3,300,396**	**17,445,246**
31 December 2006				
Finance lease liabilities	80,355	79,082	-	**159,437**
Short-term borrowings	370,072	-	-	**370,072**
Long-term borrowings	555,073	8,967,603	2,333,781	**11,856,457**
Total	**1,005,500**	**9,046,685**	**2,333,781**	**12,385,966**

Other financial instruments of the Group not included in the above table are mostly represented by accounts receivable and payable and are not subject to interest rate risk.

(in thousands of Russian roubles)

32. RISK MANAGEMENT

The Group's operations are dependent on a stable gas supply. Presently, the gas market in Russia is controlled by the gas monopoly OJSC "Gazprom" and its subsidiaries, the Group's major supplier of gas. The management of the Group is continuously engaged in ensuring a stable supply of gas.

The Group's financial instruments at 30 June 2007 comprise trade accounts and other receivables, other current assets, cash and cash equivalents, bank overdrafts and trade accounts and other payables all of which are recorded at their carrying values, which approximate the fair values of these instruments as a result of their short-term duration.

The Group is exposed to currency risk in that a significant portion of long and short term borrowings are denominated in foreign currencies. The Group management controls over this risk by aligning the foreign currency borrowings with expected currency sales proceeds.

The Group manages its liquidity risk through a combination of short-term and long-term financing and self generated funds.

At 30 June 2007 the Group had facilities for the management of its day to day liquidity requirements available in the amount RUR 2,033,334 thousands (31 December 2006 – RUR 4,828,174 thousands).

33. INVESTMENTS IN SUBSIDIARIES

The Company's ownership interest in the significant consolidated entities is as follows:

		% of ownership	
	Nature of business	**Unaudited 30 June 2007**	**Audited 31 December 2006**
Subsidiaries			
Incorporated in Russian Federation			
LLC "Agrosintez"	Agriculture	-	100
OJSC "Luch Sintez"	Agriculture	-	98
OJSC "Spetsneftekhimmontazh"	Repair & Maintenance	100	100
OJSC "Shelangovsky plodovoyagodny sovkhoz"	Agriculture	-	90
LLC "Tatkhimremont"	Repair & Maintenance	100	100
LLC "Trade House Orgsintez"	Trading	70	70
LLC "Kolos-Sintez"	Agriculture	51	51
LLC "DK Khimikov"	Entertainment	100	100
Incorporated in Hungary			
LLC "Elmer"	Trading	50	50
Special purpose entity			
Incorporated in Luxembourg			
Kazanorgsintez S.A.	Financing	-	-

At 8 June 2007 was made decision of the court for bankruptcy of LLC "Agrosintez", which was the end of liquidation process of LLC "Agrosintez" because of the fact that during several last years it was unprofitable.
OJSC "Luch Sintez" and OJSC "Shelangovsky plodovoyagodny sovkhoz" were subsidiaries of LLC "Agrosintez" and as of 30 June 2007 also disposed.

34. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In August 2007 the Group received a long-term loan from Raiffeisen bank accounting to RUR 1,250,000 thousand bearing interest MOSPRIME + 2.00% with maturity in 2009. The loan will be used for financing of current and investing activity.

In July 2007 the Board of Directors of the Company approved an additional loan from ABN Amro bank with EUR 5,767 thousand principal bearing interest of EURIBOR + 0.4% per annum with the final repayment due on 27 July 2017. The principal is repayable in 20 equal semi-annual installments starting from sixth month after equipment start-up date. The loan will be used for financing of investing activity.