

**Open Joint Stock Company
“Kazanorgsintez”**

Independent Auditors' Report

**Consolidated Financial Statements
For the Year Ended 31 December 2006**

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company “Kazanorgsintez” and its subsidiaries (the “Group”).

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group at 31 December 2006, 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.

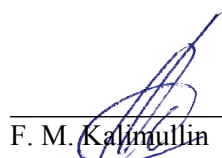
Management, within its competencies, is also responsible for:

- 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 year ended 31 December 2006 were approved on 4 May 2007 in Kazan, Republic of Tatarstan, Russian Federation, by:



L. S. Alekhin
General Director



F. M. Kalimullin
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Open Joint Stock Company "Kazanorgsintez":

We have audited the accompanying consolidated financial statements (the "financial statements") of Open Joint Stock Company "Kazanorgsintez" and its subsidiaries (the "Group"), which comprise of the balance sheet as at 31 December 2006, and the statements of income, changes in shareholders' equity and 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

Management is responsible for the preparation and fair presentation of these 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

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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.

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

Opinion

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

Emphasis of matter

As discussed in note 38, the corresponding figures for the year ended 31 December 2005 have been restated to correct certain errors. We have audited the adjustments that were applied to restate the corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied.

A handwritten signature in blue ink that reads "Deloitte + Touche". The signature is written in a cursive, flowing style.

Moscow, Russia
4 May 2007

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ"

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

	Notes	2006	As restated 2005
Sales	5	15,383,982	13,240,850
Cost of sales	6	<u>(9,859,380)</u>	<u>(8,632,555)</u>
Gross profit		5,524,602	4,608,295
Selling, general and administrative expenses	7	(2,026,232)	(1,508,187)
Loss from other sales		(194,003)	(42,066)
Finance costs	8	(152,174)	(91,885)
Income/(loss) from investments	9	43,152	(49,406)
Foreign exchange gain		147,211	17,446
Other expenses	10	<u>(154,894)</u>	<u>(351,493)</u>
Profit before income tax		3,187,662	2,582,704
Income tax	11	<u>(676,383)</u>	<u>(568,887)</u>
Profit for the year		<u>2,511,279</u>	<u>2,013,817</u>
Attributable to:			
Shareholders of the parent company		2,523,545	1,981,921
Minority interest		<u>(12,266)</u>	<u>31,896</u>
		<u>2,511,279</u>	<u>2,013,817</u>
EARNINGS PER SHARE (RUR)	28		
Basic		1.42	1.11
Diluted		1.33	1.04

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006 (in thousands of Russian roubles)

	Notes	2006	As restated 2005
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	24,873,904	14,222,848
Intangible assets	13	32,599	40,528
Long-term investments	14	52,100	52,084
Investments in associates	15	29,278	31,801
Advances paid for licenses	16	1,039,946	683,665
		<u>26,027,827</u>	<u>15,030,926</u>
CURRENT ASSETS:			
Inventories	17	2,257,163	1,819,261
Trade and other accounts receivable	18	1,748,689	896,358
Taxes recoverable and prepaid	19	472,935	1,084,509
Cash and cash equivalents	20	784,163	426,320
		<u>5,262,950</u>	<u>4,226,448</u>
TOTAL ASSETS		<u>31,290,777</u>	<u>19,257,374</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	21	1,904,710	1,904,710
Treasury stock	21	(46,251)	-
Additional paid-in capital	21	1,515,015	1,515,015
Retained earnings		9,801,397	7,577,999
Equity attributable to shareholders of the parent company		<u>13,174,871</u>	<u>10,997,724</u>
Minority interest		31,324	43,590
		<u>13,206,195</u>	<u>11,041,314</u>
NON-CURRENT LIABILITIES:			
Long-term borrowings	23	11,301,384	4,692,117
Deferred tax liabilities	11	1,214,125	800,581
Obligations under finance leases	24	79,082	124,527
		<u>12,594,591</u>	<u>5,617,225</u>
CURRENT LIABILITIES:			
Trade payables		2,325,933	1,037,237
Advances received from customers		1,380,324	150,659
Short-term borrowings	25	925,145	913,398
Taxes payable	26	171,647	87,017
Other payables and accrued liabilities	27	686,942	410,524
		<u>5,489,991</u>	<u>2,598,835</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>31,290,777</u>	<u>19,257,374</u>

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

	Notes	Equity attributable to shareholders of the parent company				Minority interest	Total equity	
		Share capital	Additional paid-in capital	Treasury stock	Retained earnings			Total
Balance at 31 December 2004 – as previously reported		1,904,710	1,515,015	(100,077)	6,245,872	9,565,520	11,694	9,577,214
Effect of correction of errors	38	-	-	-	120,171	120,171	-	120,171
Balance at 31 December 2004 – as restated		1,904,710	1,515,015	(100,077)	6,366,043	9,685,691	11,694	9,697,385
Profit for the year		-	-	-	1,981,921	1,981,921	31,896	2,013,817
Dividends	29	-	-	-	(520,178)	(520,178)	-	(520,178)
Loss on disposal of subsidiary	31	-	-	-	(249,787)	(249,787)	-	(249,787)
Re-acquisition of issued shares		-	-	(86,687)	-	(86,687)	-	(86,687)
Re-issuance of ordinary shares from treasury shares		-	-	186,764	-	186,764	-	186,764
Balance at 31 December 2005 – as restated		1,904,710	1,515,015	-	7,577,999	10,997,724	43,590	11,041,314
Profit for the year		-	-	-	2,523,545	2,523,545	(12,266)	2,511,279
Dividends	29	-	-	-	(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

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ"

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

	Notes	2006	2005
OPERATING ACTIVITIES:			
Cash flows from operations	30	5,957,337	3,231,421
Income tax paid		(152,454)	(726,523)
Interest paid		(773,783)	(37,995)
Net cash generated from operating activities		5,031,100	2,466,903
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(10,587,399)	(6,762,694)
Proceeds on disposal of property, plant and equipment		159,412	3,712
Advances paid for licenses		(356,281)	(39,876)
Purchase of equity investments		-	(35,243)
Proceeds on disposal of equity investments		-	8,594
Proceeds on disposal of subsidiary		-	100
Interest received		40,230	5,690
Dividends received		5,445	7
Net cash used in investing activities		(10,738,593)	(6,819,710)
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		1,428,083	2,571,975
Repayments of short-term borrowings		(1,726,424)	(2,352,899)
Proceeds from long-term borrowings		13,666,544	4,905,223
Repayments of long-term borrowings		(6,944,035)	-
Dividends paid		(74,757)	(441,183)
Re-acquisition of issued shares		(81,300)	(86,687)
Proceeds on re-issuance of ordinary shares from treasury shares		35,049	186,764
Repayment of obligations under finance lease		(265,600)	(144,061)
Net cash generated from financing activities		6,037,560	4,639,132
Net increase in cash and cash equivalents		330,067	286,325
Cash and cash equivalents at beginning of the year		426,320	146,829
Effect of exchange rate changes on cash held in foreign currencies		27,776	(6,834)
Cash and cash equivalents at end of the year		784,163	426,320

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 *(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 ethylene and 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 36.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, 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 2006. 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 7 “Financial Instruments: Disclosures”	1 January 2007
• IFRS 8 “Operating Segments”	1 January 2009
• Amendment to IAS 1 “Presentation of Financial Statements” on capital disclosures	1 January 2007
• IFRIC 9 “Reassessment of Embedded Derivatives”	1 June 2006
• IFRIC 10 “Interim Financial Reporting and Impairment”	1 November 2006
• IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”	1 March 2007
• 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.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

Reclassifications

Certain comparative information, presented in the consolidated financial statements for the prior reporting periods, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2006. Certain costs were reclassified between cost of sales, selling, administrative and general expenses and cost of other sales. Those reclasses did not affect net profit for the year ended 31 December 2005.

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.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 *(in thousands of Russian roubles)*

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.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

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.

Sale of goods

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 loss 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.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 *(in thousands of Russian roubles)*

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

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

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.

Depreciation 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

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

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.

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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.

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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.

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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.

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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.

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.

	<u>2006</u>	<u>2005</u>
5. SALES		
By geographic region:		
Domestic sales	12,568,787	10,601,990
Export sales	<u>2,815,195</u>	<u>2,638,860</u>
Total	<u>15,383,982</u>	<u>13,240,850</u>
By product:		
High density polyethylene	5,293,530	3,337,157
Low density polyethylene	5,181,111	4,569,345
Organic products	1,894,301	1,891,444
Ethylene	1,623,754	2,166,481
Plastic goods	<u>1,391,286</u>	<u>1,276,423</u>
Total	<u>15,383,982</u>	<u>13,240,850</u>
6. COST OF SALES		
Raw materials	5,695,534	4,262,796
Energy and water	2,030,948	2,068,428
Labor costs	971,473	1,049,609
Depreciation	619,167	500,321
Maintenance and repairs	378,134	410,812
Auxiliary materials	160,931	341,147
Obsolescence provision charged/ (released)	<u>3,193</u>	<u>(558)</u>
Total	<u>9,859,380</u>	<u>8,632,555</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

	<u>2006</u>	<u>2005</u>
7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
General and administrative expenses	1,290,089	849,499
Selling expenses	302,110	431,757
Taxes, other than income tax	327,549	164,547
Bank charges	49,150	27,187
Other	57,334	35,197
Total	<u>2,026,232</u>	<u>1,508,187</u>
8. FINANCE COSTS		
Interest expense	126,457	72,263
Interest under finance leases	24,053	19,641
Other expense/(income)	1,664	(19)
Total	<u>152,174</u>	<u>91,885</u>
9. INCOME/(LOSS) FROM INVESTMENTS		
Interest income	40,230	5,690
Income/(loss) from investments	5,445	(61,241)
(Loss)/income from associates	(2,523)	6,145
Total	<u>43,152</u>	<u>(49,406)</u>
10. OTHER EXPENSES		
Rent of land	140,078	133,968
Maintenance of social infrastructure	14,744	144,326
Other expenses	72	73,199
Total	<u>154,894</u>	<u>351,493</u>

Maintenance of social infrastructure comprises primarily operating costs of facilities such as hotel, dormitory, hunting ground etc. In 2005 it also included losses on sale of apartments to employees.

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.

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	<u>2006</u>	<u>2005</u>
11. INCOME TAX		
The Group’s provision for income tax is as follows:		
Current income tax charge	406,799	544,554
Adjustment recognised in the year for tax charge of prior years	(143,960)	-
Deferred tax charge	<u>413,544</u>	<u>24,333</u>
Total	<u>676,383</u>	<u>568,887</u>
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:		
Profit before income tax	3,187,662	2,582,704
Theoretical income tax expense at 24%	765,039	619,849
Effect of non-deductible expenses and other permanent differences, net	<u>(88,656)</u>	<u>(50,962)</u>
Income tax expense	<u>676,383</u>	<u>568,887</u>
Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax liabilities:		
Property, plant and equipment	1,227,489	818,767
Provision for doubtful debts	(8,208)	-
Accrued expenses	(1,837)	(16,744)
Other	<u>(3,319)</u>	<u>(1,442)</u>
Deferred tax liabilities, net	<u>1,214,125</u>	<u>800,581</u>
Deferred tax rollforward		
Balance at beginning of period	800,581	776,248
Charge to income statement	<u>413,544</u>	<u>24,333</u>
Balance at end of the period	<u>1,214,125</u>	<u>800,581</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

12. PROPERTY, PLANT AND EQUIPMENT

	<u>Land and buildings</u>	<u>Machinery and equipment</u>	<u>Other assets</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Cost</i>					
At 1 January 2005 – as previously reported	8,190,091	9,360,087	439,772	1,281,946	19,271,896
Effect of correction of errors	55,867	77,253	25,000	-	158,120
At 1 January 2005 – as restated	8,245,958	9,437,340	464,772	1,281,946	19,430,016
Additions	-	48,610	-	6,794,831	6,843,441
Disposals	(18,765)	(94,985)	(3,750)	(18,161)	(135,661)
Disposed of on a disposal of subsidiary	(166,951)	(146,124)	(7,073)	(28,062)	(348,210)
Transfers	289,956	1,341,849	105,266	(1,737,071)	-
At 31 December 2005 – as restated	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
<i>Accumulated depreciation</i>					
At 1 January 2005	(4,989,567)	(6,048,184)	(203,886)	-	(11,241,637)
Charge for the year	(170,745)	(347,692)	(48,364)	-	(566,801)
Eliminated on a disposal of subsidiary	60,136	46,463	485	-	107,084
Eliminated on disposals	8,591	117,361	8,664	-	134,616
At 31 December 2005	(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)
<i>Net book value</i>					
At 31 December 2005 – as restated	3,258,613	4,354,638	316,114	6,293,483	14,222,848
At 31 December 2006	4,007,561	6,635,587	338,299	13,892,457	24,873,904

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 31 December 2006 property, plant and equipment with the carrying value of RUR 39,270 thousand (31 December 2005 – nil), were pledged to secure letters of credit granted to the Group.

At 31 December 2006 property, plant and equipment with the carrying value of RUR 457,509 thousand (31 December 2005 – RUR 446,802 thousand) were pledged to secure certain short-term and long-term loans granted to the Group (refer to notes 23 and 25).

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During 2006 the interest of RUR 816,480 thousand have been capitalized in property, plant and equipment (2005 – RUR 105,257 thousand).

At 31 December 2006 and 2005, property, plant and equipment include assets held under a number of finance lease agreements (refer to note 24). At the end of the lease term the Group takes automatic ownership of the assets.

At 31 December 2006 and 2005 lease obligations were secured by leased assets with carrying value of RUR 467,818 thousands and RUR 339,629 thousand retrospectively.

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.

	<u>2006</u>	<u>2005</u>
Book value	109,351	109,536
Accumulated amortisation	<u>(76,752)</u>	<u>(69,008)</u>
Net book value	<u>32,599</u>	<u>40,528</u>

14. LONG-TERM INVESTMENTS

	<u>% Ownership</u>			
	<u>2006</u>	<u>2005</u>		
OJSC “Tatneftekhiminvestholding”	7%	7%	38,537	38,537
National non-state pension fund	5%	7%	10,557	10,557
OJSC “Kazanskaya yarmarka”	2%	2%	2,950	2,950
Other	-	-	<u>56</u>	<u>40</u>
Total			<u>52,100</u>	<u>52,084</u>

15. INVESTMENTS IN ASSOCIATES

<u>Name of associate</u>	<u>Principal activities</u>	<u>% of ownership interest</u>	
		<u>2006</u>	<u>2005</u>
LLC “Taif-Invest”	Investing activities	40	40
CJSC “Ankorit”	Chemical production	39	39
LLC “Novomoskovsky trubny zavod”	Manufacturing	26	26

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	<u>2006</u>	<u>2005</u>
Total assets	1,046,965	364,227
Total liabilities	<u>(992,863)</u>	<u>(276,462)</u>
Net assets	54,102	87,765
Group's share of associates' net assets	29,278	31,801
Total revenue	1,254,774	549,933
Total (loss)/profit for the year	(11,036)	14,886
Group's share of associates' (loss)/profit for the year	(2,523)	6,145

16. ADVANCES PAID FOR LICENSES

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

17. INVENTORIES

Stores and materials	1,615,488	1,264,027
Work in progress and semi-finished products	241,771	174,669
Finished goods	415,560	393,028
Less: obsolescence allowance	<u>(15,656)</u>	<u>(12,463)</u>
Total	<u>2,257,163</u>	<u>1,819,261</u>

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	1,102,457	602,379
Advances paid	441,960	196,373
Other receivables and prepaid expenses	294,634	164,420
Less: provision for doubtful debts	<u>(90,362)</u>	<u>(66,814)</u>
Total	<u>1,748,689</u>	<u>896,358</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

	<u>2006</u>	<u>2005</u>
19. TAXES RECOVERABLE AND PREPAID		
Value added tax	472,764	946,147
Income tax	-	133,391
Other taxes	171	4,971
Total	<u>472,935</u>	<u>1,084,509</u>
20. CASH AND CASH EQUIVALENTS		
Cash in banks, denominated in RUR	400,921	120,866
Cash in banks, denominated in currency	55,582	94,014
Letters of credit	310,602	192,051
Restricted cash	-	17,789
Other cash and cash equivalents	17,058	1,600
Total	<u>784,163</u>	<u>426,320</u>
21. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL		
	<u>2006</u>	<u>2005</u>
	‘000 shares	‘000 shares
<i>Authorised number of shares</i>		
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	<u>2,624,710</u>	<u>2,624,710</u>
<i>Issued and fully paid number of shares</i>		
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	<u>1,904,710</u>	<u>1,904,710</u>
<i>Treasury shares</i>		
At the beginning of the year	-	25,257
Re-acquired by the Group	5,694	10,030
Re-issued from treasury shares	(2,394)	(35,287)
At the end of the year	<u>3,300</u>	<u>-</u>

Treasury shares are recorded as a deduction from issued and fully paid share capital at 31 December 2006 in the amount of RUR 46,251 thousand (31 December 2005 – nil).

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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	
	2006	2005
OJSC “Svyazinvestneftekhim”	26.6%	26.6%
LLC “Telecom-Management”	50.0%	48.6%
Other legal entities and individuals	23.4%	24.8%
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 Tatarstan, 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”.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in thousands of Russian roubles)

22. RECONCILIATION OF SHAREHOLDERS' EQUITY (UNAUDITED)

A reconciliation of shareholders' equity between the Group's combined Russian statutory financial statements prepared in accordance with Russian Accounting Standards (“RAS”) and the Group's IFRS consolidated financial statements is as follows:

	<u>2006</u>	<u>2005</u>
Group equity per RAS	11,188,395	9,365,878
Increase/(decrease) due to effect of:		
Property, plant and equipment valuation	3,084,782	2,702,323
Investments valuation	55,818	46,769
Inventory valuation	(15,656)	(12,463)
Allowance for doubtful accounts	(24,179)	(10,835)
Additional deferred income tax liability	(656,475)	(614,673)
Other accrued expenses	(21,487)	(69,765)
Additional paid-in capital valuation	(337,030)	(337,030)
Other	(67,973)	(28,890)
Group equity per IFRS	<u>13,206,195</u>	<u>11,041,314</u>

The following represents reconciliation between earnings determined under RAS and IFRS:

Group earnings per RAS	2,175,171	1,946,053
Increase/(decrease) due to effect of:		
Additional depreciation expense	(141,247)	(140,890)
Change in deferred income tax provision	(3,853)	19,346
Change in bad debt provision	(13,344)	-
Change in provision for fines and penalties	-	(16,438)
Changes in inventory valuation reserves	(3,193)	558
Fixed assets disposals and write-down, net	(29,649)	(12,604)
Annual bonuses reversal/(accrual)	62,110	(62,110)
Impairment of consolidated investments	332,328	-
Difference in accounting treatment for financial leases	132,923	84,698
Distribution to shareholders	-	249,787
Other	33	(54,583)
Group earnings per IFRS	<u>2,511,279</u>	<u>2,013,817</u>

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23. LONG-TERM BORROWINGS

	2006	2005
Vneshtorgbank		
A RUR-denominated loan facility of RUR 840,000 thousand bearing interest at 12.5% per annum with final repayment due on 22 March 2008. The loan was repaid on 3 July 2006.	-	841,438
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.	50,395	-
Sberbank		
A RUR-denominated loan facilities up to equivalent of USD 209,855 thousand at interest rate that changed in 2006 from 13.25% to 12% per annum with final repayment due at the date starting on 29 April to 20 November 2012. The principal is repayable in equal quarterly installments beginning after seven quarters from the date of drawing the facility. The loan was repaid in December 2006.	-	2,475,739
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.	2,177,575	558,007
A USD-denominated loan facility up to USD 6,673 thousand bearing a maximum interest rate of 7.91% 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.	178,285	-
A USD-denominated loan facility up to USD 40,000 thousand bearing interest at rate that varies from 9.5% to 11.5% 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 35,974 thousand.	254,733	-
A USD-denominated loan facility up to USD 35,000 thousand bearing interest rate that varies from 9.5% to 11.5% 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 116,182 thousand.	125,158	-

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	2006	2005
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.	956,475	466,870
A EUR-denominated loan facility up to EUR 20,033 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.	696,881	443,614
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. The loan is secured by equipment with the carrying value of RUR 112,827 thousand.	135,535	141,024
A EUR-denominated loan facility up to EUR 49,150 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.	782,347	-
A USD-denominated loan facility up to USD 30,000 thousand bearing an interest rate of LIBOR + 2,85% 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 2,020 thousand.	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.	5,350,114	-
RZB Finance LLC		
A USD-denominated debt instrument of USD 883 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 25 March 2011. The principal is repaid in 10 equal semi-annual installments starting from 25 September 2006. The loan is unsecured.	20,930	-
A USD-denominated debt instrument of USD 833 thousand bearing interest at LIBOR + 0.75% per annum with the final repayment due on 25 September 2011. The principal is repaid in 10 equal semi-annual installments starting from 25 March 2007. The loan is unsecured.	21,945	-

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	<u>2006</u>	<u>2005</u>
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 unsecured.	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.	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.	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.	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.	72,215	-
Other borrowings	6,056	5,965
Total	11,856,457	4,932,657
Less: Current portion repayable within one year and shown under short-term borrowings (refer to note 25)	(555,073)	(240,540)
Net long-term borrowings	11,301,384	4,692,117
The long-term borrowings are repayable as follows:		
Within one year	555,073	240,540
Later than one year and not later than five years	8,967,603	2,196,448
Later than five years	2,333,781	2,495,669
Total	11,856,457	4,932,657
24. OBLIGATIONS UNDER FINANCE LEASES		
Minimum lease payments		
Due within one year	91,539	153,046
Due later than one year and not later than five years	83,443	136,103
Total future lease payments	174,982	289,149
Less: future finance charges	(15,545)	(30,385)
Present value of minimum lease payments	159,437	258,764
Less: current portion of finance lease obligations (refer to note 27)	(80,355)	(134,237)
Non-current finance lease obligations	79,082	124,527

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At 31 December 2006 and 2005 the lease obligations are denominated in USD and secured by leased production equipment with a carrying value of RUR 467,818 thousand and RUR 339,629 thousand, respectively (refer to note 12).

	<u>2006</u>	<u>2005</u>
25. SHORT-TERM BORROWINGS		
ABN Amro, EURO-denominated	305,759	327,040
ABN Amro, USD-denominated	-	302,063
Other, RUR-denominated	64,313	43,755
Current portion of long-term borrowings repayable within one year	<u>555,073</u>	<u>240,540</u>
Total	<u>925,145</u>	<u>913,398</u>

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

EURO-denominated	EURIBOR + 2.75%	EURIBOR+ 2.75% to EURIBOR+ 3.25%
USD-denominated	-	LIBOR+3.25% to 8.75%
RUR-denominated	From 6% to 13%	From 0% to 13%

At 31 December 2006 property, plant and equipment with the carrying value of RUR 190,506 thousand (31 December 2005 – RUR 235,865 thousand) were pledged to secure short-term loans granted to the Group (refer to note 12).

26. TAXES PAYABLE

Property tax	35,262	13,010
Unified social tax	33,846	27,506
Land tax	31,643	4,922
Personal income tax	17,890	11,990
Income tax	13,560	-
Other taxes	<u>39,446</u>	<u>29,589</u>
Total	<u>171,647</u>	<u>87,017</u>

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	<u>2006</u>	<u>2005</u>
27. OTHER PAYABLES AND ACCRUED LIABILITIES		
Dividends payable	300,211	81,166
Wages and salaries payable	105,401	131,757
Customs duties	94,380	-
Current portion of finance lease obligations (refer to note 24)	80,355	134,237
Deferred income	4,554	150
Other payables and accrued liabilities	102,041	63,214
Total	<u>686,942</u>	<u>410,524</u>

28. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit for the year of RUR 2,523,545 thousand (2005 – RUR 1,981,921 thousand) divided by weighted average number of ordinary shares in issue during the year of 1,783,414 thousand (2005–1,785,114 thousand), excluding convertible preferred shares.

The calculation of fully diluted earnings per share is based on profit for the year of RUR 2,523,545 thousand (2005 – RUR 1,981,921 thousand) divided by a weighted average number of ordinary shares in issue during the year and the effect of convertible preferred shares of 1,903,010 thousand (2005–1,904,710 thousand).

29. DIVIDENDS

Dividends declared in respect of the year ended 31 December 2004:		
- ordinary shares (RUR 0.275 per share)	-	490,279
- preferred shares (RUR 0.25 per share)	-	29,899
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	-
Total	<u>300,147</u>	<u>520,178</u>

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

	<u>2006</u>	<u>As restated 2005</u>
OPERATING ACTIVITIES:		
Profit before income tax	3,187,662	2,582,704
Adjustments for:		
Depreciation and amortisation	740,000	575,147
(Income)/loss from investments	(43,152)	49,406
Change in provision for doubtful debts	23,548	(18,023)
Change in obsolescence allowance	3,193	(558)
Loss on disposal of property, plant and equipment	25,679	(2,667)
Finance costs	152,174	91,923
Other	186	(38)
Operating cash flow before movements in working capital	4,089,290	3,277,894
Increase in trade and other receivables	(875,895)	(32,197)
Decrease/(increase) in taxes recoverable and prepaid, other than income tax	478,183	(474,760)
Increase in inventories	(441,095)	(409,148)
Increase in trade payables	1,288,696	513,908
Increase in advances received from customers	1,229,665	37,489
Increase in other payables and accrued liabilities	80,857	105,003
Increase in taxes payable, other than income tax	107,636	213,232
Cash flows from operations	5,957,337	3,231,421

31. DISPOSAL OF SUBSIDIARY

In May 2005 the Company increased the share capital of LLC “Keramika Sintez” by contributing a brick plant with a net book value RUR 207,143 thousand and a cash contribution of RUR 35,189 thousand, bringing the Company’s total investment in the subsidiary to RUR 242,342 thousand. On 27 June 2005 the Group disposed of 100% of its holding in LLC “Keramika Sintez” to OJSC “Kazan silicate walling plant” and LLC “Industrial enterprise Kazan” (parties controlled by the largest shareholder) for a cash consideration of RUR 100 thousand. Management ceased to consolidate this company from the date on which control ceased. Loss on disposal was recorded as distribution to a shareholder directly in equity.

	<u>2005</u>
Net assets disposed of	
Property, plant and equipment	241,126
Other receivables	14,760
Other payables	(5,999)
	249,887
Total consideration	<u>100</u>
Loss on disposal	249,787

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 *(in thousands of Russian roubles)*

32. 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:

	<u>2006</u>	<u>2005</u>
Sales of goods and services	326,536	653,934
Purchase of goods and services	3,152,719	975,326
Re-issuance of ordinary shares from treasury shares	37,578	186,764
Bank interest received	1,398	1,107
Trade and other receivables	188,218	208,491
Trade payables and advances received from customers	1,210,413	168,811
Cash held in banks	22,077	127,780

Key management compensation for the year ended 31 December 2006 amounted to RUR 41,199 thousand (31 December 2005 – RUR 39,587 thousand) and included salaries and bonuses to employees of the Group and remuneration to members of Board of Directors.

33. COMMITMENTS AND CONTINGENCIES

Litigation

Unresolved tax litigation at 31 December 2006 amounted to approximately RUR 74,131 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.

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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.

Management has assessed possible tax risk at 31 December 2006 to be approximately RUR 36,090 thousand.

Local authorities have significant influence on the Group’s operations. In 2006 the Group incurred RUR 140,078 thousand (2005 – RUR 133,968 thousand) under a rent agreement with Tatarstan Republic Government (refer to note 10). Management is unable to estimate the level of influence that may be imposed by the local government in the future and the potential impact on its financial position and results of operations.

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.

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.

Capital commitments

The Board of Directors of the Company approved a strategic plan for the development of its production facilities through 2010 (the “Plan”). According to that Plan the following new production facilities will be installed:

- Bisphenol producing plant;
- Polycarbonate plastics plant;
- New ethylene plant;
- New polyethylene plant; and
- New recycling and other auxiliary workshops.

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The total capital commitments for 2007 are estimated at RUR 10.2 billion, including RUR 1.01 billion of contracted commitments. Management expects to finance capital expenditures through current profit and long-term borrowings.

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.

34. 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 31 December 2006 and 2005:

	<u>Within one year</u>	<u>After one year but before five years</u>	<u>After five years</u>	<u>Total</u>
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
2005				
Finance lease liabilities	134,237	124,527	-	258,764
Short-term borrowings	672,858	-	-	672,858
Long-term borrowings	240,540	2,196,448	2,495,669	4,932,657
Total	1,047,635	2,320,975	2,495,669	5,864,279

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.

35. 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 31 December 2006 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.

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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 31 December 2006 and 2005 the Group had facilities for the management of its day to day liquidity requirements available with the following banks:

	<u>2006</u>	<u>2005</u>
Short-term borrowing facilities:		
ABN AMRO Bank	394,967	645,394
Alfa-Bank	658,278	-
Bank overdraft facilities in MKB Avers	<u>100,000</u>	<u>100,000</u>
Total short-term borrowing facilities	1,153,245	745,394
Less: Short-term borrowings received related to the above facilities	<u>(305,260)</u>	<u>(624,159)</u>
Net short-term borrowing facilities	<u>847,985</u>	<u>121,235</u>
Long-term borrowing facilities:		
ABN AMRO Bank N.V.	3,604,081	3,550,950
ABN AMRO Bank	1,060,566	266,643
Sberbank RF	8,761,082	8,569,343
Vneshtorgbank	-	840,000
International Moscow Bank	<u>1,316,555</u>	<u>-</u>
Total long-term borrowing facilities	14,742,284	13,226,936
Less: Long-term borrowings received related to the above facilities	<u>(10,762,095)</u>	<u>(4,903,465)</u>
Net long-term borrowing facilities	<u>3,980,189</u>	<u>8,323,471</u>
Net facilities available	<u>4,828,174</u>	<u>8,444,706</u>
Weighted average interest rate for bank overdrafts denominated in RUR	13%	13%

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36. INVESTMENTS IN SUBSIDIARIES

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

Subsidiaries	Nature of business	% of ownership	
		2006	2005
<i>Incorporated in Russian Federation</i>			
LLC “Agrosintez”	Agriculture	100	100
OJSC “Luch Sintez”	Agriculture	98	98
OJSC “Spetsneftekhimmontazh”	Repair & Maintenance	100	91
OJSC “Shelangovsky plodovoyagodny sovkhov”	Agriculture	90	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	-
<i>Incorporated in Hungary</i>			
LLC “Elmer”	Trading	50	50
Special purpose entity			
<i>Incorporated in Luxembourg</i>			
Kazanorgsintez S.A.	Financing	-	-

In August 2006 the Group founded a new entertainment company, LLC “DK Khimikov”, in which the Group holds a 100% interest. The Group made an initial contribution of RUR 300 thousand in cash.

Kazanorgsintez S.A. is a special purpose entity of the Group. It was incorporated in as a public limited liability company on 4 August 2005 under the laws of Luxembourg. In October 2006 Kazanorgsintez S.A. issued USD 200,000 thousand Loan participation notes due on 30 October 2011, which are listed on the London Stock Exchange plc’s Gilt Edged and Fixed Interest Market.

On 18 February 2005 the Group founded a new agricultural entity, LLC “Kolos-Sintez”, in which the Group holds a 51% interest together with LLC “UK Zolotoy Kolos” which holds the remaining 49% interest. The Group made an initial capital contribution of RUR 51 thousand in cash. In April 2005 the Group made an additional contribution of agricultural inventory and fixed assets with a carrying value of RUR 77,547 thousand to LLC “Kolos-Sintez”. The additional investment did not result in an increase in the Group’s holding in the company.

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37. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Gas supply

On 1 March 2007 the ethane main supplier OJSC “Orenburggazprom”, affiliate of OJSC “Gazprom”, stopped gas shipments due to disputes with the Group over the terms of the gas supply agreement. Management of the Group started the negotiations with OJSC “Orenburggazprom” and believes that the negotiations will be finalised by the end of May 2007 and ethane supplies will be restarted.

38. RESTATEMENTS

Subsequent to issuing of the Group’s consolidated financial statements for the year ended 31 December 2005, management identified certain errors in accounting for property, plant and equipment, and the related deferred taxes, in 2004, and disposal of a subsidiary in 2005. It was concluded that consolidated financial statements for the year ended 31 December 2005 should be restated to correct these matters. The effects of restatement are summarised below:

	Notes	
Group equity at 31 December 2004 – as previously reported		9,577,214
Net book value of property, plant and equipment	12	158,120
Deferred tax liabilities recognised on net book value of property, plant and equipment	11	<u>(37,949)</u>
Total effect of correction of errors		<u>120,171</u>
Group equity at 31 December 2004 – as restated		<u>9,697,385</u>
Profit for the year ended 31 December 2005 – as previously reported		1,764,030
Loss on disposal of a subsidiary recorded directly in equity	31	<u>249,787</u>
Profit for the year ended 31 December 2005 – as restated		<u>2,013,817</u>