

IMPORTANT NOTICE

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US PERSON OR TO ANY US ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: You have been sent the attached Prospectus on the basis that you have confirmed to ABN AMRO Bank N.V. being the sender of the attached, (i) that you are not (or, if you are acting for another person, such person is not) a U.S. person, (ii) that you are not (or, if you are acting on behalf of another person, such person is not) located in the United States of America, its territories and possessions, any State of the United States or the District of Columbia (where "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (iii) that you consent (and if you are acting on behalf of another person, such person consents) to this delivery by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of ABN AMRO Bank N.V. or any person who controls it or any director, officer, employee or agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from ABN AMRO Bank N.V.



U.S.\$200,000,000
9.25 per cent. Loan Participation Notes due 2011

*issued by Kazanorgsintez S.A. on a limited recourse basis
for the sole purpose of funding a loan to*

Kazan Open Joint Stock Company “Organichesky sintez”
(incorporated in the Russian Federation, Republic of Tatarstan)

Issue Price: 100 per cent.

Kazanorgsintez S.A. (the “Issuer”) is issuing an aggregate principal amount of U.S.\$200,000,000 Loan Participation Notes due 2011 (the “Notes”) for the sole purpose of funding a loan (the “Loan”) to Kazan Open Joint Stock Company “Organichesky sintez” (the “Company”) pursuant to a loan agreement dated 26 October 2006 (the “Loan Agreement”) between the Issuer as the lender and the Company as the borrower. The Notes will be issued on 30 October 2006 and constituted by a trust deed dated on or about 30 October 2006 (the “Trust Deed”) between the Issuer and The Bank of New York, acting through its London Branch (the “Trustee”).

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the holders of the Notes (the “Noteholders”), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Company in respect of the financial servicing of the Notes.**

The Issuer will charge, by way of first fixed charge, as security for its payment obligations in respect of the Notes, its rights and interests as the Lender under the Loan Agreement (including all sums due to the Issuer thereunder, other than in respect of certain reserved rights) and its rights, interest and benefit in and to all sums held on deposit in the Account to the Trustee, for the benefit of the Noteholders. The Issuer will also assign its administrative rights under the Loan Agreement to the Trustee, all as more fully described under “Description of the Transaction”.

Payments in respect of the Notes will, except in certain limited circumstances as provided in the Terms and Conditions (See “Terms and Conditions of the Notes—Taxation”), be made without any deduction or withholding for or on account of taxes of Luxembourg, except as required by law. In that event, the Issuer will only be required to pay additional amounts to the extent that it receives corresponding amounts under the Loan Agreement. Payments under the Loan Agreement shall, except in certain limited circumstances, be made without any deduction or withholding for or on account of taxes of the Russian Federation, except as required by law, in which event the Company will be obliged to increase the amounts payable under the Loan Agreement. In certain circumstances, the Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Company upon the Company being required to increase the amount payable or to pay additional amounts on account of taxes payable in Luxembourg or the Russian Federation or required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the Loan Agreement. The Issuer may require the Loan to be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. Upon a prepayment of the Loan in accordance with the terms of the Loan Agreement, and subject to the receipt of the relevant funds by the Issuer, the Notes will be redeemed by the Issuer immediately following such receipt.

On the occurrence of a Change of Control (as defined in the Terms and Conditions), each Noteholder shall have the option to give or procure that notice is given for the prepayment of the applicable amount of the Loan. To the extent such amount is actually received by Issuer from the Borrower, each Note held by the relevant Noteholders shall be redeemed on the Put Settlement Date (as defined in Condition 5(c) (*Redemption at the option of the Noteholders*)) at its principal amount together with accrued interest (if any). See “Terms and Conditions of the Notes — Redemption and Purchase — Redemption at the Option of the Noteholders”.

Save as otherwise expressly provided in this document and in the Trust Deed, no proprietary or other direct interests in the Issuer’s rights under or in respect of the Loan Agreement or the Loan exist for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Company except through action by the Trustee to enforce the Note Security as defined in the “Terms and Conditions of the Notes”.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” BEGINNING ON PAGE 12.

THE NOTES AND THE LOAN (COLLECTIVELY, THE “SECURITIES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”)).

Application to list the Notes has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the “FSMA”) (in such capacity the “UK Listing Authority”) for such Notes to be admitted to trading on the London Stock Exchange plc’s Gilt Edged and Fixed Interest Market. References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the London Stock Exchange plc’s Gilt Edged and Fixed Interest Market. The London Stock Exchange plc’s Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the “Investment Services Directive”).

The Notes will be issued in registered form in denominations of U.S.\$100,000 each and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the “Global Note Certificate”) registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for and deposited with The Bank of New York as common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on or about 30 October 2006. Individual note certificates (“Individual Note Certificates”) evidencing holdings of Notes will be available only in certain limited circumstances described under “Summary of Provisions Relating to the Notes in Global Form”.

Lead Manager
ABN AMRO

Manager
VTB EUROPE

The date of this Prospectus is 26 October 2006

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Company and the Company and its consolidated subsidiaries taken as a whole (the “Group”) which, according to the particular nature of the Issuer, the Company, the Group, the Notes and the Loan, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Company and the Group. Each of the Issuer and the Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Company (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Information contained in this Prospectus relating to the Russian petrochemical sector and information on the competitors of the Company (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various securities laws. Each of the Issuer and the Company accepts responsibility for accurately reproducing such information from its sources. However, both the Issuer and the Company have relied on the accuracy of this information without carrying out an independent verification.

In addition, some of the information contained in this Prospectus has been derived from official data published by Russian government agencies and the Central Bank of the Russian Federation (the “Central Bank”). Each of the Issuer and the Company accepts responsibility for accurately reproducing such information from its sources. However, the official data published by Russian federal, regional and local government is substantially less complete or researched than those of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable. See “Risk Factors — Risks Relating to the Russian Federation — Lack of Official Data Reliability”.

The information in this Prospectus contained in “Annex A — Republic of Tatarstan” has been derived from official publications of the Ministry of Finance of the Republic of Tatarstan and the Ministry of Economy and Industry of the Republic of Tatarstan and other publicly available sources. The Company accepts responsibility for accurately reproducing such information, and as far as the Company is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Company, the Issuer or the Managers (as defined in “Subscription and Sale”) to subscribe or purchase any Notes. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Company, the Issuer and the Managers to inform themselves about and to observe any such restrictions.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Company, the Issuer, the Trustee, the Managers, or the Notes other than as contained in this Prospectus. Any such representation or information must not be relied upon as having been authorised by the Company, the Issuer, the Trustee or the Managers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. This Prospectus may only be used for the purposes for which it has been published.

No representation or warranty, express or implied, is made by the Managers or the Trustee as to the accuracy or completeness of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Managers or the Trustee assumes any responsibility for the accuracy or completeness of the information set forth in this document. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Company and the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

None of the Company, the Issuer, the Managers, the Trustee or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

This Prospectus contains conversions of certain Russian rouble amounts into U.S. dollars at specified rates solely for the convenience of the reader. No representation is made that the Russian rouble or U.S. dollar amounts referred to herein could have been or could be converted into Russian roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all.

IN CONNECTION WITH THIS ISSUE OF THE NOTES, ABN AMRO BANK N.V. (OR PERSONS ACTING ON ITS BEHALF) AS THE STABILISING MANAGER MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD, PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE NOTES. HOWEVER, THERE IS NO ASSURANCE THAT ABN AMRO BANK N.V. (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning the Company’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. The Company uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in “Risk Factors”, “Financial Review”, “Business” and other sections of this Prospectus. The Company has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgment of the Company’s management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in the Company’s forward-looking statements and from past results, performance or achievements. Although the Company believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the Company has identified in this Prospectus, or if any of the Company’s underlying assumptions prove to be incomplete or incorrect, the Company’s actual results of operations may vary from those expected, estimated or projected.

These forward-looking statements speak only as at the date of this Prospectus. Except to the extent required by law, the Company is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Company, or persons acting on the Company’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ENFORCEABILITY OF JUDGMENTS

The Company is an open joint stock company organised under the laws of the Russian Federation. All of the Company’s directors and executive officers named in this Prospectus reside in the Russian Federation. Moreover, substantially all the assets of the Company and of such persons are located in the Russian Federation. As a result, it may not be possible for the Noteholders to effect service of process in the United Kingdom on the Company or any of such persons.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in the Russian Federation unless there is (i) an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the jurisdiction where such judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments.

The Company is not aware of any treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between most Western jurisdictions and the Russian Federation. However, the Company is aware of one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of such judgment, or completely deprive the plaintiff of effective legal recourse.

The Loan Agreement provides that if any dispute or difference arises from or in connection with the Loan Agreement, the Issuer may elect, by notice in writing to the Company, to settle such dispute or difference by arbitration in accordance with the UNCITRAL Arbitration Rules. The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York

Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

In September 2002, the new arbitrazh procedural code of the Russian Federation (the “Arbitrazh Procedural Code”) entered into force. The Arbitrazh Procedural Code established the procedure for Russian courts to refuse to recognise and enforce a foreign arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign court judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or arbitral award in the Russian Federation.

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PRESENTATION OF FINANCIAL INFORMATION

Financial Information

The financial information of the Company set forth herein, has, unless otherwise indicated, been derived from its unaudited consolidated balance sheets and consolidated statements of income, cash flows and changes in shareholder's equity as at and for the six months ended 30 June 2006 and 30 June 2005 (the "Interim Financial Statements") and its audited consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity as at and for the years ended 31 December 2005 (the "2005 Financial Statements") and 31 December 2004 (the "2004 Financial Statements" and together with the 2005 Financial Statements and the Interim Financial Statements, the "Financial Statements"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), formerly referred to as International Accounting Standards ("IAS").

Currency

In this Prospectus, all references to "roubles" and "RUR" are to the lawful currency for the time being of the Russian Federation, all references to "dollar(s)", "U.S. dollars" and "U.S.\$" are to the lawful currency for the time being of the United States of America and all references to "euro" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the treaty establishing the European Community, as amended.

Translations of amounts from roubles to dollars are solely for the convenience of the reader and are made (i) at exchange rates established by the Central Bank and effective as at the dates of the respective financial information presented elsewhere in this Prospectus in respect of balance sheet items, and (ii) at weighted average exchange rates for the relevant periods in respect of income statement items. See "Exchange Rates".

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments.

THE OFFERING

The Offer:	U.S.\$200,000,000 9.25 per cent. Loan Participation Notes due 2011
Issuer of the Notes and Lender under the Loan Agreement:	Kazanorgsintez S.A., whose registered office is at 1 allée Scheffer, L2520 Luxembourg
Company, as Borrower under the Loan Agreement:	Kazan Open Joint Stock Company “Organichesky sintez” whose registered office is at 101 Belomorskaya Street, Kazan 420051, Republic of Tatarstan, Russian Federation
Lead Manager:	ABN AMRO Bank N.V.
Issue Price:	100 per cent. of the principal amount of the Notes
Yield:	9.25 per cent.
Maturity Date:	30 October 2011
Trustee:	The Bank of New York, acting through its London Branch
Registrar:	The Bank of New York
	A register of the Notes shall be kept at the registered office of the Issuer. In case of inconsistency between the register of the Notes kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer at its registered office shall prevail.
Principal Paying and Transfer Agent:	The Bank of New York, acting through its London Branch
Use of Proceeds:	The gross proceeds from the offering of the Notes, being U.S.\$200,000,000, will be used by the Issuer for the purpose of funding the Loan to the Company. The Company intends to use the proceeds of the Loan partly to repay certain indebtedness of the Company and partly to fund the first stage of its development plan. See “Business — Development Plan”.
Interest:	The Notes will bear interest from 30 October 2006 at a rate of 9.25 per cent. per annum payable semi-annually in arrear in equal instalments on 30 April and 30 October in each year commencing on 30 April 2007.
Risk Factors:	An investment in the Notes involves a high degree of risk. See “Risk Factors”.
Limited Recourse:	The Notes will constitute the obligation of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes solely for the purpose of funding a Loan pursuant to the terms of the Loan Agreement. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) received from the Company under the Loan Agreement less any amounts in respect of the Reserved Rights (as defined in “Terms and Conditions of the Notes”).
Form:	The Notes will be issued in registered form. The Notes will be in denominations of U.S.\$100,000 each and integral multiples of U.S.\$1,000 in excess thereof and will be represented by a Global Note Certificate which will be exchangeable for Notes in definitive form in the limited circumstances described under “Summary of Provisions Relating to the Notes in Global Form”.
Issuer’s Covenant:	As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to, or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement. See Condition 3.

Negative Pledge and Other Covenants:

The Loan Agreement contains a negative pledge in relation to the creation of Liens, other than Permitted Liens, on any of the assets of the Company or its Subsidiaries, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Loan is secured equally and rateably with such other Indebtedness (each as defined in the Loan Agreement).

The Loan Agreement also contains covenants restricting, *inter alia*, mergers and disposals by the Company, Indebtedness incurred by the Company or its Subsidiaries, Restricted Payments by the Company or its Subsidiaries and certain other covenants (each as defined in the Loan Agreement). See “The Loan Agreement”.

Credit Rating:

The Notes have been rated B by Fitch Ratings Ltd (“Fitch”) and B– by Standard and Poor’s Rating Services, a division of the McGraw Hill Companies, Inc. (“Standard & Poor’s”).

Events of Default/Relevant Event:

In the case of an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the “Terms and Conditions of the Notes—Enforcement”), the Trustee may, as provided in the Trust Deed, (a) declare or require the Issuer to declare all amounts payable under the Loan Agreement by the Company to be due and payable (in the case of an Event of Default) or (b) enforce the security granted by the Issuer following the occurrence of a Relevant Event.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due, and thereupon shall cease to be outstanding.

Withholding Tax or Increased Costs; Gross-up:

In the event that any payments to be made by (a) the Company under the Loan Agreement, or (b) the Issuer under the Notes, become subject to any withholding tax imposed by the Russian Federation or Luxembourg or any taxing authorities thereof, or certain other circumstances result in the Issuer incurring any increased cost associated with the Loan, the Company will (save in certain circumstances and subject to the enforceability of such provisions) be required to pay any additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer. See “The Loan Agreement”.

Tax Redemption:

In the event that the Company is required to pay additional amounts under the Loan Agreement as a result of tax imposed by any taxing authority in Luxembourg and/or the Russian Federation, the Company will have the right to prepay the Loan, upon not less than 30 days’ notice to the Issuer, in whole (but not in part) at any time. See “The Loan Agreement”. In such circumstances, the Issuer will exercise its right to redeem the Notes. See “Terms and Conditions of the Notes”.

Early Redemption at the Option of the Noteholders:

The Notes may be redeemed at the option of the Noteholders at their principal amount together with accrued interest to the date of redemption if a Change of Control (as defined in the Loan Agreement) occurs.

Listing:

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange plc for such Notes to be admitted to trading on the London Stock Exchange plc’s Gilt Edged and Fixed Interest Market.

Selling Restrictions:

The Notes and the Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States. The Notes may be sold in other jurisdictions only in compliance with applicable laws and regulations. The offer and sale of the Notes may also be restricted in other jurisdictions. See “Subscription and Sale”.

Governing Law:

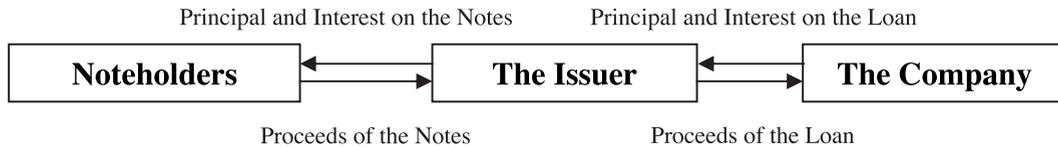
The Notes, the Loan Agreement and the Trust Deed will be governed by English law. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded.

Security Codes:

ISIN: X50271050501
Common code: 027105050

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes” and “The Loan Agreement” appearing elsewhere in this Prospectus.



The transaction will be structured as a loan to the Company by the Issuer. The Issuer will issue the Notes which will be limited recourse loan participation notes issued for the sole purpose of funding the loan. The Notes will be issued on a limited recourse basis and the Issuer will not have any obligations to the Noteholders save to account to them for amounts equivalent to amounts of principal and interest under the loan if and to the extent received from the Company.

The Notes will be constituted by a trust deed (the “Trust Deed”) entered into between the Issuer and the Trustee. As provided in the Trust Deed, the Issuer will charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to principal, interest and additional amounts (if any) as lender under the Loan Agreement, (b) its right to receive all sums payable by the Company under any claim, award or judgment relating to the Loan Agreement and (c) amounts received pursuant to the Loan Agreement in an account with The Bank of New York in the name of the Issuer, together with the debt represented thereby (the “Account”), in each case other than certain amounts in respect of certain Reserved Rights (as defined in the Trust Deed).

The Company will be obliged to make payments under the loan to the Issuer to the Account, in accordance with the terms of the Loan Agreement. As a consequence of the assignment to it of certain administrative rights under the Loan Agreement, the Trustee shall have the ability to exercise such administrative rights as set out in the relevant provisions of the Trust Deed. If and when the first fixed charge of certain of the Issuer’s rights and interests under the loan is enforced, the Trustee will assume the rights of the Issuer under the loan as set out in the relevant provisions of the Trust Deed, and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

The Issuer will covenant in the Trust Deed not to agree to any amendment to, or any modification or waiver of, or authorise any breach or potential breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent. Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with the Terms and Conditions of the Notes and will be binding on the Noteholders.

The relevant security created under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in the Terms and Conditions of the Notes.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of Luxembourg, except as required by law. In that event, the Issuer will be required to pay additional amounts only to the extent that it receives corresponding amounts under the Loan Agreement. The Loan Agreement will provide for the Company to pay such corresponding amounts in these circumstances. In addition, payments under the Loan Agreement will be made without any deduction or withholding for or on account of Russian taxes, except as required by law, in which event the Company will be obliged to increase the amounts payable under the Loan Agreement (save in certain circumstances).

In certain circumstances, the loan may be prepaid at its principal amount, together with accrued interest, at the option of the Company upon the Company being required to pay additional amounts on account of taxes in Luxembourg and/or the Russian Federation pursuant to the Loan Agreement and the Notes or required to pay additional amounts on account of certain costs incurred by the Issuer. The Issuer may (in its own discretion) require the loan to be prepaid if it becomes unlawful for the loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent the Issuer has actually received the relevant funds by the Company), the payment amount of the relevant Notes (or in the case of prepayment for tax reasons or illegality, all outstanding Notes) will be prepaid by the Issuer together with accrued interest.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The materialisation of these risks, individually or together, could have a material adverse effect on the Company's business, financial condition, results of operations and/or the trading price of the Notes.

Risks Relating to the Company

Dependency on Suppliers of Raw Materials

Open Joint Stock Company Gazprom ("Gazprom") and related entities currently are, and for the past three years have been, the Company's primary supplier of ethane, supplying 50.25 per cent. and 61 per cent. of the Company's ethane in 2005 and during the six months ended 30 June 2006, respectively. The remaining ethane used by the Company in 2005 and during the six months ended 30 June 2006 was supplied by Open Joint Stock Company Tatneft named after V.D. Shashin ("Tatneft") (42.9 per cent. and 34 per cent., respectively) and LLC Bi Plus (6.85 per cent. and 5 per cent., respectively). Ethane is required for the production of ethylene, which is then used in the production of low density polyethylene ("LDPE"), high density polyethylene ("HDPE") and pipes, sales of which together comprised 69.4 per cent. and 78.2 per cent. of the Company's total sales in 2005 and for the six months ended 30 June 2006, respectively.

In addition, 69.1 per cent. and 67.7 per cent. of the Company's butane was, for the year ended 31 December 2005 and the six months ended 30 June 2006, respectively, supplied by Open Joint Stock Company Sibirsko-Uralskaya Neftegazohimicheskaya Companiya ("Sibur"), which is affiliated with Gazprom. Propane-butane is necessary for the production of ethylene.

The Company's supply contracts have terms of one year and the price under the contracts can be changed during a contract's term.

If the Company's relations with Gazprom, Tatneft or Sibur were to deteriorate or if there were a disruption of the supply of ethane or propane-butane for any reason, the supply of ethane or propane-butane may be interrupted or the prices may increase. In 2004, the Company's supply of ethane was disrupted due to an accident at Gazprom's Orenburg Helium Plant, which caused a 8 per cent. reduction in the Company's production volumes in 2005. While the Company believes that (i) it has favourable relations with these companies (for example, the Company is the only consumer of the ethane produced by Gazprom's Orenburg Helium Plant), (ii) there are other suppliers from whom the Company could source ethane, propane-butane and ethylene (for example, the Company may source ethylene from OJSC Nizhnekamskneftekhim which is a member of the "TAIF" group of companies ("TAIF", see "—Controlling Shareholder" below) and (iii) increases in prices of raw materials can be passed on, to a large extent, to the Company's customers by increasing the Company's sales prices, a deterioration in the relationships with these suppliers could have a material adverse effect on the Company's business, financial condition and results of operations.

Reliance on Gazprom

Gazprom purchased 9.1 per cent. and 11.6 per cent. of the Company's LDPE and HDPE, respectively, in 2005 and 11.7 per cent. and 12.6 per cent. of LDPE and HDPE, respectively, during the six months ended 30 June 2006. Sales of LDPE and HDPE in 2005 and in the six months ended 30 June 2006 together comprised 60 per cent. and 70 per cent., respectively, of the Company's aggregate sales to customers over these periods. As such, Gazprom is the Company's largest customer and as stated above, the primary supplier of the Company's ethane. If the Company's relationship with Gazprom were to deteriorate, this could have a material adverse effect on the Company's business, financial condition and results of operations.

Reliance on Power Supply

The Company is dependent on the supply of heat, electrical power and water for the continuing and efficient running of its production processes. Heat and electrical power are supplied primarily by OJSC Tatenergo, one of the major energy companies in the Russian Federation, and water is supplied from the Company's own water intake. While the Company has implemented various measures, including technical solutions, to minimise the effects of any disruption in the supply of these utilities, it is possible

that any malfunctioning in the delivery of heat, electrical power or water could adversely affect the Company's operations.

Controlling Shareholder

TAIF, through its wholly-owned subsidiary, LLC Telecom-Management, owns 52.02 per cent. of the Company's ordinary (voting) shares and 48.76 per cent. of the Company's total share capital (which includes non-voting preferred shares). As a result, TAIF effectively controls approval of most actions requiring shareholder approval and is responsible for determining the long-term strategy and direction of the Company. TAIF is primarily an investment company and includes subsidiaries and affiliates which provide services in the financial market, such as broker, dealer, asset management and banking services. TAIF is also one of the leading companies in the telecommunications market within the Republic of Tatarstan whose subsidiaries and affiliates provide services in the field of fixed telephone communication, Internet, cable television and radio. In addition, TAIF's subsidiaries and affiliated companies operate in construction design and the building of industrial facilities, stations for cellular networks, refueling terminals and residential buildings. TAIF also participates in the development and realisation of strategic programmes in the petrochemical, chemical and refinery industries. TAIF controls, indirectly and directly, OJSC Nizhnekamskneftekhim, one of the leading petrochemicals producers in the Russian Federation and a competitor of the Company, and CJSC TAIF-NK, an oil refinery in the City of Nizhnekamsk.

TAIF was registered with the Ministry of Finance of the Republic of Tatarstan on 10 August 1995. TAIF has five shareholders, namely NKS Trading (USA), LLC TransPort, LLC Vulcan, LLC NIRA-Export and LLC VNTPO, which own approximately 36.3 per cent., 19.9 per cent., 19.9 per cent., 19.21 per cent. and 4.69 per cent., respectively of TAIF.

If circumstances were to arise whereby TAIF's interests conflicted with the interests of Noteholders, Noteholders could be disadvantaged, as TAIF could take actions contrary to the Noteholders' interests. For example, TAIF has the ability to exercise significant control over the Company's pursuit of acquisitions, divestitures, financings or other transactions that could enhance the value of its equity investment without necessarily benefiting the interests of Noteholders. For a description of the ownership structure of the Company, see "Principal Shareholders".

Governmental Influence

The Republic of Tatarstan indirectly owns 28.40 per cent. of the Company's ordinary (voting) shares or 26.64 per cent. of the Company's total share capital (which includes non-voting preferred shares) through OJSC Svyazinvestneftekhim which is wholly-owned by the Republic of Tatarstan. In addition, the Republic of Tatarstan has a "golden share" in the Company, which entitles it to veto certain decisions taken at general shareholders' meetings, as well as to appoint a representative of the Republic of Tatarstan on the board of directors of the Company. Therefore, there can be no assurance that the Company will be permitted to take certain major corporate actions, irrespective of whether such corporate actions are in its best interests. For a description of the ownership structure of the Company, see "Principal Shareholders".

Requirement for Significant Capital Expenditure

Over the next several years, the Company must, and intends to, modernise its existing production plants and construct new plants in order to increase its production capacity. The Company's principal planned developments include upgrading and modernising its ethylene and HDPE plants in order to increase their production capacity and construction of Bisphenol-A and polycarbonate plants. The Company expects to complete these developments by 2008 and has additional long-term construction plans and the Development Plan may be expanded if the Company's shareholders so require. See "—Controlling Shareholder". These developments will require significant capital expenditure in an aggregate amount of approximately U.S.\$760 million (including VAT) through 2008. The Company expects to fund such capital expenditures through internal and external financing. While the Company has received commitments from financial institutions to provide financing of the Development Plan in the principal amount of approximately U.S.\$490 million as of 30 June 2006, there can be no assurance that the Company will be able to generate and raise sufficient funds to meet such capital requirements in the future or to do so at a reasonable cost. Lack of sufficient funds in the future may require the Company to delay or abandon some or all of its anticipated projects.

In addition, due in part to the size and complexity of the Company's planned capital improvement, the Company may be unable successfully to manage the cost and/or implementation of the Development Plan. Any failure to successfully manage the Company's capital expenditure programme may result in costs that are greater than expected or result in significant delays. Any such cost overruns or completion delays may have a material adverse effect on the Company's business, financial condition and results of operations.

Necessity for Significant Increase in Supply of Raw Materials and Customer Demand

The Development Plan, if implemented successfully and as intended, will require a significant increase in the Company's supply of raw materials and will result in a significant increase in the output of its existing products and the introduction of new products which the Company currently does not manufacture. While the Company believes that there is ample supply of the raw materials required for its anticipated increase in production, if the Company is not able to source these raw materials, or if it is able to source them only at high prices, this could materially adversely affect the Company's business. In addition, while the Company believes that demand for its products is increasing, if it is not able to sell the products manufactured from its renovated and new facilities, this could also have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The Company faces varying degrees of competition in each of its products from other producers. For example, although the Company is one of the leaders in terms of market share in the Russian Federation for the production of polyethylene, with market shares for the production of LDPE and HDPE of 32 per cent. and 34 per cent., respectively, for the six months ended 30 June 2006, the Company's market share of HDPE declined by 2 per cent. and its market share of LDPE declined by 7 per cent. due to reduction in the Company's volume of production caused by the decrease of deliveries of ethane from the Gazprom's Orenburg Helium Plant.

Additionally, while the Company believes that its plastic products plant is the largest producer of polyethylene pipes and connecting fittings in the Russian Federation, its market share in the Russian plastic products market declined by 4 per cent. in the six months ended 30 June 2006 as a result of its competitors' substantial growth in capacity. In the plastic products market, the Company does not have a regional sales network, incurs high transportation costs and faces many competitors.

While the Company intends to expand and modernise its production plants in order to maintain market share, there can be no assurance that the Company will be able to continue to compete effectively with its competitors.

Environmental Risks

The Company's operations, which are often potentially hazardous, are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work in relation thereto. The Company has an established environmental policy and monitors its operations in an effort to meet applicable environmental standards (including the ecological management system ISO 14001:2004 implemented by the Company). The Company provides for environmental protection measures in its annual budget in accordance with what the Company believes is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. However, in the future, federal, regional and local authorities of the Russian Federation may enforce existing laws and regulations more strictly than they have done in the past and may impose stricter environmental standards, or higher levels of fines and penalties for violations, than those in effect. Accordingly, the Company is unable to estimate the financial impact of its future environmental obligations.

ABN AMRO May Have a Conflict of Interest

An affiliate of ABN AMRO, which is the Lead Manager in the offering of the Notes, is a creditor of the Company pursuant to loan facilities aggregating approximately €67 million as of 30 June 2006. The Company intends to use a portion of the proceeds from the Loan to pay off the outstanding amounts under these facilities. As a consequence, it may be viewed that ABN AMRO has a strong interest in ensuring the Notes are issued so that a portion of the proceeds of such issuance will be used by the Company to repay the outstanding amounts owed to ABN AMRO.

Dependence on Qualified Personnel

The Company's success depends, in part, on its ability to continue to retain, motivate and attract qualified and experienced production, technical and management personnel. Competition in the Russian chemicals industry for personnel is considerable. The Company's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its business and prospects. See "Business — Employees".

Operational Risks

The Company's operations, like those of other chemical companies, are subject to all of the hazards and risks normally associated with the handling, production and processing of chemicals, any of which could result in loss of production, injury or death or damage to property or the environment. Due to the nature of chemicals, their production and processing are generally associated with the following hazards: (a) discharge of toxic agents into the environment and consequent environmental contamination, (b) self-ignition, ignition or explosions of storage facilities, (c) accidental spills during the production or handling of chemicals, (d) production disruptions due to extreme weather conditions, (e) other accidents or events resulting from changing operational parameters (temperature, pressure, contact with other substances) at which chemical substances are processed, produced or stored.

Although the Company maintains a system of controls designed to keep operational risk at appropriate level, the Company may experience any of these hazards. The occurrence of these or like hazards could delay production, increase production costs or result in injury to persons or damage to property, as well as the associated liability of the Company.

Concentration of the Company's Production Facilities in One Location

The Company's production facilities are located in the city of Kazan in the Russian Federation. The Company presently has no other production facilities. Any business interruption or accidental shutdowns, especially as a result of local problems in the Kazan area, as a result of force majeure or otherwise could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Insurance Risks

The insurance industry is not yet well developed in the Russian Federation and many forms of insurance protection common in more economically developed countries are not yet available in the Russian Federation on comparable terms, including coverage for business interruption. The Company maintains insurance on its existing principal production facilities and equipment including insurance for damage related to explosion and for environmental damage arising from accidents on the Company's production facilities and/or related to the Company's operations. However, the Company does not have coverage for business interruption and loss of profit. If an accident for which the Company is not insured or insufficiently insured occurred at the Company's processing facilities, this could have a material adverse effect on the Company's business and results of operations.

Extension of Monopoly Status to any of the Company's Activities

The Company's Development Plan contemplates a substantial increase in its production capacity and the Company may capture a substantial part of the Russian market for production of certain chemicals and derivatives thereof (for example, polyethylene). Therefore, there is a risk that the Federal Antimonopoly Service may categorise the Company as a dominant force in the market. Any ruling that any of the Company's production activities is a monopoly could result in restrictions on its commercial activities and the regulation of the Company's prices. The imposition of such restrictions or regulation could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Fluctuations in Oil and Gas Prices

The primary raw material used by the Company is ethane, which is extracted from natural gas and is a by-product of petroleum refining. As such, the costs and prices of the Company's products are correlated to prices for oil and gas. While changes in gas prices have certain impact on the Company's product prices, there is a lag of a few months between changes in oil prices and changes in chemical prices. As a result, the Company may not be able to fully pass on increased costs of raw material to its customers in any given financial reporting period, which may have an adverse impact on the Company's profitability.

during such period. Oil and gas prices have historically fluctuated widely in response to changes in many factors over which the Company has no control. These factors include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of the Organisation of Petroleum Exporting Countries (“OPEC”) and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- other actions taken by major crude oil producing or consuming countries;
- prices and availability of alternative fuels;
- global economic and political conditions;
- prices and availability of new technologies; and
- weather conditions.

It is impossible to predict future oil and gas price movements with certainty. However, political developments in the Middle East could lead to price movements. The Company is not currently engaged in any hedging transactions to reduce the impact of fluctuation of oil and gas prices on its financial condition and results of operations.

Decline in Prices for Chemicals

The chemicals industry is cyclical because the industries in which its customers operate are themselves cyclical and sensitive to changes in general economic conditions. The demand for chemicals is thus generally correlated with macroeconomic fluctuations in the economies in which producers of chemicals sell products which are in turn affected by global economic conditions. The prices of chemicals are influenced by many factors, including demand, worldwide and national production capacities, capacity-utilisation rates, raw material costs, exchanges rates, trade barriers and improvements in production processes. Any decline in prices for chemicals could have a material adverse effect on the Company’s business and results of operations.

Inadequate Management Information and Internal Control Systems

The Company’s management information system, financial reporting function and system of internal control are less developed in certain respects than those of companies in more developed markets and may not provide the Company’s management with as much accurate or actual information as those in more developed markets. Although the Company has implemented SAP software for integrated enterprise management and, within its framework, software for accounting under the Russian accounting standards, and expects to implement SAP software for its IFRS accounting in 2007, the Company may encounter difficulties in the ongoing process of implementation and enhancement of its management information system. The Company’s inability to maintain an adequate management information system, financial reporting function and system of internal control may have a material adverse effect on its business.

Foreign Exchange Risk

The Company is exposed to the foreign exchange risk as a significant portion of its costs (especially debt service costs) are denominated in U.S. dollars and euros while the major part of its revenues is in roubles. Any appreciation of the U.S. dollar or euro against the rouble generally adversely affects the Company’s financial condition and results of operations. Conversely, a modest appreciation of the rouble against the U.S. dollar and euro generally positively affects the Company’s financial condition and results of operations. The Company is in the process of developing a foreign exchange risk hedging strategy with the assistance of an international investment bank.

Risks Relating to the Russian Federation

The Company is a Russian company, and substantially all of its assets are located in, and a significant portion of its revenues is derived from, the Russian Federation. Set out below is a description of some of the risks incurred by investing in the Russian Federation. Please note that this list is not exhaustive.

Political and Social Risks

The Russian Federation has been undergoing substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-orientated democracy. There can be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies, any of which could have a material adverse effect on the Company and its ability to meet its obligations under the Loan.

The composition and structure of the Russian government – the prime minister and the other heads of federal ministries – has at times been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. President Putin became acting President of the Russian Federation on 31 December 1999 and was elected President in March 2000. Since that time, the Russian Federation has generally experienced a significantly higher degree of governmental stability.

The latest State Duma elections resulted in the defeat of the opposition parties (the Communists, the social-democratic Yabloko and the pro-business Union of Right Forces). The majority of the seats in the new State Duma were distributed between pro-presidential and nationalist parties (United Russia, Liberal Democrats and Motherland). Some experts believe that this allocation of the State Duma seats has resulted in a lack of strong opposition to the President and rendered impossible the blocking of any governmental initiatives by the State Duma. Any major changes in, or rejection of, current policies favouring political and economic reform by the Russian government may have a material adverse effect on the Company.

The Russian Federation is a federation of republics, territories, regions, districts, cities of federal importance, and autonomous areas. The delineation of authority among the constituent entities of the Russian Federation and federal government authorities is often uncertain and at times contested. Lack of consensus between local and regional authorities and the Russian government has at times resulted in enactment of conflicting legislation at various levels, and may result in political instability. This problem has been mitigated to some extent by the increasing power that the federal government has exerted over the various constituent entities of the Russian Federation; however, this lack of consensus may have negative economic effects on the Company, which could have a material adverse effect on its ability to meet its financial obligations.

The privatisation of the oil and gas industry in the Russian Federation, which is a vital sector of the national economy, continues to be a source of political controversy. There can be no assurance that government policy liberalising control over the oil and gas industry will endure. Furthermore, control over natural resources such as oil and gas and their exploitation remains an issue between the federal authorities and the regions. The controversial auction of OJSC Yukos subsidiary OJSC Yuganskneftegas in 2004 that eventually resulted in OJSC Yuganskneftegas being acquired by state-owned OJSC Rosneft may indicate that the Russian government aims to establish a stronger presence in the Russian oil and gas sector.

Recent terrorist activity in the Middle East region and elsewhere, including the Russian Federation, has had a significant effect on international and domestic financial and commodity markets. In recent years, ethnic religions, historical and other divisions have given rise to tension and, in certain cases, military conflict and terrorist attacks. Any future armed conflicts or acts of terrorism in the Russian Federation or internationally could have an adverse effect on the financial and commodities markets and the global economy and in turn could have a material adverse affect on the Company's business, financial condition, results of operations and prospects.

Economic Risks

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets and financial turmoil in any emerging market could disrupt the Company's business as well as cause the price of the Notes to suffer. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set out within this Prospectus may become outdated within a relatively short period. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in stocks and prices for debt securities of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies

could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt the Company's business, which could result in a decrease in the price of the Notes.

Since the dissolution of the Soviet Union, the Russian economy has at various times experienced, among other things:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of "black" and "grey" market economies;
- high levels of capital flight;
- corruption and extensive penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels amongst the Russian population.

Russia experienced a significant economic crisis in the late 1990s. On 17 August 1998, the Russian government defaulted on its rouble-denominated fixed income securities, the Central Bank stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. The near collapse of the Russian banking sector, which resulted in the loss of bank deposits in some cases, impaired its ability to act as a reliable and consistent source of liquidity to Russian companies, aggravating these problems.

Since the 1998 crisis, the Russian economy has experienced positive trends, such as an increase in gross domestic product, a relatively stable rouble, a reduced rate of inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government has achieved budget surpluses in recent years and has accumulated a sizeable "stabilisation fund" and the Central Bank has considerable hard currency reserves. Recently, both Fitch and S&P upgraded Russia's sovereign rating one notch to BBB+ from BBB (Fitch) and to BBB+ from BBB (S&P). No assurance can be given, however, that this positive situation will continue. For example, according to the Ministry for Economic Development and Trade, economic growth in the Russian Federation slowed from 7.2% in 2004 to 6.4% in 2005. Market downturn or economic slowdown as well as decline in the prices of crude oil, gas or metals could have an adverse effect on Russian economy and a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Concentration of the Economy of the Republic of Tatarstan

The economy of the Republic of Tatarstan is dominated by three major industrial sectors: the fuel industry, heavy machinery and petrochemicals, which represented 37 per cent., 25 per cent. and 20 per cent., respectively, of its industrial production in 2005.

The reliance of the Republic of Tatarstan on three major industrial sectors could adversely affect its economy if one or more of such sectors experienced a decline in financial performance and this could, in turn, have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Russian Physical Infrastructure

Russian physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained in recent decades. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout the Russian Federation are poor, with many roads not meeting minimum quality requirements. The federal government is actively considering plans to reorganise the nation's telephone system and is in the process of reorganisation of the nation's electricity system. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of the Russian physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in the Russian Federation and can interrupt business operations, which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Legal Risks

Risks associated with the Russian legal system include, *inter alia*: (i) the untested nature of the independence of the judiciary and its immunity from economic, political or nationalistic influences; (ii) inconsistencies among laws, Presidential decrees, and government and ministerial orders and resolutions; (iii) the lack of judicial or administrative guidance on interpreting the applicable laws; (iv) a high degree of discretion on the part of governmental authorities; (v) conflicting local, regional and federal laws and regulations; (vi) the relative inexperience of judges and courts in interpreting new legal norms; and (vii) the unpredictability of enforcement of foreign judgments and foreign arbitral awards.

The laws in the Russian Federation regulating ownership, control and corporate governance of Russian companies are relatively new. Disclosure and reporting requirements do not guarantee that material information will always be available and antifraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, substantive amendments to several fundamental Russian laws (including those relating to the tax regime, corporations and licencing) have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. All of these weaknesses could affect the Company's ability to enforce its rights, or to defend itself against claims by others in respect of its subsidiaries, and could affect enforcement in the Russian Federation of any rights of the holders of the Notes against the Company. Furthermore, no assurance can be given that the development or implementation or application of legislation (including government resolutions or Presidential decrees) will not adversely affect foreign investors (or private investors generally).

These uncertainties also extend to property rights. During the Russian Federation's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Some government entities have tried to re-nationalise privatised businesses. Expropriation or nationalisation of any of the Company's entities or their assets, potentially without adequate compensation, would have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available, and usually are not updated or catalogued. As a result, applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal

processes may not be available. In addition, breaches of Russian law may involve severe penalties and consequences that could be considered disproportionate to any violation committed.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation remains largely untested. Judges and courts are generally inexperienced in the areas of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding and the Russian judicial system can be slow. All of these factors render judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court decisions are not always enforced or followed by law enforcement agencies. There is no guarantee that further judicial reform aimed at balancing the rights of private parties and governmental authorities in courts and reducing grounds for re-litigation of already decided cases will be implemented and succeed in building a reliable and independent judicial system.

Inflation, Exchange Rate and Exchange Control Restrictions

In the recent past, the Russian economy has suffered from high rates of inflation. Although the inflation rate decreased to 10.9% in 2005 and the Ministry of Economic Development and Trade predicts its further decrease to as low as 10% in 2006, inflation was as high as 20.2% in 2000. Any return to high and sustained inflation could lead to market instability, new financial crises, reduction in consumer buying power and erosion of consumer confidence.

Although the rouble has been stable relative to the U.S. dollar since 2000, the rouble has experienced significant depreciation relative to the U.S. dollar in the recent past, such as immediately following the financial crisis in 1998. The ability of the Russian government and the Central Bank to maintain low volatility of the rouble depends on many political and economic factors, including their ability to control inflation and the availability of foreign currency.

The rouble is generally not convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of roubles into other currencies, but it is limited in size and is subject to rules governing such conversion. Such a market might not continue indefinitely.

Furthermore, although the Russian government currently allows foreign investors to repatriate profits earned in roubles, it could place restrictions on such repatriation. Any such restrictions on convertibility of the rouble or repatriation of profits could adversely affect the value of investments in the Russian Federation, including the Notes.

The Central Bank has, from time to time, imposed various exchange control restrictions in attempts to support the rouble and may take further actions in the future. For example, Russian companies currently must repatriate proceeds from export sales. In the past, they also had to convert 10%-75% of such proceeds into roubles. The Central Bank abolished this requirement effective 10 May 2006. However, it retains the right to reinstate the requirement for Russian companies to convert up to 30% of the proceeds of export sales into roubles. Any exchange control restrictions may adversely affect the Company's business, financial condition and results of operations.

Lack of Official Data Reliability

Official statistics and other data published by Russian federal, regional and local governments, and federal agencies are substantially less complete or reliable than those of Western countries, and there can be no assurance that the official sources from which certain information set forth herein has been drawn is reliable or complete. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation herein must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Taxation

The Company is subject to a broad range of taxes imposed at the federal, regional and local levels, including, but not limited to, export duties and tariffs, profits tax, natural resources production tax, value-added tax, excise tax, royalty tax, property tax, land tax, payroll-related taxes and social taxes and contributions, among others. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase government revenues. However, the Russian government has initiated reforms of the tax system, including the enactment of the Tax Code. The reforms have resulted in a relative improvement in the tax climate. For example, the corporate

profits tax chapter of the Tax Code reduced the corporate profits tax rate from 35 per cent. to 24 per cent. as at 1 January 2002.

Russian tax laws and regulations are subject to frequent change, varying interpretations and inconsistent enforcement. In some instances, despite the constitutional prohibition, Russian tax authorities have applied certain taxes retroactively. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses. This uncertainty could expose the Company to significant fines and penalties and to enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden. Additionally, the Russia's largely ineffective tax collection system and continuing budget requirements increase the likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Company's business, financial condition and results of operations.

It is expected that Russian tax legislation will become more sophisticated and introduce additional revenue raising measures. Although it is unclear how these provisions will operate, introduction of these provisions may affect the Company's overall tax efficiency and may result in significant additional taxes becoming payable. Although the Company will undertake to minimise such exposures with effective tax planning, the Company cannot offer any assurances that additional tax exposure will not arise while any Notes are outstanding. Additional tax exposure could cause the Company's financial results to suffer.

Additionally, financial statements of Russian companies are not consolidated for tax purposes. As a result, each entity in the Company's consolidated group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Company's consolidated group. Dividend payments within the Russian group entities would be subject to Russian withholding tax of 9 per cent., although this tax does not apply to dividends paid out further up the ownership chain once they have already been taxed at the lower level. The latter tax deduction rule would not apply to payments of dividends outside of the Russian Federation.

Corporate Governance and Disclosure

The corporate affairs of the Company and Russian subsidiaries of the Company are governed by the laws governing companies incorporated in the Russian Federation and by their respective constitutive documents. The rights of shareholders and the responsibilities of members of the Board of Directors and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United Kingdom and other countries is to promote full and fair disclosure of all material corporate information to the public. The Company and its subsidiaries are subject to Russian law requirements, which oblige them to publish, *inter alia*, annual financial statements and information on material events relating to the relevant company (such as major acquisitions and increase in charter capital). However, there is generally less publicly available or other information about the Company and its subsidiaries than the information regularly published by or about listed companies in the United Kingdom or certain other jurisdictions.

Risks Relating to the Offering, the Notes and the Trading Market

Payments under the Notes are Limited to the Amount of Certain Payments Received by the Issuer in Respect of the Loan

In each case where amounts of principal, interest and additional amounts, if any, under the Terms and Conditions of the Notes or the Trust Deed are to be paid by the Issuer in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement. Consequently, the failure of the Company to meet its payment obligations under the Loan in full would result in the Noteholders receiving less than the scheduled amount of principal or interest or other amounts, if any, on the relevant due date.

Additional Credit Risk

Under the Loan Agreement, the Company is required to make payments of principal and interest in respect of the Loan to the Account two business days before the date for payment is due on the Notes. Any such payment so made will discharge *pro tanto* the Company's obligation to make the relevant

payment under the Loan Agreement. The Issuer is obliged to account to the Noteholders only for amounts equivalent to principal, interest and additional amounts, if any, actually received by or for the account of the Issuer.

Whilst the payment into the Account will not discharge the Issuer's payment obligations under the Notes (such obligation will only be satisfied upon payment being made to the common depository of Euroclear and Clearstream, Luxembourg), in the event that The Bank of New York, acting through its London Branch were to become insolvent whilst such funds were in the Account, Noteholders would only be able to look to the Issuer (as a creditor of The Bank of New York, acting through its London Branch) for payments due under the Notes and the Issuer would not have sufficient assets to be able to meet its payment obligations under the Notes, the payment obligations of the Company under the Loan Agreement having been discharged upon payment by them of amounts due thereunder into the Account.

No Direct Recourse of the Noteholders to the Company

At maturity, the Company may not have the funds to fulfil its obligations under the Loan and it may not be able to arrange for additional financing. Noteholders have no direct recourse to the Company. Except as otherwise disclosed in the "Terms and Conditions of the Notes" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Company, except through action by the Trustee to enforce the security under the Trust Deed. As further described in, and subject to the provisions of, the Trust Deed, neither the Issuer nor the Trustee, pursuant to the assignment of the Transferred Rights (as defined in "Terms and Conditions of the Notes"), shall be required to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Bankruptcy of the Company

In the event of the Company's bankruptcy, under the Insolvency Law of the Russian Federation the claims of the creditors of the Company rank in the following order of priority:

- *Claims in respect of insolvency proceedings.* Claims related to administration of insolvency proceedings, including salaries of the personnel involved in insolvency proceedings, utilities bills, legal expenses and other payments.
- *First Priority.* Claims of individuals in tort relating to harm to life or health, as well as moral damages.
- *Second Priority.* Claims under employment contracts (including severance payments) and other social benefits and copyright claims.
- *Third Priority.* Claims of all other creditors with the following exception. Creditors' claims relating to obligations secured by pledge/mortgage of the Company's property shall be settled at the expense of the value of the subject of the pledge/mortgage before the other creditors, with the exception of obligations to creditors of the first and second orders of priority in respect of which claims occurred prior to the conclusion of the respective pledge/mortgage agreements.

Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

Lack of a Public Market for the Notes

There may not be an existing market for the Notes at the time they are issued. The Notes are expected to be traded on the London Stock Exchange plc's Gilt Edged and Fixed Interest Market. However, there can be no assurance that a liquid market will develop or will be maintained for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Consequences of Russian Withholding Tax

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20 per cent., absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice the Company has received, it

believes that payments of interest on the Loan should not be subject to withholding tax under the terms of the double tax treaty between the Russian Federation and Luxembourg. However, there can be no assurance that such relief will be obtained. There is a risk that the Russian tax authorities would argue that the Issuer is not a beneficial owner of the interest on the Loan and would try to challenge the application of the double tax treaty between the Russian Federation and Luxembourg. In practice, the Russian tax authorities have increased their knowledge on the subject of beneficial ownership which can be understood from the various recent published Clarifications by the Ministry of Finance of the Russian Federation. In addition, if interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between the Russian Federation and Luxembourg will cease and payments of interest could be subject to Russian withholding tax.

If the payments under the Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), the Company is obliged to increase payments as may be necessary so that the net payments received by the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions may not be enforceable under Russian law. If the Company is obliged to increase payments, it may, subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest. See “Terms and Conditions of the Notes.”

Withholding Tax on Disposals of the Notes in the Russian Federation

If a non-resident holder that is a legal person or organisation sells any Notes and receives proceeds from a source within the Russian Federation and the proceeds are not attributable to the permanent establishment of the non-resident holder in the Russian Federation, there is a risk that the part of the payment, if any, representing accrued interest may be subject to Russian withholding tax at 20 per cent. Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by an individual non-resident holder, a similar withholding tax would be charged at a rate of 30 per cent. on the gains from the disposal. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes.

Enforceability of Foreign Judgments and Arbitral Awards Against the Company

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in the Russian Federation only if (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments.

In the absence of an applicable treaty or convention providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom and the Russian Federation, a judgment of a court in England may be recognised and enforced in the Russian Federation only on the grounds of reciprocity. Although a number of Russian court decisions indicate this possibility, the Company is aware of only one instance in which a Russian court recognised and enforced an English court judgment on this basis. In each case reciprocity must be established and in the absence of a developed court practice, it is difficult to predict whether a Russian court will be inclined to recognise and enforce an English court judgment on the grounds of reciprocity in any particular instance.

Also, the Loan Agreement provides that controversies, claims and causes of action brought by any party thereto may be settled by arbitration. The Russian Federation is a party to the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the lack of experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors and Russian courts' inability to enforce such orders.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the UNCITRAL Arbitration Rules and the application of English law to the Loan Agreement may be limited by the mandatory provisions of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations in particular.

Volatility in Market Price of the Notes

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company's own and the Company's competitors' operating results, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts, and the actual or expected sale of a large number of Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Company's business, financial condition, results of operations and prospects.

Effect of Financial Turmoil in Emerging Markets on Price of Notes

The market price of the Notes is influenced by economic and market conditions in the Russian Federation and, to a varying degree, economic and market conditions in other former CIS, Eastern European and emerging markets generally. Financial turmoil in the Russian Federation and other emerging markets in the past have adversely affected market prices in the world's securities markets for companies that operate in those developing economies. Even if the Russian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

Any negative change in the Company's credit rating could adversely affect the market price of the Notes

The Notes have been rated B by Fitch and B- by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any negative change in the Company's credit rating could materially adversely affect the market price of the Notes.

Claims of Noteholders in the Event of Bankruptcy of Issuer

The Issuer can be declared bankrupt upon petition by a creditor of the Issuer or at the initiative of the Court or at the request of the Issuer in accordance with the relevant provisions of Luxembourg insolvency law. If granted, the Luxembourg courts will appoint a bankruptcy trustee ("*curateur*") who shall be obliged to take such action as he deems to be in the best interest of the Issuer and of all creditors of the Issuer. Certain preferred creditors of the Issuer (including the Luxembourg tax authorities) may have a privilege that ranks senior to the rights of the holders of the Notes in such circumstances. To mitigate the risk of potential preferred creditors, the Issuer will provide the Trustee with the benefit of covenants restricting the creation of further indebtedness and restricting its activities generally to those specified in the Trust Deed and described generally in this Prospectus. Other insolvency proceedings under Luxembourg law include controlled management, and moratorium of payments ("*gestion controlée et sursis de paiement*") of the Issuer, composition proceedings ("*concordat*") and judicial liquidation proceedings ("*liquidation judiciaire*").

USE OF PROCEEDS

The proceeds from the offering of the Notes, being U.S.\$200,000,000, will be used by the Issuer for the purpose of funding the Loan. The Company will receive the gross Loan proceeds in the amount of U.S.\$200,000,000. The Company will separately pay commissions in connection with the offering of approximately U.S.\$2,000,000 and certain other expenses. The Company intends to use the proceeds of the Loan partly to repay certain indebtedness of the Company and partly to fund the first stage of the Development Plan. See “Risk Factors — Risks Relating to the Company — ABN AMRO May Have a Conflict of Interest”.

EXCHANGE RATES

The following table sets forth, for the periods indicated the average and period end official rates set by the Central Bank, in each case for the purchase of Russian rouble, all expressed in Russian rouble per U.S. dollar.

	High	Low	Average⁽¹⁾	Period- End
	<i>(Russian rouble per U.S. dollar)</i>			
2001.....	30.30	28.16	29.22	30.14
2002.....	31.86	30.13	31.39	31.78
2003.....	31.88	29.24	30.56	29.45
2004.....	29.45	27.75	28.81	27.75
2005.....	29.98	27.46	28.22	28.78

Source: Central Bank

	High	Low	Average⁽¹⁾	Period- End
	<i>(Russian rouble per U.S. dollar)</i>			
2006				
January to 30 June.....	28.48	26.70	27.59	27.08
July	27.05	26.83	26.94	26.87
August	26.84	26.67	26.75	26.73
September.....	26.80	26.64	26.75	26.78

Source: Central Bank

⁽¹⁾ The average of the exchange rate on the last business day of each full month for the relevant annual period and on each business day for any other period.

The Company has translated some financial data in respect of income statement items for the six months ended 30 June 2005 from Russian roubles into U.S. dollars at the rate of RUR27.96 per U.S.\$1.00 which was the weighted average rate for the respective period, some financial data for the year ended 31 December 2005 from Russian roubles into U.S. dollars at the rate of RUR28.29 per U.S.\$1.00 which was the weighted average rate for the respective period and some financial data for the six months ended 30 June 2006 from Russian roubles into U.S. dollars at the rate of RUR27.68 per U.S.\$1.00 which was the weighted average rate for the respective period.

The Company has translated some financial data in respect of balance sheet items at exchange rates established by the Central Bank and effective as at the dates of the respective financial data. The Central Bank's rouble/dollar exchange rate as reported on 30 June 2006 was RUR27.08 to the dollar; on 31 December 2005 was RUR28.78 to the dollar; on 30 June 2005 was RUR28.67 to the dollar and on 31 December 2004 was RUR27.75 to the dollar.

These translations should not be construed as representations that Russian rouble amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as at any at the dates mentioned in this Prospectus or at all.

CAPITALISATION

The following table sets forth (a) the Company's capitalisation at 30 June 2006 and (b) such capitalisation as adjusted to reflect the Company's borrowing under the Loan Agreement (as if such borrowing had occurred at 30 June 2006). This information should be read in conjunction with "Use of Proceeds", "Financial Review" and the Financial Statements included elsewhere in this Prospectus.

	As at 30 June 2006	
	(Actual)	(As adjusted)
	<i>(RUR'000)</i>	
Shareholders' equity		
Share capital	1,904,710	1,904,710
Additional paid-in capital	1,515,015	1,515,015
Treasury shares	(21,977)	(21,977)
Retained earnings	7,766,460	7,766,460
Equity attributable to shareholders' of the parent company	<u>11,164,208</u>	<u>11,164,208</u>
Minority interest	34,498	34,498
	<u>11,198,706</u>	<u>11,198,706</u>
Non-current Liabilities		
Long-term borrowings ¹	9,697,015	15,113,015
Deferred tax liability	852,479	852,479
Non-current portion of finance lease obligations	92,891	92,891
	<u>10,642,385</u>	<u>16,058,385</u>
Current Liabilities		
Trade payables	901,599	901,599
Short-term borrowings ¹	1,212,293	1,212,293
Taxes payable	136,289	136,289
Advances received	379,530	379,530
Other payables and accrued liabilities	570,640	570,640
	<u>3,200,351</u>	<u>3,200,351</u>
Total shareholders' equity and liabilities	<u>25,041,442</u>	<u>30,457,442</u>

¹ As discussed in "Financial Review – Liquidity and Capital Resources", the Company has attracted long- and short-term loans from various financial institutions to fund part of the first stage of its Development Plan and for other working capital requirements. The Company intends to repay borrowings under a number of these newly-attracted and other facilities out of the proceeds of the issue of the Notes. See "Use of Proceeds".

Save as disclosed above, there has been no material change in the Company's capitalisation since 30 June 2006.

SELECTED FINANCIAL INFORMATION

The summary financial information for the Company set forth below should be read in conjunction with the Financial Statements included elsewhere in this Prospectus. The Financial Statements have been prepared in accordance with IFRS.

The summary financial information set forth below as at and for the six months ended 30 June 2006 and 2005 and for the years ended 31 December 2005 and 2004 has been extracted from the Financial Statements which are included elsewhere in this Prospectus. In the opinion of the management of the Company, these summarised financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the periods covered thereby. The information should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements.

	Consolidated Balance Sheet					
	As at 30 June			As at 31 December		
	2006	2006	2005	2005	2005	2004
		<i>(Unaudited)</i>		<i>(Unaudited)</i>	<i>(Audited)</i>	
	<i>(USD'000)</i>	<i>(RUR'000)</i>		<i>(USD'000)</i>	<i>(RUR'000)</i>	
Assets						
<i>Non-current Assets:</i>						
Property, plant and equipment	683,424	18,507,126	9,459,758	488,698	14,064,728	8,030,259
Investments	1,922	52,044	54,627	1,810	52,084	292,052
Intangible assets	1,399	37,893	45,463	1,408	40,528	50,081
Investments in associates	1,073	29,049	26,474	1,105	31,801	25,654
Non-current VAT receivable	–	–	18,989	–	–	27,676
Other non-current assets	38,562	1,044,265	638,219	24,700	710,867	659,929
	<u>726,380</u>	<u>19,670,377</u>	<u>10,243,530</u>	<u>517,721</u>	<u>14,900,008</u>	<u>9,085,651</u>
<i>Current Assets:</i>						
Inventories.....	68,080	1,843,602	1,525,531	63,213	1,819,261	1,409,555
Trade and other accounts receivable	33,023	894,249	1,175,269	30,086	865,913	808,272
Value added tax and other taxed receivable	49,252	1,333,733	557,391	37,683	1,084,509	474,038
Available-for-sale investments	135	3,665	14,413	113	3,243	30,072
Cash and cash equivalents	47,851	1,295,816	412,125	14,813	426,320	146,829
	<u>198,341</u>	<u>5,371,065</u>	<u>3,684,729</u>	<u>145,908</u>	<u>4,199,246</u>	<u>2,868,766</u>
Total Assets	<u>924,721</u>	<u>25,041,442</u>	<u>13,928,259</u>	<u>663,629</u>	<u>19,099,254</u>	<u>11,954,417</u>
Shareholder's equity and liabilities						
<i>Shareholders' equity:</i>						
Share capital.....	70,336	1,904,710	1,904,710	66,182	1,904,710	1,904,710
Additional paid-in capital	55,947	1,515,015	1,515,015	52,641	1,515,015	1,515,015
Treasury shares.....	(812)	(21,977)	(20,452)	–	–	(100,077)
Retained earnings	286,797	7,766,460	6,446,558	259,132	7,457,828	6,245,872
	<u>412,268</u>	<u>11,164,208</u>	<u>9,845,831</u>	<u>377,955</u>	<u>10,877,553</u>	<u>9,565,520</u>
Equity attributable to shareholders of the company	<u>412,268</u>	<u>11,164,208</u>	<u>9,845,831</u>	<u>377,955</u>	<u>10,877,553</u>	<u>9,565,520</u>
Minority interest.....	1,274	34,498	43,927	1,515	43,590	11,694
	<u>413,542</u>	<u>11,198,706</u>	<u>9,889,758</u>	<u>379,470</u>	<u>10,921,143</u>	<u>9,577,214</u>
<i>Non-current liabilities:</i>						
Long-term borrowings	358,088	9,697,015	800,419	163,033	4,692,117	–
Deferred tax liabilities.....	31,480	852,479	691,356	26,499	762,632	738,299
Long-term finance lease obligations.....	3,430	92,891	115,903	4,327	124,527	165,954
	<u>392,998</u>	<u>10,642,385</u>	<u>1,607,678</u>	<u>193,859</u>	<u>5,579,276</u>	<u>904,253</u>
<i>Current liabilities:</i>						
Trade accounts payable.....	33,294	901,599	733,360	36,040	1,037,237	523,329
Advances received	14,015	379,530	4,165	5,235	150,659	113,171
Short-term borrowings.....	44,767	1,212,293	599,058	31,737	913,398	495,036
Tax liability	5,033	136,289	190,057	3,024	87,017	160,776
Other payables and accrued liabilities	21,072	570,640	904,183	14,264	410,524	180,638
	<u>118,181</u>	<u>3,200,351</u>	<u>2,430,823</u>	<u>90,300</u>	<u>2,598,835</u>	<u>1,472,950</u>
Total shareholders' equity and liabilities	<u>924,721</u>	<u>25,041,442</u>	<u>13,928,259</u>	<u>663,629</u>	<u>19,099,254</u>	<u>11,954,417</u>

Consolidated Income Statements

	For the six months ended 30 June			For the year ended 31 December		
	2006	2006	2005	2005	2005	2004
	<i>(Unaudited)</i>			<i>(Unaudited)</i>	<i>(Audited)</i>	
	<i>(USD'000)</i>	<i>(RUR'000)</i>		<i>(USD'000)</i>	<i>(RUR'000)</i>	
Sales	259,588	7,185,399	6,949,687	468,040	13,240,850	11,655,520
Cost.....	(192,052)	(5,315,995)	(4,727,022)	(309,997)	(8,769,801)	(7,405,458)
Gross profit	67,536	1,869,404	2,222,665	158,043	4,471,049	4,250,062
Selling, general and administrative expenses.....	(31,594)	(874,518)	(745,029)	(51,052)	(1,444,282)	(1,418,029)
(Loss)/income from other sales.....	-	-	-	1,106	31,275	(29,920)
Other operating expenses, net	(881)	(24,387)	(33,858)	(12,425)	(351,493)	(285,779)
Operating profit	35,061	970,499	1,443,781	95,672	2,706,549	2,516,964
Finance, income, net.....	(3,037)	(84,077)	(28,239)	(3,047)	(86,188)	20,677
(Loss)/income from associates	(99)	(2,752)	(309,381)	(10,778)	(304,890)	(626)
Non-operating expenses, net	(2,570)	(71,132)	(69,129)	-	-	-
Exchange rate (loss)/gain, net.....	(195)	(5,400)	22,991	617	17,446	(34,169)
Profit before tax and minority interest	29,160	807,138	1,060,023	82,464	2,332,917	2,502,846
Income tax.....	(7,489)	(207,280)	(306,925)	(20,109)	(568,887)	(567,551)
Profit after tax and before minority interest	21,671	599,858	753,098	62,355	1,764,030	1,935,295
Minority interest.....	(329)	(9,092)	32,233	1,127	31,896	(12,226)
Net profit	22,000	608,950	720,865	61,228	1,732,134	1,947,521

FINANCIAL REVIEW

The following discussion should be read in conjunction with the Financial Statements included elsewhere in this Prospectus. Unless otherwise specified, the financial data set forth below has been extracted without material adjustment from the Financial Statements, which have been prepared in accordance with International Financial Reporting Standards.

This discussion includes forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements” included elsewhere in this Prospectus. Actual results could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, including the risks discussed in “Risk Factors” included elsewhere in this Prospectus.

Overview

The Company and its subsidiaries produce chemical products and derivatives thereof (mainly ethylene and polyethylene), which are marketed and sold primarily in the Russian Federation.

As at 30 June 2006, the Company had total assets of RUR25 billion compared to RUR13.9 billion as at 30 June 2005. For the six months ended 30 June 2006, the Company achieved a net profit of RUR0.6 billion, compared to a net profit of RUR1.8 billion for the year ended 31 December 2005 and RUR0.8 billion for the six months ended 30 June 2005.

Results of Operations for the Six Months Ended 30 June 2006 and 2005

The Company's gross profit for the six months ended 30 June 2006 decreased by 15 per cent. to RUR1.9 billion from RUR2.2 billion for the six months ended 30 June 2005, primarily as a result of increase in the cost of production.

Sales

Sales for the six months ended 30 June 2006 increased by 3.4 per cent. to RR7.2 billion from RUR6.9 billion for the six months ended 30 June 2005, primarily due to a 9.8 per cent. increase in sales of production from the LDPE plant and a 34.1 per cent. increase in sales of production from the HDPE plant. During this period, domestic sales accounted for 80 per cent. of total sales while exports accounted for 20 per cent.

Sales of the production from the LDPE plant increased by 9.8 per cent. to RUR2.97 billion from for the six months ended 30 June 2006 from RUR2.7 billion for the six months ended 30 June 2005, primarily as a result of an increase in volume of sales. For the six months ended 30 June 2006, sales of the LDPE plant's output accounted for 41.4 per cent. of the Company's total sales by value, compared with 39.0 per cent. for the same period in 2005.

Sales of the production from the HDPE plant increased by 34.1 per cent. to RUR2.1 billion for the six months ended 30 June 2006, up from RUR1.6 billion for the six months ended 30 June 2005, primarily due to an increase in volume of sales. For the six months ended 30 June 2006, sales of the HDPE plant's output accounted for 29.1 per cent. of the Company's total sales by value, compared with 22.4 per cent. for the same period in 2005.

Sales of the production from the organic products plant decreased by 12.8 per cent. to RUR0.78 billion for the six months ended 30 June 2006, down from RUR0.9 billion for the six months ended 30 June 2005, primarily as a result of reduced availability of raw materials. For the six months ended 30 June 2006, sales of the organic products plant's output accounted for 10.8 per cent. of the Company's total sales by value, compared with 12.9 per cent. for the same period in 2005.

Sales of the production from the ethylene plant decreased by 37 per cent. to RUR0.79 billion for the six months ended 30 June 2006, down from RUR1.3 billion for the six months ended 30 June 2005, primarily due to a reduction of production volumes resulting from the reconstruction of the phenol-acetone unit. For the six months ended 30 June 2006, sales of the ethylene plant's output accounted for 11 per cent. of the Company's total sales by value, compared with 18.0 per cent. for the same period in 2005.

Sales of the production from the plastic goods plant increased by 3.5 per cent. to RUR0.55 billion for the six months ended 30 June 2006, up from RUR0.54 billion for the six months ended 30 June 2005. For the six months ended 30 June 2006, sales of the plastic goods plant's output accounted for 7.7 per cent. of the Company's total sales by value, compared with 7.7 per cent. for the same period in 2005.

Cost of sales

Cost of sales for the six months ended 30 June 2006 increased by 12.4 per cent. to RUR5.3 billion from RUR4.7 billion for the six months ended 30 June 2005, primarily due to increases in the price of raw materials, and labour costs. Cost of sales primarily includes the costs of the raw materials, energy and water. Cost of sales also includes salaries of production staff, depreciation and amortisation and maintenance and repairs. Growth in cost of sales outpaced growth in sales for the six months ended 30 June 2006 resulting in lower gross profit in the six months ended 30 June 2006 as compared to the comparable period in 2005.

Selling, general and administrative expenses

The following table contains certain information relating to selling, general and administrative expenses.

	Six months ended 30 June	
	2006	2005
	<i>(RUR'000)</i>	
General and administrative expenses	663,616	451,220
Selling expenses	142,709	224,148
Taxes, other than income tax	49,181	49,658
Bank charges	21,852	20,003
Other expenses, net	(2,840)	–
Total	874,518	745,029

Selling, general and administrative expenses for the six months ended 30 June 2006 increased to RUR0.9 billion as compared to RUR0.7 billion for the six months ended 30 June 2005. General and administrative expenses increased primarily as a result of an increase in salaries in 2006.

Financial Costs

The following table gives certain information relating to net financial costs for the periods indicated:

	Six months ended 30 June	
	2006	2005
	<i>(RUR'000)</i>	
Interest expense	72,818	21,821
Lease charges and interest under finance leases	13,498	10,054
Interest income	(1,160)	(3,636)
Other	(1,079)	–
Total	84,077	28,239

For the six months ended 30 June 2006, net financial costs were RUR84.1 million, a 298 per cent. increase as compared to the net financial costs of RUR28.2 million for the six months ended 30 June 2005. This increase was primarily due to the increased costs connected with the servicing of the Company's debt.

Non-operating expenses

The following table gives certain information relating to non-operating expenses for the periods indicated:

	Six months ended 30 June	
	2006	2005
	<i>(RUR'000)</i>	
Rent of land	66,984	54,900
Maintenance of social infrastructure.....	3,728	4,864
Other expenses, net	420	9,365
Total	71,132	69,129

The increase in non-operating expenses is primarily attributable to land rental cost, which relates to an idle plot of land in a remote region of the Republic of Tatarstan. The respective agreement was concluded at the request of the local tax authorities to increase tax collections in the Republic of Tatarstan. The Company views the charges for the rental of this land as a local tax.

Exchange rate loss/gain

For the six months ended 30 June 2006, exchange rate loss amounted to RUR5.4 million, as compared to an exchange gain of RUR22.9 million for the six months ended 30 June 2005. This increase was primarily due to exchange rate fluctuations and the recalculation of covered letters of credit, and payments in foreign currency.

Income tax

The Company's income tax expense amounted to RUR207.3 million for the six months ended 30 June 2006 as compared to RUR306.9 million for the same period in 2005. The statutory tax rate was 24 per cent. in 2006 and 2005.

Net profit

For the reasons discussed above, the Company's net profit decreased by 20 per cent. to RUR0.6 billion for the six months ended 30 June 2006 from RUR0.8 billion for the six months ended 30 June 2005.

Results of Operations for the Years Ended 31 December 2005 and 2004

The Company's gross profit for the year ended 31 December 2005 increased by 5.2 per cent. to RUR4.5 billion from RUR4.3 billion for the year ended 31 December 2004, primarily as a result of increases in the prices of the products sold by the Company, which were higher than increases in the cost of the raw materials used by the Company. The Company also implemented new processes in order to increase efficiency and reduce the costs of its production processes.

Sales

Sales for the year ended 31 December 2005 increased by 13.6 per cent. to RUR13.2 billion from RUR11.7 billion for the year ended 31 December 2004, primarily due to increases in price of the manufactured products. In 2005, domestic sales accounted for 80 per cent. of total sales while exports accounted for 20 per cent. of total sales.

Sales of the production from the HDPE plant increased by 5.7 per cent. to RUR4.6 billion in 2005 from RUR4.3 billion in 2004, primarily as a result of increases in the sales prices of HDPE. In 2005, sales of the HDPE plant's output accounted for 34.5 per cent. of the Company's total sales by value, compared with 37.1 per cent. in 2004.

Sales of the production from the LDPE plant increased by 12.4 per cent. to RUR3.3 billion in 2005 from RUR3.0 billion in 2004, primarily due to increases in the sales prices of LDPE. In 2005, sales of the LDPE plant's output accounted for 25.2 per cent. of the Company's total sales by value, compared with 25.5 per cent. in 2004.

Sales of the production from the organic products plant increased by 8.6 per cent. to RUR1.9 billion in 2005 from RUR1.7 billion in 2004, primarily as a result of increases in the sales price. In 2005, sales of the organic products plant's output accounted for 14.3 per cent. of the Company's total sales by value, compared with 14.9 per cent. in 2004.

Sales of the production from the ethylene plant increased by 25.4 per cent. to RUR2.2 billion in 2005 from RUR1.7 billion in 2004, primarily due to increases in the sales prices. In 2005, sales of the ethylene plant's output accounted for 16.4 per cent. of the Company's total sales by value, compared with 14.9 per cent. in 2004.

Sales of the production from the plastic goods plant increased by 47 per cent. to RUR1.3 billion in 2005 from RUR0.9 billion in 2004, primarily as a result of increases in the sales prices and volume produced. In 2005 sales of the plastic goods plant's output accounted for 9.6 per cent. of the Company's total sales by value, compared with 7.7 per cent. in 2004.

Cost of sales

Cost of sales for the year ended 31 December 2005 increased by 18.4 per cent. to RUR8.8 billion from RUR7.4 billion for the year ended 31 December 2004, primarily due to increases in prices for raw materials, electricity and the salaries of production staff.

Selling, general and administrative expenses

The following table contains certain information relating to selling, general and administrative expenses.

	Year ended 31 December	
	2005	2004
	<i>(RUR'000)</i>	
General and administrative expenses.....	683,240	649,985
Selling expenses.....	431,757	401,178
Taxes	164,547	154,286
Bank charges.....	27,187	63,609
Payment to defined contribution plan	15,055	31,400
Research and development costs.....	24,997	24,871
Loss on disposal of property, plant and equipment	11,310	18,351
Other	86,189	74,349
Total	1,444,282	1,418,029

Selling, general and administrative expenses in 2005 increased by 1.9 per cent. to RUR1.44 billion as compared to RUR1.41 billion in 2004 primarily as a result of increases in general and administrative expenses and selling expenses. Taxes increased as a result of increase in sale proceed, profit and salaries, while bank charges decreased due to the costs associated with the Company's increased borrowings in 2005.

Loss/income from other sales

For the year ended 31 December 2005, income from other sales amounted to RUR31.2 million, a 207 per cent. increase from the year ended 31 December 2004, when loss from other sales was RUR29.3 million. The significant loss in the year ended 31 December 2004 was primarily due to losses from sales of agricultural products of LLC Agrosintez. LLC Agrosintez is in the process of liquidation.

Finance Expense/Income

The following table provides certain information relating to net finance expense/income for the years indicated:

	Year ended 31 December	
	2005	2004
	<i>(RUR'000)</i>	
Interest income	5,690	32,442
Income from investments.....	7	10,549
Change in investment provisions	19	1,711
Total finance income	5,716	44,702
Interest expense.....	(72,263)	(8,176)
Lease charges and interest under finance leases.....	(19,641)	(14,699)
Other expense.....	–	(1,150)
total finance cost	(91,904)	(24,025)
Total	(86,188)	20,677

In 2005, net finance expense amounted to RUR86.2 million, an increase of 516.2 per cent. as compared to net finance income of RUR20.7 million in 2004. The increase in net finance expenses was primarily due to an increase in interest expenses connected with Company's increased indebtedness as well as a decrease in interest income and income from investments resulting from a decrease in the amount of Company's bank deposits.

Loss/income from associates

For the year ended 31 December 2005, income from associates stood at RUR6.2 million, as compared with the losses from associates of RUR0.6 million for the year ended 31 December 2004. This loss was primarily attributable to losses from the activities of LLC Taif-Invest.

Non-operating expenses

The following table provides certain information relating to non-operating expenses for the years indicated.

	Year ended 31 December	
	2005	2004
	<i>(RUR'000)</i>	
Rent of land	(133,968)	(109,801)
Maintenance of social infrastructure.....	(144,326)	(132,643)
Other (expenses)/income, net.....	(73,199)	(43,335)
Total	(351,493)	(285,779)

Non-operating expense increased by 23 per cent. to RUR351.5 million in 2005 from RUR285.8 million in 2004, resulting primarily from an increase in the Company's costs of maintaining its social infrastructure. The Company's costs of renting land have also increased. While the Company's production facilities are located on land of which 98 per cent. is owned by the Company, the Company rents approximately 9,000 hectares of land from the Government of the Republic of Tatarstan in a remote area of the Republic of Tatarstan. The agreement was concluded at the request of local tax authorities to increase tax collection in the Republic of Tatarstan. The Company views the charges for the rental of this land as a local tax and is currently attempting to reduce its payments in this regard.

Exchange rate loss/gain

For the year ended 31 December 2005, exchange rate gain amounted to RUR17.5 million, as compared with exchange rate loss of RUR34.2 million, for the year ended 31 December 2004. This decrease was primarily due to exchange rate fluctuations and the recalculation of covered letters of credit, short-term loans and payments in foreign currency.

Minority interest

Minority interest amounted to RUR31.9 million for the year ended 31 December 2005, as compare with a negative minority interest of RUR12.2 million for the year ended 31 December 2004. This change is primarily attributable to a general increase in net assets of Company's subsidiaries.

Net profit

For the reasons discussed above, net profit decreased by 9 per cent. to RUR1.8 billion for the year ended 31 December 2005 from RUR1.9 billion for the year ended 31 December 2004.

Liquidity and Capital Resources

The Company's liquidity needs arise principally from the need to finance its existing operations and the need to finance its Development Plan (See "Business – Development Plan"). In the period covered by this financial review, the Company met its liquidity needs primarily out of cash flows and long-term borrowings. The Company's borrowings at 31 December 2005 and 2004 are set out in the following table:

	As at 31 December	
	2005	2004
	<i>(RUR'000)</i>	
Short-term borrowings	913,398	495,036
Long-term borrowings	4,692,117	–
Total	5,605,515	495,036

Long-term borrowings

As of the date of this Prospectus, the Company had several outstanding long-term loans from both domestic and foreign lenders. The table below presents the principal outstanding long-term loans of the Company together with the principal amount outstanding as at 30 June 2006 and 31 December 2005.

Description of the Loan	Total amount of debt	
	Unaudited 30 June 2006	Audited 31 December 2005
	<i>(RUR'000)</i>	
Vneshtorgbank A rouble denominated loan facility bearing an annual interest rate of 12.5% and maturing on 22 March 2008. The loan is secured by a pledge of buildings, machinery and equipment with a value of RUR8,149 thousand. The loan was prepaid by the Company on 3 July 2006.	841,151	841,438
Sberbank Up to U.S.\$40 million rouble denominated facility bearing a variable annual interest rate of 12%-13.25% to 12% and maturing on 29 April 2012. The facility is secured by a pledge of equipment with a value of RUR109,322 thousand and TAIF's stake in the Company's shares.	1,156,891	1,158,494

Description of the Loan	Total amount of debt	
	Unaudited 30 June 2006	Audited 31 December 2005
	<i>(RUR'000)</i>	
Up to U.S.\$60 million rouble denominated facility bearing a variable annual interest rate of 12%-13.25% to 12% and maturing on 20 November 2012. The facility is secured by a pledge of equipment with a value of RUR4,018 thousand and TAIF's stake in the Company's shares.	1,657,260	588,107
Up to U.S.\$24 million rouble denominated facility bearing a variable annual interest rate of 12%-13.25% to 12% and maturing 28 September 2012. The facility is secured by a pledge of TAIF's stake in the Company's shares.	522,494	249,471
Up to U.S.\$85.9 million rouble denominated facility bearing a variable annual interest rate of 12%-13.25% and maturing on 30 September 2012. The facility is secured by a pledge of equipment with a value of RUR2,521 thousand, a pledge of TAIF's stake in the Company's shares and pledge of TAIF's shares in OJSC Nizhnekamskneftekhim.	1,877,547	479,667
Up to U.S.\$81.2 million U.S.dollar denominated facility bearing a varying annual interest rate of up to 5.8052% and maturing on 24 January 2016. The facility is secured by a pledge of TAIF's stake in the Company's shares and a pledge of TAIF's shares in OJSC Nizhnekamskneftekhim.	2,210,482	558,007
Up to U.S.\$6.7 million U.S. dollar denominated facility bearing a varying maximum annual interest rate of 2% and maturing on 24 April 2015. The facility is secured by a pledge of TAIF's stake in the Company's shares and a pledge of TAIF's shares in OJSC Nizhnekamskneftekhim.	181,347	–
ABN AMRO		
Up to EUR35.6 million euro denominated facility bearing an annual interest rate of Euribor+1.25% and maturing on 6 September 2011. As a condition of the loan, the Company has taken out credit insurance on behalf of ABN AMRO.	900,555	466,870
Up to EUR20 million euro denominated facility bearing an annual interest rate of Euribor+0.4% and maturing on 24 January 2017. As a condition of the loan, the Company has taken out credit insurance on behalf of ABN AMRO.	592,554	443,614
Up to EUR7.8 million euro denominated facility bearing an annual interest rate of Euribor+2.75% and maturing on 22 June 2007. The facility is secured by a pledge of equipment with the value of RUR85.2 million.	265,354	141,024
Up to EUR49.2 million euro denominated facility bearing an annual interest rate of Euribor+0.4% and maturing on 27 July 2017. As a condition of the loan, the Company has taken out credit insurance on behalf of ABN AMRO.	53,329	–
Other	6,057	5,965
Total	10,265,021	4,932,657
Less: Current portion repayable within twelve months shown under short-term borrowings	(568,006)	(240,540)
Net long-term borrowings	9,967,015	4,692,117

Cash Flow

	Year ended 31 December	
	2005	2004
	<i>(RUR'000)</i>	
Net cash flows from operating activities	2,441,003	1,471,170
Net cash flows from investing activities.....	(6,793,810)	(1,262,053)
Net cash flows from financing activities	(4,632,298)	(280,754)
Net change in cash and cash equivalents	(279,491)	(71,637)
Cash and cash equivalents, beginning of the year	146,829	218,466
Cash and cash equivalents end of the year	426,320	146,829

Net cash provided by operating activities amounted to RUR2.4 billion in 2005 compared to RUR1.5 billion in 2004. This increase was due largely to an increase in trade accounts payable of approximately RUR0.51 billion. The increase in trade accounts payable was largely due to investment in production facilities though the purchase of property, plant and equipment.

Net cash flows from financing activities amounted to RUR4.6 billion compared to RUR0.3 billion in 2004. This increase was primarily due to increased borrowings in connection with the launch of the Development Plan. See “Business — Development Plan”.

Net cash flow used in investing activities amounted to RUR6.8 billion in 2005 as compared to RUR1.3 billion in 2004, primarily due to a ramp up of the Company’s Development Plan.

Capital Expenditures

The Company’s business requires significant capital expenditures, especially for the development and modernisation of its production facilities. In 2004, the Company’s capital expenditures were RUR1.53 billion. During 2005, the Company upgraded its ethylene, LDPE, HDPE and organic products plants in order to increase production capacities of these plants. The Company also began to construct plants to produce new products: Bisphenol-A and polycarbonate. See “Business – Development Plan”.

The table below details the Company’s capital expenditures for the year ended 31 December 2005.

Expenditure

	<i>(RUR'000)</i>
Ethylene.....	779,010
Information system for data transmission	22,860
HDPE.....	2,157,310
LDPE	136,760
Bisphenol-A plant	1,476,010
Polycarbonate plant	674,250
Replacement of physically worn equipment.....	577,325
Non-industrial construction	711,540
Other (including subsidiaries)	241,605
Total capital expenditure for the Group	6,776,670

BUSINESS

Overview

Kazan Open Joint Stock Company “Organichesky sintez” is a leading Russian chemicals producer located in Kazan, the Republic of Tatarstan, the Russian Federation. Its registered office is at 101 Belomorskaya Street, Kazan 420051, the Russian Federation and its telephone number is +7 843 533 99 19.

The Company produces phenol, acetone, polyethylene, polyethylene pipes, cooling fluids and chemical reagents for oil production and natural gas dehydration. According to the Institute for Scientific Research of Feasibility (“NIITEKHIM”) and the Company’s estimates, the Company is the largest Russian producer of polyethylene, accounting for 32 per cent. of the polyethylene market and 23 per cent. of the polyethylene pipes market in the Russian Federation. According to NIITEKHIM and the Company’s estimates, the Company is also the third largest producer in the Russian Federation of phenol and acetone, accounting for 17 per cent. of the phenol market and 18 per cent. of the acetone market in the Russian Federation. The Company is the largest Russian producer of ethanolamines, accounting for 41 per cent. of the ethanolamine market in the Russian Federation, and the fourth largest producer of ethylene glycols, accounting for 13 per cent. of the ethylene glycol market in the Russian Federation, according to NIITEKHIM and the Company’s estimates.

The Company has four major production facilities occupying approximately 426 hectares, in a single location 15 km north west of the centre of the city of Kazan. The Company produces more than 170 types of products, of which approximately 80 per cent. is sold to various regions in the Russian Federation. The rest of the Company’s production is exported to more than 30 European and Asian countries including Finland, the Netherlands, Latvia, Ukraine, Turkey, China and Kazakhstan.

As of 31 December 2005, the Group had total assets of RUR19 billion and total equity attributable to the shareholders of its parent company of RUR10.9 billion compared to RUR12 billion and RUR9.6 billion, respectively, as of 31 December 2004. As of 30 June 2006, the Group had total assets of RUR25 billion and a total equity attributable to the shareholders of its parent company of RUR11.2 billion.

History

The Company commenced its operations in 1963 as “Organichesky sintez”, producing phenol and acetone. Over the next four decades, it gradually expanded its operations and product range. In the mid-1960s, the Company started producing ethylene and LDPE. It expanded its product range in the 1970s and began manufacturing HDPE and organic products used in the oil and gas industry. During the 1980s, the Company commenced the production of polyethylene pipes and packages.

Until 1993, “Organichesky sintez” was 100 per cent. owned by the Republic of Tatarstan. In 1993, the Company was privatised and registered under Russian law as Joint Stock Company “Organichesky Sintez” by the Ministry of Finance of the Republic of Tatarstan under registration number 400 for an unlimited duration. In 1996, pursuant to the Russian Law on Joint Stock Companies, the Company was re-named Kazan Open Joint Stock Company “Organichesky Sintez”.

The Company’s issued charter capital, all of which is fully paid, amounts to RUR1,904,710,000 and comprises 1,785,114,000 ordinary registered shares with a nominal value of RUR1 each and 119,596,000 preferred shares with a nominal value of RUR1 each. As at 30 June 2006, LLC Telecom-Management, a wholly-owned subsidiary of TAIF, held 52.02 per cent. of the ordinary (voting) shares of the Company and OJSC Svyazinvestneftehim which is wholly-owned by the Republic of Tatarstan held 28.40 per cent. of the ordinary (voting) shares of the Company. According to the Law of the Russian Federation. On Privatisation of State and Municipal Property”, the Republic of Tatarstan has a “golden share” in the Company which entitles it to veto certain decisions at general shareholders’ meetings, as well as to appoint a representative of the Republic of Tatarstan on the board of directors. In 1998, the duration of the “golden share” was extended for unlimited duration by a decree of the President of the Republic of Tatarstan and may continue to be utilised by the Republic of Tatarstan until its cancellation in accordance with Russian legislation. The Company’s shares are quoted on the Russian Trading System Stock Exchange.

Competitive Strengths

The Company produces basic chemicals such as ethylene, chemical intermediates such as phenol and acetone, end products such as polyethylene, and consumer products such as polyethylene pipes and

connecting fittings. The Company believes that it has a number of strengths that distinguish it from its competitors, including:

Wide range of products

The Company produces more than 170 types of chemicals using very flexible technological production chains allowing to reduce production of a particular product in favour of another product that uses the same feedstock in the event that market conditions so require. In addition, NIITEKHIM estimates that the Company has the largest polyethylene production capacity in the Russian Federation, the largest polyethylene pipes production capacity in the Russian Federation and Europe and the widest range of polyethylene products, plastic pipes, ethylene glycols and ethanolamines among Russian producers.

Ability to create high value-added products

The Company is able to create high value-added products such as polyethylene and polyethylene pipes. The implementation of the Development Plan is expected to increase the share of high margin products (e.g. polycarbonates and new types of polyethylene such as ultra-high molecular polyethylene, linear polyethylene and bimodal polyethylene) in the overall Company's production.

High quality of products

The Company implements quality control at all stages of production including laboratory tests, control over compliance of raw materials, technological processes and products with appropriate technological regulations. Since 1999, the Company has carried out its activities in accordance with ISO 9000:2000, and in 2005 the Company implemented the Integrated Quality Management System ISO 9001:2000. According to the Company's Quality Control Department, 99.9 per cent. of its production output in 2005 was of premium quality.

Extensive programme of energy saving

In 1999, the Company adopted an energy saving programme for 2000-2005 contemplating reconstruction of facilities and production units to reduce energy consumption, tight control of energy resources and the maximum use of the Company's own energy resources. A new energy saving programme for 2006-2010 was adopted in 2005.

High standards of industrial and ecological safety

The Company has achieved a high level of industrial and environmental safety and exerts maximum efforts to reduce potentially negative effects on the environment and on the health of its employees and communities located near its facilities. Other than a minor accident in 1982 when the company pumped heated water into the Volga River and harmed river life, the Company has not faced any environmental problems which it considers to be material and continues to evaluate its production processes and waste storage mechanisms in order to ensure that these high standards are maintained. In 2005 the Company implemented the Ecological Management System ISO 14001:2004.

Cost effective ethylene production

The Company is the only manufacturer in Russia producing ethylene from ethane, which is the more cost effective way of ethylene production than ethylene production from liquid raw materials (such as naphtha). The Company's ethane is supplied via pipeline from the Gazprom's Orenburg Helium Plant and the Minibaev Gas Plant. The Company is the only end user of this pipeline. See "— Transportation".

Strong governmental support

The Company has a strong relationship with the Republic of Tatarstan being one of its largest producers and taxpayers. Such regional support has been very important to the Company to keep its financial and economic independence while many Russian petrochemical companies have been acquired by large oil companies, such as OJSC Sibur (majority owned by OJSC Gazprom) and CJSC LUKOIL-Neftekhim (petrochemical subsidiary of OJSC LUKOIL). In addition, the Republic of Tatarstan has provided the Company with certain tax benefits in connection with the Company's implementation of the Development Plan. See "Annex A — Republic of Tatarstan".

Business Strategy

The Company's strategy is to maintain and strengthen its position as a leading chemicals producer in the Russian Federation, to enter into new markets and to meet the high standards of the leading chemical companies in the world. In order to do so, the Company plans to undertake the following:

Implement the Development Plan to increase production capacities of existing products and produce new products

In 2004, the Company began to implement a two-stage development plan to increase its production capacities of HDPE and ethylene. Demand for polyethylene in the Russian Federation, as in the rest of the world, is increasing at high rates; according to NIITEKHIM and the Company's estimates, in 2005 and 2004, consumption of polyethylene increased by 9.8 per cent. and 9.7 per cent., respectively. The Development Plan is aimed at capitalising on this growth in demand by increasing the Company's output of, amongst other things, polyethylene. The Company expects that successful implementation of this strategy will also allow it to diversify its resource base by adding new raw materials sourced externally, such as naphtha, and new side products produced by the Company. See "— Development Plan" below.

Pursuant to the Development Plan, the Company also intends to start producing new products, including Bisphenol-A and polycarbonates, using in-house produced raw materials such as phenol, acetone and carbon dioxide. In the longer term, the Company plans to install a new linear high density polyethylene ("LHDPE") production facility with an annual target capacity of 350,000 tonnes. See "— Development Plan" below.

Maintain the high quality of its products

The Company has implemented and maintains thorough quality control processes, including inspecting and conducting laboratory tests on all raw materials received from suppliers and ensuring that its procedures and end products meet both Russian and international quality standards, including GOST R and ISO 9001. As a result, since 1986, the management believes that the Company has experienced no significant problems with quality control and has not received any complaints from customers that the Company believes to be material. The Company intends to continue to maintain the high quality of its products by upgrading and, if necessary, replacing its equipment and continuing to train its personnel to use the most up-to-date international manufacturing processes.

Increase the production of high value-added products

A portion of the Company's production comprises low value-added products. The Company's strategy is to increase production of high value-added products, such as polyethylene and polycarbonates, where higher margins can be achieved. The Company expects that this will also contribute to the Company's ability to enter into new markets.

Increase sales efficiency through direct sales and exports to end users

A portion of the Company's sales is currently made through trading companies that coordinate the sale of the Company's products to end users of the Company's products. The Company has long-term relationships with the ultimate customers of its products and, where the Company deems it strategically advantageous, intends to by-pass trading companies and deal directly with these end users of its products in order to increase its sales efficiency. To this end, the Company intends to promote its products to end users through advertisement campaigns and the provision of information to potential customers.

Diversify the feedstock base

The Company's strategy is to diversify its feedstock base and reduce its dependence on key suppliers of raw materials (see "Risk Factors — Dependency on Suppliers of Raw Materials"). The company expects to increase the use of the Company's own feedstock as well as to use new types of raw materials such as liquid feedstock.

Cut costs under the resource saving programme

The Company intends to lower its cost base by implementing an energy saving programme which involves an increase in the use of the Company's own power resources and a reconstruction of facilities and units to reduce their energy consumption. The Company also plans to implement new technologies and to reconstruct and re-equip its main facilities.

Maintain high standards of industrial and ecological safety

The Company strives to maintain the highest level of industrial and environmental safety and continue to meet the requirements of local and international standards.

Diversify the funding base

The Company plans to diversify its funding base through financing in the international capital and finance markets and the use of new instruments of financing.

Main Products and Production Volumes

The Company produces polyethylene (both LDPE and HDPE), phenol, acetone, plastic pipes, glycols and ethanolamines.

The following table sets out the Company's production volumes by product for the six months ended 30 June 2006 and 2005 and for the years ended 31 December 2005 and 2004:

	Six months ended 30 June				Year ended 31 December			
	2006		2005		2005		2004	
	(Tonnes)	(Per cent.)	(Tonnes)	(Per cent.)	(Tonnes)	(Per cent.)	(Tonnes)	(Per cent.)
LDPE	107,757	42.8	86,013	35.9	167,298	33.5	202,181	36.5
HDPE	82,195	32.7	74,415	31.1	166,868	33.5	186,501	33.7
Ethylene glycols...	21,913	8.7	21,237	8.9	53,622	10.8	59,948	10.8
Phenol	14,426	5.7	23,980	10.0	41,887	8.4	41,951	7.6
Acetone.....	8,921	3.6	15,227	6.4	26,680	5.4	26,669	4.8
Pipes	11,675	4.6	11,606	4.8	29,557	5.9	24,501	4.4
Ethanolamines	4,884	1.9	6,966	2.9	12,606	2.5	11,755	2.2
Total products.....	251,771	100.0	239,444	100.0	498,518	100.0	553,506	100.0

The following table sets out the Company's revenues by production facilities for the six months ended 30 June 2006 and 2005 and for the years ended 31 December 2005 and 2004:

	6 months ended 30 June				Year ended 31 December			
	2006		2005		2005		2004	
	(RUR'000)	(Per cent.)	(RUR'000)	(Per cent.)	(RUR'000)	(Per cent.)	(RUR'000)	(Per cent.)
HDPE plant	2,090,203	29.1	1,559,008	22.4	4,569,345	34.5	4,321,055	37.2
LDPE plant	2,972,106	41.3	2,707,740	39.0	3,337,157	25.2	2,968,524	25.5
Organic products plant	780,981	10.9	895,334	12.9	1,891,444	14.3	1,741,267	14.9
Ethylene plant.....	788,613	11.0	1,252,570	18.0	2,166,481	16.4	1,728,172	14.9
Plastic goods plant	533,496	7.7	535,035	7.7	1,276,423	9.6	896,502	7.5
Total products.....	7,185,399	100.0	6,949,687	100.0	13,240,850	100.0	11,655,520	100.0

The volume of production decreased in 2005 as compared to 2004 whilst revenues increased due to an increase in the price of the products manufactured by the Company.

Polyethylene. The Company produces two types of polyethylene: LDPE and HDPE. LDPE has historically been the most commonly-used polyethylene in the Russian Federation. It is used predominantly in the production of films such as food, shrinkable, commercial, agricultural and pipeline insulation films. HDPE is used to manufacture pipes and pipeline parts and in particular, for gas distribution systems, domestic cold water supply and electric parts. It is also used to produce shipping containers and packages.

The Company produced 107,757 tonnes and 86,013 tonnes of LDPE for the six months ended 30 June 2006 and 2005, respectively. For the years ended 31 December 2005 and 2004, the Company's LDPE production amounted to 167,298 tonnes and 202,181 tonnes, respectively. The Company exported 25.9 per cent. and 16.0 per cent. of its LDPE production during the six months ended 30 June 2006 and 2005, respectively, and 17.8 per cent. and 19 per cent. in the years ended 31 December 2005 and 2004, respectively.

During the six months ended 30 June 2006 and 2005, the Company produced 82,195 tonnes and 74,415 tonnes, respectively, of HDPE. The Company produced 166,868 tonnes of HDPE in 2005 and 186,501 tonnes of HDPE in 2004. The Company sold 84.3 per cent. and 86.0 per cent. of its HDPE production domestically during the six months ended 30 June 2006 and 2005, respectively 82.2 per cent. of its HDPE production in the year ended 31 December 2005 and 81 per cent., in 2004. The remainder was exported.

Ethylene glycols. Glycols are used by the gas transportation and gas production industries to dehydrate gas. In the Russian Federation, glycols are most commonly used to manufacture antifreezes, Globally, most glycols are used to manufacture polyethers for the production of polyether fibres or threads, as well as polyethylene terephthalate for the production of bottles.

The Company produced 21,913 tonnes and 21,237 tonnes of glycol for the six months ended 30 June 2006 and 2005, respectively. For the years ended 31 December 2005 and 2004, the Company's glycol production amounted to 53,622 tonnes and 59,948 tonnes respectively. For the six months ended 30 June 2006 and 2005 the Company exported 20.0 per cent. and 35.1 per cent., respectively, of its glycol production, and 16.4 per cent. and 39.7 per cent., respectively, in the years ended 31 December 2005 and 2004.

Phenol. Phenol is used extensively in the hydrocarbon oil purification processes and to produce oil additives. The bulk of phenol is processed into phenol-formaldehyde resins, diphenylol propane and alkylphenols. Phenol is also used to manufacture plasticisers, chemical plant protection agents, chemical photographic products and aniline-dye materials.

The Company produced 14,426 tonnes and 23,980 tonnes of phenol, respectively, for the six months ended 30 June 2006 and 2005. For the years ended 31 December 2005 and 2004, the Company's phenol production amounted to 41,887 tonnes and 41,951 tonnes, respectively. For the six months ended 30 June 2006 and 2005 the Company sold domestically 61.9 per cent. and 60.0 per cent., respectively, of its phenol production. In the years ended 31 December 2005 and 2004 domestic sales of phenol amounted to 61.2 per cent. and 56.5 per cent., respectively. The remainder was exported.

Acetone. Acetone is used in the paint and varnish industry and in the production of plastics, synthetic rubbers and chemical fibres. It is also used in the aniline-dye industry where it serves as a solvent in the manufacture of dyes. Acetone is used to manufacture pigmented nitrolacquers used in printing, furniture manufacture, leather production and other industries.

For the six months ended 30 June 2006 and 2005, the Company produced 8,921 tonnes and 15,227 tonnes, respectively, of acetone. The Company's acetone production in the years ended 31 December 2005 and 2004 was 26,680 tonnes and 26,669 tonnes, respectively. The Company sold 77.8 per cent. and 58.5 per cent. of its acetone production domestically during the six months ended 30 June 2006 and 2005, respectively. Domestic sales of the Company's acetone production in the years ended 31 December 2005 and 2004 amounted to 59.5 per cent. and 52.3 per cent., respectively. The remainder was exported.

Plastic Products. The Company produces plastic products comprising polyethylene pipes and connecting fittings. Polyethylene pipes are used primarily to transport gas, water and in drain pipes and sewerage systems. For the six months ended 30 June 2006 and 2005, the Company produced 11,675 tonnes and 11,606 tonnes, respectively, of polyethylene pipes while in the years ended 31 December 2005 and 2004 polyethylene pipes production was 29,557 tonnes and 24,501 tonnes of pipes, respectively. The Company sold 98.4 per cent. and 96.9 per cent. of its pipes domestically during the six months ended 30 June 2006 and 2005, respectively, and 95.5 per cent. and 97.8 per cent. of its pipes in the years ended 31 December 2005 and 2004, respectively. The remainder was exported.

Ethanolamine. Ethanolamine is used in the oil and gas industry to remove organic compounds containing acid or sulphur from gas, as well as in the production of perfumes.

The Company produced 4,884 tonnes and 6,966 tonnes of ethanolamine for the six months ended 30 June 2006 and 2005, respectively, and 12,606 tonnes and 11,755 tonnes in the years ended 31 December 2005 and 2004, respectively. For the six months ended 30 June 2006 and 2005, the Company sold 80.0 per cent. and 64.9 per cent., respectively of its ethanolamine production domestically while the Company's domestic sales of ethanolamine production were 83.6 per cent. and 91.0 per cent. in the years ended 31 December 2005 and 2004, respectively. The remainder was exported.

Market Share and Competition

Polyethylene. According to NIITEKHIM and the Company's estimates, the Company's share of the market for HDPE declined by 0.3 per cent. in the six months ended 30 June 2006 from 35.4 per cent. to 35.1 per cent. due to reduced availability of raw materials. Two companies produce HDPE in the Russian Federation of which OJSC Stavrolen is the leader with 65 per cent. in the six months ended 30 June 2006, as compared to the Company's 35 per cent.

The Company's sole competitor in the Russian HDPE market is OJSC Stavrolen and its competitors in the Russian LDPE market are OJSC Tomsky Neftekhimichesky Zavod, OJSC Salavatnefteorgsintez, OJSC Sevilen, OJSC Ufaorgsintez and OJSC Angarsky Zavod Polymerov.

There are six companies in the Russian Federation, including the Company, which produce LDPE and, as at 30 June 2006, the Company had the highest market share, of 34 per cent.

Phenol and Acetone. As phenol and acetone are products of the same plant, the competitive dynamics of these markets are very similar. There are six companies in the Russian Federation that produce phenol and acetone, of which the Company is the fifth largest producer, with a market share of 12.0 per cent. as at 30 June 2006 and 17 per cent. as at 31 December 2005. This decline in market share was primarily due to the reconstruction of the Company's production facilities and the growth of other competitors. OJSC Ufaorgsintez is the Russian Federation's leading phenol and acetone producer.

Plastic Products. In 2005, the Company was one of the leaders in the plastic product market in the Russian Federation. However, the Company's share in this market declined by 5.6 per cent. to 16.3 per cent., as at 30 June 2006 due to the growth in the production capacities of the Company's competitors, of which the largest one is HK Evrotrubplast with a market share of 32.2 per cent., and new manufacturers appearing on the market.

Ethylene Glycols. The Company has three competitors in the ethylene glycol production market and in 2005, the Company had a market share of 14.0 per cent., as compared with 10.6 per cent. as at 30 June 2006. The Company's share in this market is the lowest of the four with OJSC Sibur-Neftekhim and OJSC Nizhnekamskneftekhim being the leading market producers.

Ethanolamines. The Company's sole competitor in the Russian ethanolamine production market is OJSC Sintez, which was the market leader as at 30 June 2006 with a market share of 66.3 per cent.

Costs of Production

An overview of the Company's principal cost items for the years ended 31 December 2005 and 2004 is provided below.

	Year ended 31 December			
	2005		2004	
	(RUR'000)	(Per cent.)	(RUR'000)	(Per cent.)
Raw materials.....	4,301,705	49.0	3,581,258	48.4
Energy and water.....	2,086,444	23.8	1,628,034	22.0
Salary of production staff.....	1,057,802	12.1	884,644	11.9
Depreciation and amortisation.....	566,800	6.5	588,542	7.9
Maintenance and repairs.....	415,299	4.7	381,475	5.2
Auxiliary materials.....	339,119	3.9	359,387	4.9
Obsolescence provision released.....	(558)	0	(19,052)	(0.3)
Other.....	3,190	0	1,170	0
Total products.....	8,769,801	100.0	7,405,458	100.0

The Company is currently able to achieve cost efficiencies as a result of its plants being concentrated in one location, enabling its production facilities to share a common transport, energy and telecommunications infrastructure. The central geographic location of these plants also enables the Company to both source its raw materials from suppliers, and sell its products to customers, located in both Europe and Asia, which reduces transportation costs.

Raw Materials

The primary raw material used by the Company is ethane. Other raw materials it uses are propane-butane, ethylene, benzene and propane-propylene fraction. The Company produces ethylene at its production facilities. However, the quantity produced is insufficient for the Company's processing functions; additional volumes are consequently purchased from external suppliers. In 2005, 78 per cent. of the Company's raw material supply for the production of polyethylene was produced in its own facilities while 22 per cent. was provided by external suppliers.

Over the past three years, the Company's supplier base has remained stable. Most raw material suppliers are part of vertically integrated companies, such as Gazprom, and Tatneft. The Company's raw materials constitute waste products for companies such as Gazprom and Tatneft who would otherwise get penalised for burning this waste product above the limits established by Russian environmental laws; as such, it is in

the interests of both the Company and its suppliers from whom the Company purchases these waste products to maintain a stable relationship.

An overview of the Company's raw materials suppliers in 2005 is provided below.

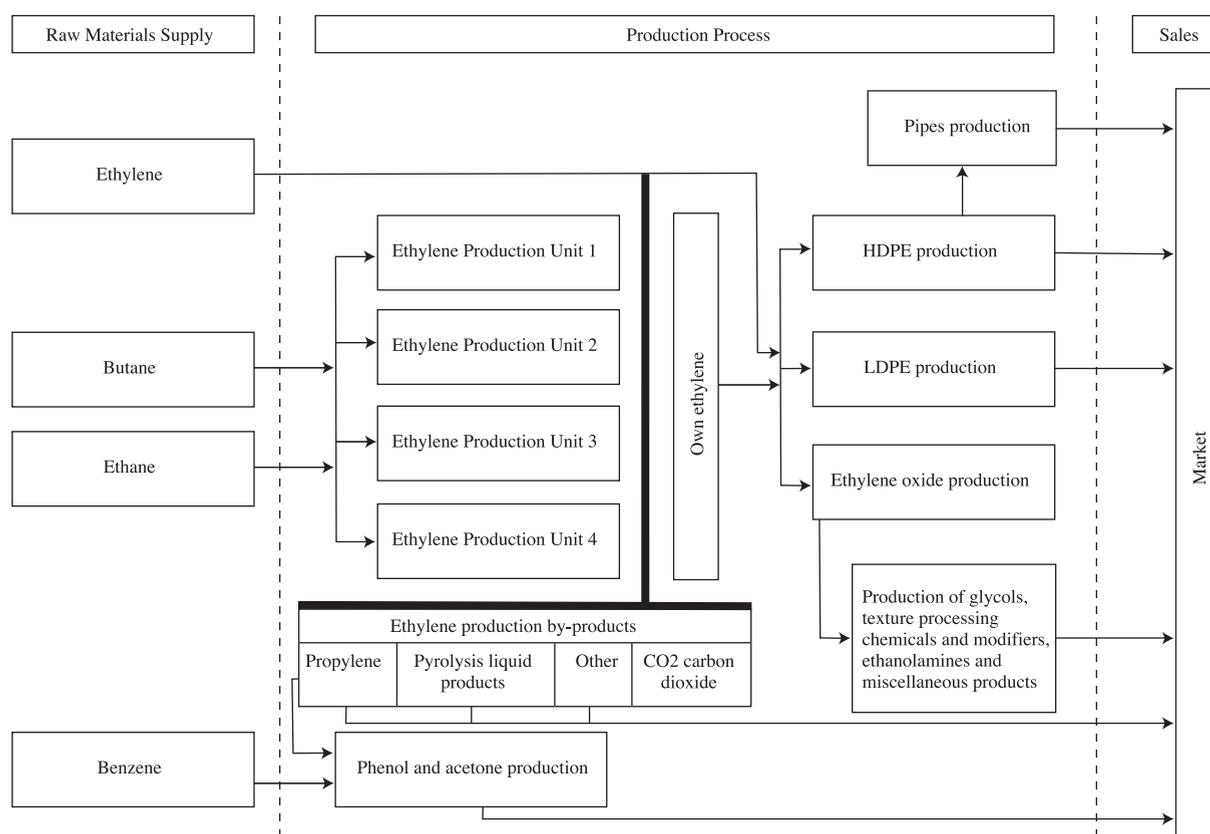
Raw Material	Supplier	Supply Amount	Percentage of total supply
		<i>(Tonnes)</i>	
Ethane	OJSC Gazprom	105,666	50.25
	OJSC Tatneft	90,180	42.9
	LLC Bi Plus	11,102	5.28
	Other	3,320	1.58
Ethylene	LLC Orensai	81,669	61.85
	OJSC Nizhnekamskneftekhim	17,217	13.04
	Other	33,167	25.11
Butane	OJSC AK Sibur	191,606	69.1
	Impex-netfehim	75,959	27.4
	Other	9,849	3.5
Benzene	OJSC AK Sibur	8,900	19.9
	CJSC Belis	8,683	19.4
	LLC Megapraid	4,642	10.4
	Impex-neftehim	3,784	8.4
	OJSC Severstal	3,388	7.6
	Bars-servis	1,973	4.4
	LLC TD Evrazresurs	1,561	3.5
	Other	11,830	26.4

The Company enters into annual agreements with its suppliers specifying expected delivery volumes. Under these agreements, the contract prices can be changed during the contract term, although this happens rarely. Payments for deliveries are made by the Company monthly in arrear, based on the actual amount of raw material supplied.

Transportation

The Company's raw materials are delivered to the Company by pipeline, road, railway and ship. For example, the Company's propane/butane is supplied from other gas and oil refineries by rail while ethane is supplied from the Gazprom Orenburg Helium Plant via the Kazan-Orenburg pipeline. This pipeline is 650 km and is connected with a 370 km pipeline from the Minibaev Gas Plant. The Kazan-Orenburg-Minibaev pipeline is owned by the Gazprom group. The Company is the only entity which has access to the pipeline. Benzene is delivered by rail. Of the products that the Company produces, liquid products are shipped by railway tank cars or in steel drums while solid products are packed by the Company in its polyethylene or polypropylene bags. The Company plans to purchase additional 10 railroad tanks for the transportation of glycols, to expand the access railways and branch tracks by 5,000 metres, and to expand the site on which polyethylene is loaded into containers. The Company expects that OJSC Russian Railways will provide it with additional covered trucks if the volume of manufactured products increases.

Production Facilities and Technology



An overview of the Company's annual production capacities is provided below:

	Prescribed annual capacity 2005	Utilisation in 2005	Prescribed annual capacity 2004	Utilisation in 2004
	<i>(Tonnes)</i>	<i>(Per cent.)</i>	<i>(Tonnes)</i>	<i>(Per cent.)</i>
Ethylene 1	35,000	93.8	35,000	92.9
Ethylene 2	60,000	94.4	60,000	86.0
Ethylene 3	100,000	4.2	100,000	76.1
Ethylene 4	235,000	72.3	225,000	71.8
Propylene.....	59,340	59.3	59,340	51.6
Phenol	62,800	66.7	62,800	66.8
Acetone.....	40,000	66.7	40,000	66.7
LDPE	198,800	84.2	193,500	104.5
HDPE.....	196,900	84.2	196,900	94.1
Ethylene Oxide 2	60,530	74.4	61,500	89.9
Ethylene Glycol.....	39,400	101.1	37,750	102.1
Butilcellozolv	3,000	40.7	3,000	38.8
Diethylene Glycol 1	23,500	24.2	23,500	9.9
Proxanols and Proxamines	16,600	16.4	16,600	24.9
Textile Chemicals.....	21,809	35.8	21,391	24.0
Ethanolamines	14,550	86.6	14,550	80.8
Polyethylene Pipes	47,532	62.0	46,881	51.7
Polypropylene Bags, '000..	15,782	20.1	15,782	23.7

The Company's production capacities as at 30 June 2006 have not been subject to material changes, as compared with its production capacities as at 30 June 2005, save for an increase in production capacity of the HDPE plant resulting from its reconstruction.

The Company's plants are fully compliant with Russian environmental and Russian and international safety requirements. All facilities have the necessary certifications required for production. Since the

commencement of operations in these plants, there have been no major accidents or interruption of operations, other than a minor accident in 1982 and scheduled annual shut-downs in the summer months for maintenance and the upgrade of equipment.

An overview of the Company's technological facilities processes is set out below.

Ethylene Plant and Technology

The main products of the ethylene plant are ethylene, propylene, phenol and acetone. The ethylene produced in this plant is used for the manufacture of polyethylene at the Company's other production facilities, while the by-product propylene is used for the production of phenol and acetone. Up to 80 per cent. of the ethylene plant's output is supplied to the LDPE, HDPE and organic products plants for further processing. The production of this plant accounted for 16 per cent. of the Company's output of commercial products in 2005 and 15 per cent. in 2004. The ethylene plant comprises four units of ethylene production. In 2005, the plant produced 263,627 tonnes of ethylene, in 2004, the four units produced a total of 321,875 tonnes of ethylene, with a production capacity utilisation of 76.6 per cent. Pursuant to the Development Plan, the capacity of the Ethylene Unit 4 was increased by 10,000 tonnes to 235,000 tonnes in 2004. The construction of a two-chamber pyrolysis furnace of Ethylene Unit 2 was also completed in January 2005.

The Company produces ethylene by thermal cracking of a hydrocarbon feedstock in the presence of steam. The production process comprises four stages (i) pyrolysis and cooling; (ii) compression and the removal of acid gases, (iii) subcooling and product separation and (iv) refrigeration. As a result of pyrolysis in the cracking furnaces, raw hydrocarbons are decomposed to obtain cracked gas which contains a mixture of ethylene and propylene. The Company's Ethylene Unit 1 uses the absorption-rectification method for the extraction of ethylene and propylene out of cracked gas, while Units 2, 3 and 4 use the condensation-rectification method.

LDPE Plant and Technology

The LDPE plant produces various grades and blends of LDPE for the production of cast, blown, extrusion and film-type products. It is the only producer in the CIS of electrically conductive polyethylene compositions used in the manufacture of special cables and pipes for the transportation of explosives in the mining industry. The plant also produces a polyethylene composition with high adhesive properties used to insulate spiral-welded pipes. The LDPE plant consists of two production units with a combined capacity of 198,800 tonnes per year. In 2005, the plant produced 167,298 tonnes of LDPE. Its production capacity utilisation in 2005 was 84.2 per cent. as compared to 104.5 per cent. in 2004. The LDPE plant accounted for 36 per cent. of the Company's commercial output in 2005 and 37 per cent. in 2004. The unit producing composite materials for the automotive industry commenced operations in 2004.

LDPE production is based on the polymerisation of ethylene in pressurised reactors with mixing equipment, at a pressure of 1,100-1,600 kgf/cm² and a temperature of 157-280°C, using organic peroxides as process initiators. Following this process, the LDPE is then produced by a polymerisation method in tubular reactors at a pressure of 2,900 kgf/cm² and a temperature of 295°C, with oxygen as process initiators.

HDPE Plant and Technology

The HDPE plant has two production facilities, one for the production of HDPE and the other for the production of plastic materials from HDPE. HDPE is used to make various grades and compositions of polyethylene for the manufacture of cast, extrusion and cable products and gas pipes. The HDPE plant accounted for 34.5 per cent. of the Company's commercial output in 2005 and 37.2 per cent. in 2004. The plant produced 166,868 tonnes of HDPE in 2005 as compared to 186,501 tonnes in 2004. Its production capacity utilisation was 84.2 per cent. in 2005 as compared to 94.7 per cent. in 2004, 31,000 tonnes of the HDPE produced in the plant in 2005 were used in the production of polyethylene pipes. In 2004, the Company signed a contract to upgrade two reactors to increase the plant's total annual capacity from 197,000 tonnes to 510,000 tonnes per year. See "— Development Plan".

The HDPE plant also produces polyethylene pipes (used in gas, water and sewage pipelines) and polymer containers and bags (used by producers of mineral fertilisers, sugar and flour). The plant has 29 lines of polyethylene pipe production and pipe fittings production facilities, with a total capacity of 50,000 tonnes per year. The produced pipes have diameters ranging from 16 mm to 1,200 mm and are produced in accordance with Russian industrial standards (GOST) and international standards (ISO 9000). In 2005, polyethylene pipe production amounted to 29,527 tonnes, 20.5 per cent. higher than in 2004. The plant's

polyethylene pipe production utilisation was 59.4 per cent. in 2005, compared to 49.9 per cent. in 2004. In 2003, the Company started producing pipes marked with a blue line to differentiate pressure pipes from other types of pipes. This HDPE plant also has a capacity of 16 million bags and 200,000 containers per year. The plant's bags and containers' production utilisation capacity was 20 per cent. in 2005. It produced 3.2 million bags in 2005, compared to 3.6 million bags in 2004. The plastics production unit accounted for 5.9 per cent. of the Company's commercial output in 2005 and 4.4 per cent. in 2004. This increase was primarily due to a growth in the production capacities of the Company and favourable market conditions.

Production of HDPE at the Company uses the gas-core method with the application of catalysts. The production facilities include three process lines of polymerisation and one process line of raw material rectification. The polymerisation reaction is conducted inside a polymerisation reactor. The polymer powder fluidised bed is generated by the continuous flow of circulating gas through a distribution lattice into the reactor. The powder is then directed to the compounding workshop where the compounding process consists of (i) melting the polyethylene, (ii) blending the polymer melt with stabilisers, (iii) disintegrating the stabilisers and (iv) distributing the stabilisers among polymer with consequent pelleting.

Organic Products Plant and Technology

The organic products plant has seven units, including two key units for the production of (i) ethylene oxide and its derivatives such as glycol and ethanolamine, and (ii) cooling fluids, de-emulsifying agents and inhibitors used by oil producers. In 2005, the plant produced 118,966 tonnes of commercial products, compared to 122,854 tonnes in 2004. Its production capacity utilisation was 63.5 per cent. in 2005, representing a 3.3 per cent. decrease from 2004. The output from the organic products plant accounted for 14 per cent. of the Company's commercial output in 2005 and 12.8 per cent. in 2004. The glycols production facility was modernised in 2004, resulting in a 4.4 per cent. increase in its capacity. The Company also upgraded the ethanolamine production facility in October 2004 and launched the production of ethylene glycol from the by-product glycol in November 2004.

Ethylene oxide is obtained by catalytic oxidation of ethylene by air in a stationary bed of carrier catalyst. The ethylene oxide serves as a raw material for the production of various ethylene oxide derivatives by means of multi-stage exposure with different components such as water (for ethylene glycol, diethylene glycol and triethylene glycol), ammonia (for monoethanolamine, diethanolamine and triethanolamine) and n-butyl spirit (for butyl cellosolve).

Energy

The Company uses a significant amount of electricity, heat and water during its production process. Its energy resources, which are electricity and steam, are supplied from the power generation facilities of Kazan Heat and Power Co-Generation Plant and OJSC Tatenergo, its industrial water is supplied from the Volga River by the Company's own pumping station and its gases are supplied from its nitrogen, hydrogen and oxygen plants. The electricity supply is delivered by six high voltage lines from two generation plants which are integrated in the OJSC Tatenergo system and which also have a connection with the RAO UES system. An alternative water supply is that of the city of Kazan.

Form of Energy	2005	2004
Electricity (kW '000)	1,123,131	1,234,153
Steam (G cal).....	1,541,479	1,536,799
Industrial water (cubic m '000).....	17,610	17,130

Quality Control

Since 1986, the Company has not experienced any significant complaints relating to its products. It implements quality control at all stages of production, commencing with checking of raw materials, ensuring that all processes and materials are performed in accordance with technological regulations. The Company performs laboratory tests on its products at all stages, including the final output, in order to ensure compliance with technical norms.

In 2004, the Company successfully passed the inspection controls by Det Norske Veritas (DNV Italy) and VNIIS (Moscow) and conformed to the requirements of ISO 9001:2000 and GOST R ISO 9001:2001. The certificated output for 2005 was RUR11.7 billion or 92.9 per cent. of the Company's output. In 2004, the certificated output was RUR11.0 billion or 92.7 per cent. of the Company's output.

Customers

The Company has an established and diversified customer base of end users in both its domestic and international markets. Most of the Company's customers have been purchasing the Company's products for several years, and the Company believes its relationships with its customers are stable. Typical sales contracts are for one year and are extended upon expiry. The Company has the ability to amend the prices of its products on a monthly basis to reflect any increases in the costs of the Company's raw materials. All domestic customers pay the same price per unit of product. Prices for international customers may insignificantly vary from each other. Factors that determine pricing include the cost of raw materials used, transportation distance and delivery time. Prices are not regulated by the Government, with the demand dictating the price. The Company typically requires advanced payment letter of credit or a bank guarantee from its customers before shipping products, which means that the Company has a positive cash flow and rarely suffers from defaulting trade receivables.

The Company's biggest customers include Gazprom, LLC Orensal, CJSC Selena, LLC Irgust, LLC Bars-Sintez, LLC Impex-Neftekhim, JSC TAIF, LLC Niznekamskneftekhim-Service, Sibur and CJSC Techstroy, which together accounted for 26.0 per cent. of the Company's aggregate sales in 2005 and 26.8 per cent. in the six months ended 30 June 2006. Domestic sales comprised 80 per cent. of the Company's sales in 2005 as well as 80 per cent. of the Company's sales in the six months ended 30 June 2006. The Company expects the level of domestic and international sales to remain stable over the near future. International sales are made to Finland, The Netherlands, Latvia, Ukraine, Turkey, China and Kazakhstan.

Storage

The Company currently leases propane-butane storage facilities from Gazprom. The Company also owns a benzol storage facility with a capacity of 2,000 tonnes. The Company is currently in the process of constructing its own storage facilities for propane and butane.

Development Plan

The Company's shareholders approved a large-scale development plan (the "Development Plan") in 2004. The Government of the Republic of Tatarstan endorsed this plan in its national development plan in 2005.

The Development Plan is divided into two stages: mid-term (2004 to 2007) and long term (2008 to 2010). In the mid-term, the Company plans to upgrade its existing ethylene and HDPE facilities and construct new facilities for the production of Bisphenol-A and polycarbonates. In the long term, the Company plans to construct a new ethylene-propylene plant and a LHDPE plant. The Development Plan will, the Company believes, increase its production capacity, widen product ranges and reduce dependence on external suppliers for raw materials.

Mid-term stage

The budgeted capital expenditure for the first stage of the Development Plan is approximately U.S.\$760 million (including VAT) of which approximately U.S.\$401 million have been budgeted for 2006 and U.S.\$97 million, for 2007. See "Financial Review—Capital Expenditure".

Ethylene. Pursuant to the Development Plan, the Company intends to modernise its ethylene production facilities to increase annual total capacity of ethylene from 430,000 tonnes to 640,000 tonnes by the middle of 2007 and provide additional feedstock to its HDPE production facilities. The Company has entered into several agreements with Technip Benelux B.V. for basic design and delivery of certain furnaces in connection with ethylene production facilities modernisation. As at 30 June 2006, the Company had commissioned a new pyrolysis furnace manufactured by Linde (Germany), which processes propane-butane fraction and has a capacity of 24 tonnes per hour. An additional double-chamber furnace produced by Technip Benelux B.V. with a capacity of 36 tonnes per hour has been delivered to the Company and is in the process of installation. The other equipment and installations required for the planned modernisation of the Company's ethylene production facilities has been ordered and partly delivered.

HDPE. The Company has modernised its HDPE production facilities to increase annual total capacity from 197,000 tonnes to 510,000 tonnes and increase the Company's share in the Russian polyethylene market. In this regard, it has licensed technology for the production of polyethylene from Univation Technologies. It also signed a contract with Toyo Engineering Corporation ("TEC") for basic engineering and with OJSC Samaraneftekhimporekt for detailed design of the remodelled plant. The

Company expects that the modernisation of the HDPE plant will result in the production of new products such as:

- HDPE grades for the production of gas and water pipes;
- Polyethylene-100, which is not currently produced in the Russian Federation;
- High molecular weight film grades for the production of strong films with a thickness of 1-20 microns;
- Polyethylene grades for the fabrication of fuel tanks and other high-rigidity containers by blow moulding;
- Polyethylene grades for rotary moulding;
- Polyethylene grades for food and medical industries; and
- LHDPE grades.

In October 2005 the Company produced its first industrial lot of linear high-density polyethylene on the modernised production facilities.

Bisphenol-A. The Company intends to start producing Bisphenol-A using in-house produced by-products such as phenol, acetone and ethylene oxide. Bisphenol-A is used principally to produce polycarbonates and is therefore closely linked to the engineering plastics industry. The second largest end use of Bisphenol-A is in epoxy resins used in automotive coatings, adhesives, electronic or circuit boards and encapsulation applications.

The Company is in the process of construction of a Bisphenol-A facility to be completed by the end of 2007 with a target capacity of 70,000 tonnes per year. It signed a process license agreement with Japan's Idemitsu Kosan Co., Ltd on 8 September 2004 that will provide the Company with the technology for Bisphenol-A production. This technology is based on ecologically clean processes and ensures high quality of products. The Company has also signed a contract with TEC for detailed design and services related to the supply of equipment. As at 30 June 2006, the Company had ordered all equipment necessary for the Bisphenol-A facility and such equipment (including the licensed equipment) had been partly delivered. The Company is in the process of assembling of equipment and installations.

Polycarbonate. The Company intends to enter domestic and international markets for polycarbonates. The Company expects to install a polycarbonate production facility by the end of 2007 with a target capacity of 65,000 tonnes per year. Polycarbonate is a linear polyester of carbonic acid and phenols. It is used in the production of electrical lighting devices, electronics, automobile external parts, translucent sheets for construction work and consumer goods (lens, packages, CDs etc.). The raw materials used to produce polycarbonate are Bisphenol-A, ethylene oxide, monoethylene glycol and carbon dioxide. In 2004, the Company entered into agreement with Japan's Asahi Kasei Chemicals Corporation for a non-phosgene technology licence to produce polycarbonates. It also entered into an agreement with Asahi Kasei Engineering Corporation in 2004 for the supply of equipment. The non-phosgene technology does not cause environmental pollution as it does not use phosgene and methylene chloride and produces small quantities of waste material. The Company has also signed a contract with TEC for detailed design and services related to the supply of equipment. As at 30 June 2006, the Company had ordered all equipment necessary for the polycarbonates facility and such equipment (including the licensed equipment) had been partly delivered. The Company is in the process of assembling of equipment and installations. The Company plans to export a large portion of the polycarbonate it will produce.

Long-term stage

The Company will commence the implementation of the second stage of the Development Plan in 2008 when the production facilities installed during the first stage of the Development Plan will start generating income. The estimated capital expenditure for the second stage of the Development Plan is approximately U.S.\$1 billion.

Ethylene-Propylene. The Company plans to install a new ethylene-propylene production facility with an annual capacity of 600,000 tonnes of ethylene and 200,000 tonnes of propylene. The new ethylene-propylene facility will use various types of feedstock, including naphtha, to diversify the Company's raw materials base.

LHDPE. The Company expects to install a new LHDPE production facility with a target capacity of 350,000 tonnes per year. LHDPE is used for the production of hyperfine hard film, high-density

containers and other products for the medical and food industries. The Company expects that construction of LHDPE facility will increase its share in the domestic and international polyethylene markets.

Subsidiaries and Affiliates

The Company has a number of subsidiaries and associates which provide various supporting services, such as investments, stock market transactions, marketing, wholesale and retail of organic peroxides, manufacturing, refurbishment and servicing of chemical machinery, sales, production and preprocessing of farm produce and installation, repair and servicing of manufacturing equipment. The Company is not dependent on any of its subsidiaries or affiliates. On 7 December 2004, the Company disposed of its 55 per cent. holding in CJSC Sintez Sandra, an unlisted Russian company engaging in trading activities. Disposal proceeds amounted to RUR2.2 million. On 3 December 2004, the Company acquired the remaining 26.71 per cent. of the issued share capital of LLC Tatkhimremont for approximately RUR3.46 million. As a result, LLC Tatkhimremont became a wholly owned subsidiary of the Company. The Company is currently in the process of divesting those subsidiaries which it views as no longer necessary for the Company's operation. In this regard, the Company has disposed of LLC Keramika Sintez and OJSC KITB Kazansky AKB Spurt in 2005. On 18 February 2005 the Company founded a new agricultural entity, LLC Kolos Sintez in which it holds a 51.0 per cent. interest. However, the Company expects to sell its stake in LLC Kolos Sintez in the future. On 3 May 2005, the Company became a participant of LLC Novomoskovsky trubny zavod. On 2 May 2006, the Company founded a new social oriented entity, LLC DK Khimikov.

The Company's consolidated subsidiaries, as at 30 June 2006, are set out below.

Name	Percentage Owned	Activities
LLC Agrosintez	100.0	Production and reprocessing of farm produce
OJSC Spetsneftekhimmontazh	91.0	Manufacturing, refurbishment, servicing of chemical machinery
LLC Shelangovsky plodovoyagodny sovkhov	89.5	Agriculture
LLC Tatkhimremont	100.0	Installation, repairs and servicing of manufacturing equipment
LLC Trade House Orgsintez	70.0	Trading
LLC Kolos Sintez	51.0	Agriculture
LLC DK Khimikov	100.0	Entertainment
LLC SP Elmer Ltd (incorporated in Hungary)	50.0	Trading

The company's affiliates as at 30 June 2006, are set out below.

Name	Percentage Owned	Activities
LLC Taif-Invest	40.3	Investments, stock market transactions
CJSC Ankorit	39.0	Marketing, wholesale and retail of organic peroxides
LLC Novomoskovsky trubny zavod	26.0	Industrial production

The Company participates in CJSC Ankorit, with Akzo Nobel and Rishkimneft. CJSC Ankorit is a marketing company that specialises in the sale of organic peroxides. In 2004, the Company disposed of its 25 per cent. interest in the charter capital of OJSC Ekohimpromservice. No profit or loss was recognised on the disposal of this investment.

Intellectual Property

The Company owns, or shares the ownership of, approximately 80 patents for inventions. The Company also owns three trademarks. The Company's intellectual property has been registered with the relevant Russian registration authority. The Company believes that it owns or licenses all of the intellectual property it uses.

Insurance

The Company maintains insurance cover for its property and business, including insurance for damage related to explosion caused by the operating process, third-party liability insurance for entities operating hazardous production facilities, third-party liability insurance for entities operating facilities using nuclear energy, insurance of temporary and customs storage warehouses, insurance for pledged property and vehicle insurance. The Company believes that the existing level of insurance coverage addresses all major risks that could have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors — Insurance Risks".

Litigation

From time to time and in the normal course of business, the Company is party to certain legal proceedings none of which had, individually or in the aggregate, a material adverse effect on the Company.

The Company is involved in litigation with tax authorities concerning an amount of approximately RUR 28.3 million. The litigation is based on different treatment by the Company and the Russian tax authorities of certain expenses related to the purchase of land. Since the Company believes the probability of unfavourable outcome of litigation is moderate, it has discontinued treating such expenses in a way that differs from that of the Russian tax authorities.

Industrial Safety

Pursuant to Russian legal requirements, the Company regularly assesses the level of industrial safety within its operations. The Company's employees are trained and certified to industry standards and the Company's manufacturing processes are regularly checked and, if necessary, changed in order to attempt to prevent the occurrence of industrial accidents.

Environmental Regulation

The Company is subject to environmental regulation of both the Russian Federation and the Republic of Tatarstan. The Company holds a number of environmental licences and permits for the production of its products and for waste disposal. Licenses are issued for specified periods and are renewed upon expiry. The Company has all the licences and permits required for its current operations.

The Company is subject to monitoring by environmental authorities of both the Russian Federation and the Republic of Tatarstan which conduct regular and random audits of the Company with respect to environmental compliance.

The Company has not committed any material environmental violations or been involved in any environmental disputes for the past 20 years.

Employees

As at 30 June 2006, the Company had 8,021 employees which was a 5.3 per cent. increase from 7,607 employees as at 31 December 2005. Payments to employees in the six months ended 30 June 2006 amounted to RUR878.6 million (including RUR282.7 million in bonuses), compared to RUR701.3 million (including RUR216.4 million in bonuses) the six months ended 30 June 2005; the average monthly wage (including bonuses) for the six months ended 30 June 2005 for a Company employee was RUR15,463. The Company has a bonus system for its employees which rewards the employees based on productivity. In the six months ended 30 June 2006, the Company hired 447 additional employees. The Company expects that it will need to increase the number of employees to 8,250 for increased production under the Development Plan.

Almost all (98 per cent.) of the Company's employees belong to a union which is part of the Tatarstan Republic Organisation of the Russian Trade Union of Employees in the Chemical Sectors of Industry. The Company believes that it has good relations with its employees and the union. All of the Company's employees are covered by collective bargaining agreements, which deal principally with conditions of

employment, wages, promotions, pension schemes, certain benefit programmes, procedures for hiring and dismissing employees and procedures for settling labour disputes and severance pay. The Company has never experienced any material form of industrial action and no material disputes with employees have occurred to date.

Social Policy and Employee Benefits

The Company assists in the education of future employees at the university level by offering training courses viewed as beneficial to the Company's operations. The Company begins recruiting its employees from universities in the Republic of Tatarstan and throughout the Russian Federation. In addition to paying its employees' salaries, the Company subsidises housing for them by assisting them to purchase homes over a ten-year period. After this ten-year period expires, the employee owns the home, notwithstanding if he/she leaves the employment of the Company thereafter. The Company provides healthcare benefits to its employees such as the use of a corporate polyclinic and a sanatorium, annual medical examination and medical insurance. The Company also offers other benefits to its employees, including a non-government retirement plan and the opportunity to use, along with their families, the Company's holiday resorts in the Republic of Tatarstan and in other regions.

MANAGEMENT

Overview

The Company's current Charter was approved by a General Meeting of Shareholders held on 8 June 2006 and was registered in the United State Register of Legal Entities on 27 July 2006. The Company's governing bodies are the General Meeting of Shareholders, the Board of Directors and the Executive Directorate and the General Director.

General Meeting of Shareholders

The authority of a General Meeting of the Company's Shareholders includes, among other matters:

- amendments to the Company's charter;
- reorganisation or liquidation of the Company, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- appointment and removal of the members of the Board of Directors;
- appointment and removal of the members of the Audit Commission;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- approval of the Company's annual reports and financial statements;
- distribution of the Company's profits (including payment of dividends);
- approval of certain interested party transactions and major transactions;
- changes in the Company's share capital (other than those specifically stated as powers of the Board of Directors);
- splitting and consolidating the Company's shares;
- approval of the Company's participation in holding companies, financial and industrial groups, associations and other unions of commercial organisations; and
- approval of certain internal documents and corporate records.

The powers listed above lie within the exclusive scope of authority of the General Meeting of Shareholders and may not be delegated to the other governing bodies of the Company.

Board of Directors

The Board of Directors is responsible for the general management of the Company. The Board of Directors organises and manages the operations of the Company. The main tasks of the Board of Directors are to maximise profit and increase the Company's assets, to protect the rights and legal interests of the Company's shareholders, to supervise continually the Company's executive structures, and to resolve corporate conflicts.

The Russian Law on Joint Stock Companies No. 208-FZ of 26 December 1995, as amended (the "Joint Stock Companies Law"), requires at least a five-member Board of Directors for all joint stock companies, at least a seven-member Board of Directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member Board of Directors for a joint stock company with more than 10,000 holders of voting shares. Only individuals (as opposed to legal entities) are entitled to sit on the Board. Members of the Board of Directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or a decision of the general shareholders' meeting. The Company's charter provides that its Board of Directors shall consist of thirteen members.

The Company's charter provides for the election of its Board of Directors at annual General Meeting of Shareholders. Its Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on the Company's Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a general shareholders' meeting.

The Company's Board of Directors has the power to perform the general management of the Company, and to decide, among others, the following issues:

- determination of the Company's business priorities and approval of interim and annual budgets of the Company;
- convening of annual and extraordinary general shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of a general shareholders' meeting, determination of the record date for shareholders entitled to participate in a general shareholders' meeting and other issues in connection with preparation for, and holding of, general meetings of shareholders;
- adoption of a decision to increase the Company's share capital by placement of additional shares (i) by way of distribution among all shareholders, (ii) by way of open subscription to ordinary shares which constitute less than 25 per cent. of previously issued and placed ordinary shares, (iii) by way of open subscription to preferred shares, and (iv) by way of conversion;
- placement of the Company's bonds and other securities by way of open subscription;
- adoption of decision on placement by way of open subscription of securities convertible into ordinary shares, constituting less than 25 per cent. of previously issued and placed ordinary shares;
- determination of the price of the Company's property and of its securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- approval of decisions on share issuances and reports on the results of such share issuances;
- repurchase of the Company's shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- recommendations on the amount of the dividend on shares and the payment procedure thereof;
- recommendations on the amount of remuneration and compensation to be paid to members of its Audit Commission;
- the creation of branches and representative offices;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- appointment of the Company's share registrar as well as approval of terms of, and termination of, the agreement with the registrar;
- election and removal of the General Director;
- determination of the number of members, election and removal of the Executive Directorate;
- determination of the principles of the pricing and tariff policy of the Company;
- approval of transactions having the value of more than 10 per cent. but less than 50 per cent. of the balance sheet value of the Company's assets and not performed in the ordinary course of business of the Company; and
- other issues, as provided for by the Joint Stock Companies Law and the Company's charter.

The Company's Board of Directors currently consists of the 13 members listed below. Leonid S. Alekhin and Vladimir N. Koudryashov are employees of the Company. The business address for all of the Board members is 101 Belomorskaya Street, Kazan 420051, the Russian Federation.

Name	Age	Position	Year Appointed
Albert K. Shigabutdinov	53	Chairman of the Board of Directors	2006
Leonid S. Alekhin	50	General Director	2003
Vladimir N. Koudryashov	47	First Deputy General Director/Technical Director on Manufacture and Development	1999
Radik R. Gaizatullin.....	41	Member of the Board of Directors	2001
Rinat K. Sabirov.....	38	Member of the Board of Directors	2004
Andrei V. Sarkin	45	Member of the Board of Directors	2004
Guzelia M. Safina.....	50	Member of the Board of Directors	2002
Marat R. Safiullin.....	35	Member of the Board of Directors	2003
Rustem N. Sulteyev	51	Member of the Board of Directors	2003
Ilshat S. Fardiyev.....	45	Member of the Board of Directors	2004
Vldimir V. Presnyakov	54	Member of the Board of Directors	2003
Ilsur R. Metshin.....	37	Member of the Board of Directors	2006
Sergey V. Alekseev.....	40	Member of the Board of Directors	2006

Albert Kashafovich Shigabutdinov (Chairman of the Board of Directors) – Mr. Shigabutdinov graduated from the Kazan Institute of Aviation. He has been the General Director of TAIF since 1999.

Vladimir Vasilyevich Presnyakov (Member of the Board of Directors) – Mr Presnyakov graduated from the Kazan Institute of Chemical Technology. He has been the Deputy General Director of TAIF since 2003. He also served as the First Deputy General Director/Director for Production and Development of OJSC Nizhnekamskneftehim from 1999 to 2003.

Leonid Stepanovich Alekhin (General Director/Member of the Board of Directors) – Mr Alekhin graduated from the Nizhnekamsk branch of the Kazan Institute of Chemical Techonology. From 1999 to 2000 he was the Director of the Nizhnekamsk branch of TAIF. From 2000 to 2002, he was the Director of the Nizhnekamsk branch of Tatneft-Nizhnekamsk. In 2002, he became the First Deputy General Director and Production Director of OJSC Nizhnekamsk Refinery Plant. Mr Alekhin was the Director of the polystyrene and gas condensate processing factory of OJSC Nizhnekamskneftekhim from 2002 to 2003. He has been the General Director of the Company since 2003.

Vladimir Nikolayevich Koudryashov (First Deputy General Director/Technical Director on Manufacture and Development/Member of the Board of Directors) – Mr Koudryashov graduated from the Kazan Institute of Chemical Technology and holds a pre-doctorate degree in technical sciences. He was the head of the technical department of the Company from 1997 to 1999. Mr Koudryashov was appointed the First Deputy General Director and Technical Director on Manufacture and Development in 1999.

Radik Raufovich Gaizattulin (Member of the Board of Directors) – Mr Gaizatullin graduated from the Kazan Agricultural Institute and holds a pre-doctorate degree in economics. Mr Gaizatullin has been working in the Ministry of Finance of the Republic of Tatarstan since 1999. He was head of the Department for Financing Agriculture and Food (1999 to 2000), Deputy Minister of Finance (2000 to 2001), First Deputy Minister of Finance (2001 to 2002) and was appointed the Minister of Finance in 2002.

Rinat Kasimovich Sabirov (Member of the Board of Directors) – Mr Sabirov graduated from the Kazan State University and from the post-graduate department at the Kazan State University of Technology. Mr Sabirov is an advisor to the Prime Minister of the Republic of Tatarstan on the oil, gas and chemical industries since 2003. He also served as the head of Marketing Department at OJSC Tatneftekhiminvestholding (1999 to 2003) and the Chief Administrative Assistant at the Organisational Department in the administration of the President (2003).

Andrei Vladislavovich Sarkin (Member of the Board of Directors) – Mr Sarkin graduated from the Kazan State University. He has been the Head of the Corporate Governance and Investment Department at TAIF since 1999.

Guzelia Mukharyamovna Safina (Member of the Board of Directors) – Ms Safina graduated from the Kazan Institute of Finances and Economics. Ms Safina was appointed the Deputy General Director at OJSC TAIF in 1999.

Marat Rashitovich Safiullin (Member of the Board of Directors) – Mr Safiullin graduated from the Kazan Institute of Finances and Economics and holds a doctorate in economics. Mr Safiullin has been the State Counselor to the President of Tatarstan since 2003 and was appointed to the Board of Directors as a representative of the Government of the Republic of Tatarstan. Mr Safiullin also serves as Head of the Management Chair at the Kazan Institute of Finances and Economics (1998 to present) and Supervisor of the Corporate Governance module in an MBA program undertaken by the ESIDEQ group, St. Petersburg University of Economics and Finances and the Kazan Institute of Finances and Economics (1999 to present).

Rustem Nurgasimovich Sulteyev (Member of the Board of Directors) – Mr Sulteyev graduated from the Kazan Institute of Civil Engineering. He has been the First Deputy General Director at TAIF since 1999.

Ilshat Shayekhovich Fardiyev (Member of the Board of Directors) – Mr Fardiyev graduated from the Moscow Energy Institute. He was appointed General Director of OJSC Tatenergo in 2002 and also served as the General Director of State unitary enterprise PEO RT Tatenergo of the Republic of Tatarstan from 1999 to 2002.

Ilsur Raisovich Metshin (Member of the Board of Directors) - Mr. Metshin graduated from Kazan State University. Mr. Metshin was the Head of Nizhnekamsk city from 1998 till 2006. After that Mr. Metshin served as the Head of Kazan city administration till 2006. At present, Mr Metshin is the Head of “city Kazan” municipal entity.

Sergey Vladimirovich Alekseev (Member of the Board of Directors) - Mr. Alekseev graduated from Kazan State University and Tartarian University of Business Assistance. From 1997 to 2002 Mr. Alekseev worked as the Deputy Director of Administration of State Debt Agency. In 2002, Mr. Alekseev became the Financial Director in “Agency: Consulting, Planning, Finances”, LLC. Since 2003 Mr. Alekseev is the First Deputy General Director OJSC Svyazinvestneftkhim.

Executive Directorate

The Executive Directorate is the Company’s collective executive body responsible for issues which, although may be part of the Company’s day-to-day activities, have a significant impact on the Company or require collective decisions-making. It is accountable to the Board of Directors and the General Meeting of Shareholders. Members of the Executive Directorate of the Company are appointed by the Board of Directors, as advised by the General Director of the Company, for one year terms. The Board of Directors may at any time resolve on the early termination of the General Director or any member of the Executive Directorate.

The powers of the Executive Directorate include, among other things:

- development of business priorities of the Company and preparation of Company’s business plans (budgets) and financial statements;
- determination of the organisational structure of the Company and employee’s duties;
- maintenance of the internal control and accounting of the Company;
- determination of conditions of agreements with suppliers and customers, other than in respect of Company’s prices and tariffs;
- approval of transactions relating to acquisition, disposal or potential disposal of immovable property of the Company;
- approval of transactions relating to granting or obtaining loans and guarantees by the Company;
- ensuring supply of raw materials to the Company and sale of goods and services produced by the Company; and
- recommendations to the General Director as to the day-to-day activities of the Company.

The General Director is elected by the Board of Directors of the Company for a maximum term of 5 years and can be re-elected. The General Director performs day-to-day management of the Company.

The Company’s Executive Directorate currently consists of the 10 members listed below. The business address for the Executive Directorate is 101 Belomorskaya Street, Kazan 420051, the Russian Federation.

Leonid Stepanovich Alekhin – Mr Alekhin graduated from the Nizhnekamsk branch of the Kazan Institute of Chemical Technology. From 1999 to 2000 he was the Director of the Nizhnekamsk branch of

OJSC TAIF. From 2000 to 2002, he was the Director of the Nizhnekamsk branch of Tatneft-Nizhnekamsk. In 2002, he became the First Deputy General Director and Production Director of OJSC Nizhnekamsk Refinery Plant. Mr Alekhin was the Director of the polystyrene and gas condensate processing factory of OJSC Nizhnekamskneftekhim from 2002 to 2003. He has been the General Director of the Company since 2003. He is also the Chairman of the Executive Directorate of the Company.

Nail Samigullovich Gainullin – Mr Gainullin graduated from the Kazan State University of Technology and the Plekhanov Academy in Moscow. Mr Gainullin was the Chief Engineer and the Director of the high-pressure polyethylene factory from 1987 to 2004. Mr Gainullin was appointed the Deputy General Director and Chief Engineer of the Company in 2004.

Larisa Nikolaevna Kaleeva – Mrs Kaleeva graduated from Kazan University of Finance and Economics. Mrs. Kaleeva was the Deputy Chief Accountant of the Company from 1986 till 2006. In 2006 Mrs. Kaleeva was appointed the Chief Accountant of the Company.

Magdut Makhmutovich Gataullin – Mr Gataullin graduated from the Kazan Academy of Architecture and Construction. Mr Gataullin was the Deputy General Director and General Director of construction at OJSC TAIF from 1997 to 2000. He served as the General Director in LLC Kazan Production and Construction Association from 2002 to 2004. Mr Gataullin was appointed the Deputy General Director and Director of capital construction of the Company in 2004.

Vladimir Nikolayevich Kudryashov – Mr Kudryashov graduated from the Kazan Institute of Chemical Technology and holds a pre-doctorate degree in technical sciences. He was the Head of the technical department of the Company from 1997 to 1999. Mr Kudryashov was appointed the First Deputy General Director and Technical Director of production and development in 1999.

Ravil Bariyevich Kurbanov – Mr Kurbanov graduated from the Kazan State University and the Interior Ministry Academy in Moscow. He worked in the Interior Ministry from 1977 to 1995. In 1995, he became the Deputy General Director of organisation and security in the Kazan Foreign Trade, Science and Production Association. Mr Kurbanov was the Deputy General Director of security, organization and business in OJSC TAIF from 1995 to 1997. From 1997 to 2004, he was a director in LLC Kennard. In 2004, Mr Kurbanov was appointed Deputy General Director and Director of economic security and other security arrangements in the Company.

Marat Faritovich Mukhametshin – Mr Mukhametshin graduated from the State Academy of Management in Moscow and has a pre-doctorate degree in economics. From 1997 to 1999, Mr. Mukhametshin served as lead economist in the Ministry of Finance of the Republic of Tatarstan. From 1999 to 2000, he was the Deputy General Director responsible for economy and finance of OJSC Nizhnekamskshina. Since 2000, Mr. Mukhametshin has been a Deputy General Director and Director of economy and finance of the Company.

Andrei Fedorovich Potashkin – Mr Potashkin graduated from the Kazan State Institute of Technology. He served as the shift superintendent and as section supervisor of raw materials treatment and ethylene polymerization of the Company from 1985 to 1989. Mr Potashkin was the Director of the HDPE factory from 2002 to 2004. He was appointed Deputy General Director and Director of production operations in OJSC Upravlenie in 2004.

Asaf Magsumovich Raimov – Mr Raimov graduated from the Kazan Academy of Architecture and Construction. He was the Deputy Director of Investkor from 1993 to 1994. From 1994 to 1995, Mr Raimov was the Deputy Director of LLP Rima – Service. In 2004, he was appointed Deputy General Director and Director of commerce of the Company.

Gaifutdin Gilazovich Shaikhiyev – Mr Shaikhiyev graduated from the Kazan State Agricultural Academy. From 1989 to 2004, he served in various capacities in JSC Tatstroj. His positions include Deputy Manager for general matters in the Construction and Assembly Trust, Deputy Director of commerce in the State Construction Firm, Deputy Director of capital construction in the Business Service Enterprise and General Director of the CJSC Reinforced Concrete Works Factory. In 2004, Mr Shaikhiyev was appointed Deputy General Director and Director of personnel and general matters in the Company.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the Board of Directors and the Executive Directorate of the Company towards the Company and their private interests and/or other duties.

Compensation of Management

The total remuneration of the Board of Directors and the Executive Directorate was RUR39,587,000 in 2005 and RUR36,353,406 in 2004.

The amount of remuneration paid to members of the Board of Directors is determined by the Company's General Shareholders Meeting.

RELATED PARTY TRANSACTIONS

For the purposes of the Financial Statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the procurement of certain raw materials for the Company’s production and in the sale of its products, the Company enters into transactions with related parties. However, all transactions between the Company and related parties are done on an arm’s length basis.

An overview of the Group’s transactions and balances with related parties is set out below.

	Year ended 31 December	
	2005	2004
	<i>(RUR’ 000)</i>	
Sales of goods and services.....	653,934	657,462
Purchase of goods and services.....	975,326	294,516
Dividends received.....	–	10,540
Dividends paid.....	229,749	–
Purchase of debentures and shares	16,582	52,620
Sales of treasury shares	186,764	–
Key management compensation	39,587	36,353

	As at 31 December	
	2005	2004
	<i>(RUR’ 000)</i>	
Accounts receivable balance	208,491	48,414
Accounts payable balance.....	161,556	1,517
Investments in related parties	55,127	–

During the six months ended 30 June 2006 and 2005, the Group entered into the following transactions with related parties:

	Unaudited six months ended 30 June	
	2006	2005
	<i>(RUR’ 000)</i>	
With parent		
Sales of goods and services.....	56,852	272,558
Purchase of goods and services.....	12,154	2,914
With other related parties		
Sales of goods and services.....	35,682	130,203
Purchase of goods and services.....	1,611,181	156,565

Balances with related parties outstanding at 30 June 2006 and 2005 were as follows:

	Unaudited six months ended 30 June	
	2006	2005
	<i>(RUR' 000)</i>	
With parent		
Trade accounts receivable.....	3,054	2,990
Accounts payables.....	2,195	–
With other related parties		
Purchase of treasury shares	21,261	21,261
Cash and cash equivalents	156,855	64,763
Trade receivables	127,484	205,501
Trade payables.....	182,971	161,556
Other receivables	25,000	55,127

Compensation of the senior management of the Group for the six months ended 30 June 2006 amounted to approximately RUR25.6 million, as compared to approximately RUR22.1 million for the same period of 2005.

PRINCIPAL SHAREHOLDERS

As at 30 June 2006, the Company's authorised, issued and fully paid share capital was RUR1,904,710,000, comprised of 1,785,114,000 ordinary registered shares with a nominal value of RUR1 each and 119,596,000 preferred shares with a nominal value of RUR1 each. Preferred shares are non-voting (except on issues relating to the status of the preferred shares) and have a preference right to a dividend of 25 per cent. of par value of a share.

The following table lists the Company's shareholders of record, as indicated on its share register, as at 30 June 2006, that held 1 per cent. or more of its outstanding ordinary registered shares.

	Number of shares held	Percentage of share capital	Number of ordinary (voting) shares held	Percentage of total ordinary (voting) shares
LLC Telecom-Management.....	928,701,930	48.76	928,701,930	52.02
OJSC Svyazinvestneftekhim.....	507,378,800	26.64	506,958,800	28.40
Other legal entities.....	235,414,464	12.36	196,842,795	11.03
Individuals	233,214,806	12.24	152,610,475	8.55
Total	1,904,710,000	100.0	1,785,114,000	100.0

Until 17 March 2005, 51.32 per cent. of the Company's issued ordinary (voting) shares were held by TAIF through its wholly-owned subsidiary LLC Sintez-Management. On 17 March 2005, these shares were transferred to LLC Telecom-Management, another wholly-owned subsidiary of TAIF.

Russian Federal Law No. 208 – FZ “On Joint Stock Companies” dated 26 December 1995 (as subsequently amended and restated) and the Company's charter contain certain provisions designed to ensure that shareholders do not abuse their control over the Company. The general provisions of the Russian Federation's Civil Code also prohibit the abuse of shareholder rights. For example, shareholders of the Company may be held secondarily liable for the debts of the Company if the Company becomes insolvent or bankrupt due to actions or inactions of such shareholders, if they knew in advance that their action or inaction would result in insolvency or bankruptcy of the Company. Russian law also requires that shareholders disclose to the Company certain facts in the context of related party transactions to prevent abuse by shareholders who have a vested interest in such transactions.

JSC Svyazinvestneftehim which is wholly-owned by the Republic of Tatarstan holds 28.4 per cent. of the ordinary (voting) shares in the Company. The Republic of Tatarstan has a “golden share” in the Company which entitles it to veto certain decisions taken at general shareholders' meetings (including increases and decreases in share capital, amendments to the Company's charter, and liquidation or reorganisation of the Company), as well as to appoint a representative of the Republic of Tatarstan on the board of directors. The term “golden share” was extended indefinitely in 1998 by a decree of the President of the Republic of Tatarstan and may be utilised by the Republic of Tatarstan until its cancellation in accordance with Russian legislation.

THE ISSUER

General

Kazanorgsintez S.A. (the “Issuer”) was incorporated as a public limited liability company (*société anonyme*) on 4 August 2005 for an unlimited duration with limited liability under the laws of Luxembourg. The publication of the Issuer’s Articles of Incorporation in the Mémorial C, Recueil des Sociétés et Associations was made on 15 December 2005 (Mémorial C No. 1389, pages 66642-66649). It is registered with the Luxembourg Register of Commerce and Companies, under number B110.183.

Its registered office is located at 1, allée Scheffer, L-2520 Luxembourg and its telephone number is +352 24 14 331.

The Issuer’s subscribed share capital amounts to €31,000 divided into 31 (thirty one) registered shares with par value of €1,000 (one thousand euros) each. All of the shares are fully paid up and owned as follows:

- Stichting KOS 1, a foundation (*Stichting*) established under the laws of the Netherlands, registered with the trade and companies’ register of Amsterdam under number 34230448, having its statutory office in the Netherlands at Locatellikade 1, 1076AZ Amsterdam has subscribed for thirty (30) shares; and
- Stichting KOS 2, a foundation (*Stichting*) established under the laws of the Netherlands, registered with the trade and companies’ register of Amsterdam under number 34230450, having its statutory office in the Netherlands at Locatellikade 1, 1076AZ Amsterdam has subscribed for one (1) share.

The corporate object of the Issuer, as set forth in Article 3 of its Articles of Association, is to grant loans or other forms of financing directly or indirectly in whatever means to the Company (including, but not limited to, by subscription of bonds, debentures, other debt instruments, advances, the granting of pledges or the issuing of other guarantees of any kind to secure the obligations of the Company). The Issuer may finance itself in whatever form including, without being limited to, through borrowing, or through issuance of listed or unlisted notes and other debt instruments (e.g. bonds, notes, loan participation notes and subordinated notes), including under stand alone issues, medium term note and commercial paper programmes. The Issuer may also, grant security for funds raised, including notes and other debt instruments issued, and for the obligations of the Issuer and enter into all necessary agreements, including but not limited to underwriting agreements, marketing agreements, management agreements, advisory agreements, administration agreements and other contracts for services, selling agreements, deposit agreements, fiduciary agreements, hedging agreements, interest and/or currency exchange agreements and other financial derivative agreements bank and cash administration agreements, liquidity facility agreements, credit insurance agreements and any agreements creating any kind of security interest. The Issuer can also perform all legal, commercial, technical and financial investments or operations and, in general, all transactions which are necessary or useful to fulfil its objects as well as all operations connected directly or indirectly to facilitating the accomplishment of its purpose in all areas described above it being understood that the Issuer will not enter into any transaction which would cause it to be engaged in any activity that would be a regulated activity of the financial sector. Article 3.5 of the Issuer’s Articles of Association provides that the Issuer will not take advantage of the Act of 31 July 1929 on holding companies.

The issue of the Notes and the entering into by the Issuer of the Loan Agreement were duly authorised by a resolution of the board of directors of the Issuer dated 24 October 2006.

Capitalisation

The following table sets forth the unaudited capitalisation of the Issuer as at the date hereof, as adjusted to give effect to the issue of the Notes:

	(U.S.\$)
Shareholder's Equity	
Capital Stock of €31,000	39,246 ¹
Indebtedness	
U.S.\$200,000,000 Loan Participation Notes due 2011	200,000,000
Total Indebtedness	200,000,000
Total Capitalisation and Indebtedness	<u>200,039,246</u>

¹ At the exchange rate of EUR 1 = U.S.\$1.2660 set by the European Central Bank on 29 September 2006.

Other than as detailed above, the Issuer does not have any loan capital, borrowings or contingent liabilities.

Corporate administration

The Directors (as defined in "Directors" below) have been appointed as directors ("*administrateurs*") of the Issuer. Certain administrative and corporate services will be provided to the Issuer by TMF Management Luxembourg S.A. in its capacity as corporate administrator ("*société de domiciliation*") pursuant to a domiciliation agreement dated 6 June 2006 and effective from 5 August 2005. The duties of TMF Management Luxembourg S.A. include the provision of certain administrative and related services.

Directors

The Issuer is managed by its board of directors, who are appointed by the shareholders. The current directors (the "Directors") of the Issuer are:

- TMF Corporate Services S.A., registered with the Register of Commerce and Companies in Luxembourg under number B. 84.993 and having its registered office at 1, allée Scheffer, L-2520, Luxembourg. TMF Corporate Services S.A. acts as a director of special purpose companies as its principal business activity. The directors of TMF Corporate Services S.A., each of whose business address is 1, allée Scheffer, L-2520 Luxembourg, are Polyxéni Kotoula, Johannes Hendrik Willem van Koeverden Brouwer, Robert Jan Schol and TMF Secretarial Services S.A.
- TMF Administrative Services S.A., registered with the Register of Commerce and Companies in Luxembourg under number B. 94.030 and having its registered office at 1, allée Scheffer, L-2520, Luxembourg. TMF Administrative Services S.A. acts as a director of special purpose companies as its principal business activity. The directors of TMF Administrative Services S.A., each of whose business address is 1, allée Scheffer, L-2520 Luxembourg, are Polyxéni Kotoula, Johannes Hendrik Willem van Koeverden Brouwer, Robert Jan Schol and TMF Corporate Services S.A.
- TMF Secretarial Services S.A., registered with the Register of Commerce and Companies in Luxembourg under number B. 94.029 and having its registered office at 1, allée Scheffer, L-2520, Luxembourg. TMF Secretarial Services S.A. acts as a director of special purpose companies as its principal business activity. The directors of TMF Secretarial Services S.A., each of whose business address is 1, allée Scheffer, L-2520 Luxembourg, are Polyxéni Kotoula, Johannes Hendrik Willem van Koeverden Brouwer, Robert Jan Schol and TMF Administrative Services S.A.

Financial Statements

Financial statements are published by the Issuer on an annual basis. These statements are not approved by an external auditor. The first annual financial statements of the Issuer in respect of the period ending on 31 December 2005 have been audited by the statutory auditor and approved by the annual general meeting of shareholders of the Issuer. Any future published financial statements prepared by the Issuer (which will be in respect of the period ending 31 December in each year) will be available from any of the Agents. The Issuer is not required to produce interim financial statements.

Subsidiaries

The Issuer has no subsidiaries or affiliates.

Business Year

The business year of the Issuer begins on 1 January and ends on 31 December of each year. The first business year of the Issuer began on the date of incorporation of the Issuer, 4 August 2005, and ended on 31 December 2005.

Statutory Auditors

The statutory auditor (“*commissaire aux comptes*”) of the Issuer is L’Alliance Revision SARL a limited liability company (*société à responsabilité limitée*) registered under Luxembourg law, having its registered office at 54, Pasteur, L-2310 Luxembourg and registered with the Luxembourg Register under number B46.498. No external auditor has been appointed.

Litigation

There are no, and have not been, any legal or arbitration proceedings against or affecting the Issuer, nor is the Issuer aware of any pending or threatened proceedings of such kind, which may have, or have had, since its incorporation on 4 August 2005, prior to the date of this Prospectus a significant effect on the financial position of the Issuer.

No Conflict of interests

There are no potential conflicts of interests between any duties of the Directors of the Issuer, or the statutory auditor towards the Issuer and their private interests and/or other duties.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement which has been entered into between the Issuer and the Company:

“THIS AGREEMENT is made on 26 October 2006

BETWEEN:

- (1) **KAZAN OPEN JOINT STOCK COMPANY “ORGANICHESKY SINTEZ”** an open joint stock company incorporated under the laws of the Russian Federation located at 101, Belomorskaya Street, Kazan 420051, Republic of Tatarstan, Russian Federation (the “**Borrower**”); and
- (2) **KAZANORGSINTEZ S.A.**, a public limited liability company (société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg whose registered office is at 1 allée Scheffer, L-2520 Luxembourg, registration with the Luxembourg Register of Commerce and Companies under number B110.183 (the “**Lender**”).

WHEREAS:

The Lender has at the request of the Borrower agreed to make available to the Borrower a loan in the amount of U.S.\$200,000,000 on the terms and subject to the conditions of this Agreement.

It is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

“**Account**” means an account of the Lender with The Bank of New York, account number JSC Kazanorgsintez 197289-8400;

“**Advance**” means the advance of U.S.\$200,000,000 made (or to be made) by the Lender hereunder;

“**Affiliate**” of any specified Person (A) means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with A (B), or (ii) any other Person who is a director or officer (a) of A, (b) of any Subsidiary of A or (c) of B. For the purpose of this definition, control when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms controlling and controlled have meanings correlative to the foregoing;

“**Agency**” means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, Russia or the Republic of Tatarstan;

“**Agency Agreement**” means the agency agreement relating to the Notes dated 30 October 2006 between the Lender, the Trustee and the agents named therein, as amended from time to time;

“**Authorised Signatory**” means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in Schedule 1 (*Condition Precedent Documents*) hereto and, in the case of the Lender, a director of the Lender, from time to time;

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

“**Central Bank**” means the Central Bank of the Russian Federation (Bank of Russia);

A “**Change of Control**” shall be deemed to have occurred at each time (whether or not approved by the board of directors of the Borrower) that JSC TAIF ceases to own directly or indirectly (a) more than 50 per cent. of the issued or allotted ordinary share capital of the Borrower or (b) shares in the capital of the Borrower carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the shareholders of the Borrower and where an event described in (a) and/or (b) above results in a Rating Decline;

“**Change of Control Payment Date**” means, in respect of a Change of Control, the date specified by or on behalf of the Lender in the Change of Control Redemption Notice on which any part of the Advance is to be prepaid in accordance with Clause 7.7 (*Prepayment upon a Change of Control*), which date shall be not less than 30 days after the Borrower has notified the Lender that a Change of Control has or is deemed to have occurred in accordance with Clause 7.7 (*Prepayment upon a Change of Control*);

“**Change of Control Redemption Notice**” means, in respect of a Change of Control, a notice given by or on behalf of the Lender to the Borrower specifying, *inter alia*, (i) the principal amount of the Advance to be prepaid; and (ii) the Change of Control Payment Date;

“**Environment**” means living organisms including the ecological systems of which they form part and the following media:

- (a) air (including air within natural or man-made structures, whether above or below ground);
- (b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or
- (c) land (including land under water);

“**Environmental Claim**” means any administrative, regulatory or judicial action, suit, demand, demand letter, claim, notice of non-compliance or violation, investigation, proceeding, consent order or consent agreement relating to any Environmental Law or Environmental Licence;

“**Environmental Laws**” means all laws and regulations of any relevant jurisdiction in existence at the date of this Agreement that (a) have been, are or may become applicable to the Borrower or any of its Subsidiaries or any properties or business now opened, leased, occupied or operated by the Borrower or any of its Subsidiaries; and (b) relate to the environment, health and safety, the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Hazardous Substance, or similar matters, or the remedying of any of the foregoing.

“**Environmental Licence**” means any authorisation, consent, approval, resolution, licence, exemption, filing or registration required at any time under Environmental Law;

“**Event of Default**” means any circumstances described as such in Clause 15 (*Events of Default*);

“**Fees Letter**” means a letter dated 26 October 2006 from the Lender to the Borrower in form and substance satisfactory to the Lender and the Borrower setting out the Lender’s fees and expenses in connection with the Loan;

“**Golden Share**” means a special right vested in the Republic of Tatarstan, which, among other things, entitles the representatives of the Republic of Tatarstan to veto decisions of the general meeting of shareholders of the Borrower on: (i) amendments to the charter of the Borrower; (ii) reorganisation or liquidation of the Borrower; (iii) increase or decrease of the charter capital of the Borrower; and/or (iv) approval by the Borrower of major and interested party transactions.

“**Group**” means the Borrower and its consolidated Subsidiaries from time to time;

“**Hazardous Substance**” means any substance or a mixture of substances the quantity and/or concentration of which exceeds the limits established for chemical, radioactive and other substances and organisms and which is harmful to the Environment;

“**IFRS**” means International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

“**incur**” means issue, assume, guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by the parent company or such Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such parent company or is so merged into such Subsidiary;

“**Indebtedness**” means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any

issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above;

“**Independent Appraiser**” means any third party appraiser of international standing selected by the Borrower, provided, however, that such third party appraiser is not an Affiliate of the Borrower;

“**Interest Payment Date**” means 30 April and 30 October in each year in which the Loan remains outstanding with the last Interest Payment Date falling on the Repayment Date;

“**Interest Period**” means any of those periods mentioned in Clause 4 (*Interest Periods*);

“**Issue Documents**” means this Loan Agreement, the Subscription Agreement, the Trust Deed, the Agency Agreement and the Fees Letter;

“**Lien**” means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

“**Loan**” means the U.S.\$200,000,000 term loan facility granted to the Borrower by the Lender in this Agreement;

“**Luxembourg**” means the Grand Duchy of Luxembourg and any province or political sub-division thereof or therein;

“**Managers**” means ABN AMRO Bank N.V. and VTB Bank Europe plc in their capacities as managers under the Subscription Agreement.

“**Material Adverse Effect**” means, in the sole opinion of an Independent Appraiser appointed by the Borrower with the approval of the Lender (such approval not to be unreasonably withheld), a material adverse effect on (a) the business, operations, property, financial condition or prospects of the Borrower or the Group; (b) the Borrower’s ability to perform or comply with its obligations under this Agreement; or (c) the validity or enforceability of this Agreement or the rights and remedies of the Lender hereunder;

“**Material Subsidiary**” means, at any given time, a Subsidiary of the Borrower which

- (a) has gross revenues representing 5 per cent. or more of the consolidated gross revenues of the Group; or
- (b) has total assets representing 5 per cent. or more of the consolidated total assets of the Group, in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied.

“**Notes**” means the U.S.\$200,000,000 9.25 per cent. loan participation notes due 2011 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Advance;

“**Officers’ Certificate**” means a certificate signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

“**Permitted Liens**” means

- (a) Liens existing as at the date of this Agreement;
- (b) Liens arising or created in connection with any non-recourse project financing;
- (c) Liens granted in favour of the Borrower or any of its Subsidiaries;
- (d) Liens on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; provided that any such Lien secures Indebtedness only under such lease;
- (e) Liens securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Borrower or becomes a Subsidiary of the Borrower; provided that such Liens were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of the Borrower already existing or any Subsidiary of the

Borrower other than those of the surviving Person and its Subsidiaries or the Person acquired and its Subsidiaries;

- (f) Liens already existing on assets or property acquired or to be acquired by the Borrower or a Subsidiary of the Borrower; provided that such Liens were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);
- (g) Liens granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Lien created in contemplation of such acquisition); provided that the maximum amount of Indebtedness thereafter secured by such Lien does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- (h) any Liens arising by operations of law;
- (i) any Liens arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Lien permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Lien does not exceed the amount of the original Indebtedness and such Lien is not extended to cover any property not previously subject to such Lien; and
- (j) any Liens on the property, income or assets of the Borrower or any member of the Group securing the Indebtedness of the Borrower or such member of the Group incurred in an aggregate principal amount outstanding at any one time not exceed 20 per cent. of total assets of the Group (determined by reference to the then most recent publicly available annual or interim financial statements of the Borrower or such member of the Group prepared in accordance with IFRS). For the avoidance of doubt this paragraph (j) does not include any Lien created in accordance with paragraphs (a) to (i) above.

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, trust, organisation, state or agency of a state or any other entity, whether or not having separate legal personality;

“**Potential Event of Default**” means any event which with the giving of notice and/or passage of time and/or the fulfilment of any other requirement would be, an Event of Default;

“**Principal Paying Agent**” means The Bank of New York, acting through its London Branch in its capacity as principal paying agent under the Agency Agreement and any successor thereto as provided thereunder;

“**Prospectus**” means the prospectus, dated on or about the date of this Agreement, prepared in connection with the issue of the Notes, as the same may be amended or supplemented on or before the Closing Date;

“**Rate of Interest**” means 9.25 per cent. per annum;

“**Rating Agency**” means Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc. (“**S&P**”) or Fitch Ratings Ltd (“**Fitch**”), or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender (and, following the assignment under Clause 4.2 of the Trust Deed, the Trustee without regard to the Lender);

“**Rating Categories**” means (i) with respect to S&P, any of the following categories (any of which may or may not include a “+” or “-”): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Fitch, any of the following categories (any of which may or may not include a “+” or “-”): AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D (or equivalent successor categories) and (iii) the equivalent of any such categories of S&P or Fitch used by another rating agency, if applicable;

“**Rating Decline**” means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the announcement or the occurrence of a Change of Control, the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating

Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by that Rating Agency after the date hereof) which, for the purposes hereof, shall include a downgrade of “+” or “-” or the equivalent of any such categories of S&P or Fitch used by another rating agency, if applicable;

“**Relevant Event**” has the meaning given thereto in the Trust Deed;

“**Repayment Date**” means 30 October 2011 or, if such day is not a business day, the next succeeding business day;

“**Russia**” means the Russian Federation and any province or political sub-division thereof or therein;

“**Same-Day Funds**” means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

“**Subscription Agreement**” means the subscription agreement relating to the Notes dated 26 October 2006 between the Lender, the Borrower and the Managers named in it, as amended from time to time;

“**Subsidiary**” means a company or corporation (A):

- (a) which is controlled, directly or indirectly, by another company or corporation (B); or
- (b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by B,

and, for these purposes, A shall be treated as being controlled by B if B is able to direct A’s affairs and/or to control the composition of A’s board of directors or equivalent body *provided, however, that* LLC Agrosintez, LLC Selskokhozyaystvennoe predpriyatie Kolos Sintez, LLC Tatkhimremont, LLC Trade House Orgsintez and OJSC Spetsneftekhimmontazh are excluded from the definition of “Subsidiary” as used in this Agreement;

“**Trust Deed**” means the trust deed relating to the Notes dated 30 October 2006 between the Lender and the Trustee, as amended from time to time; and

“**Trustee**” means The Bank of New York, acting through its London Branch as trustee under the Trust Deed and any successor thereto as provided thereunder.

1.2 Interpretation

Any reference in this Agreement to:

“**the Lender**” or “**the Borrower**” includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;

a “**business day**” means a day (other than a Saturday or Sunday) on which banks generally are open for business in New York, London and Moscow;

the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is roubles and the second currency is U.S. dollars (or vice versa), by the Central Bank, at or about 10.00 a.m. (New York City time or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency;

a “**month**” means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a business day, it shall end on the next succeeding business day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding business day, *provided that*, if a period starts on the last business day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last business day in that later month (and references to “**months**” shall be construed accordingly);

“**repay**” (or any derivative form thereof), subject to any contrary indication, includes prepay (or, as the case may be, the corresponding derivative form thereof); and

“**VAT**” means value added tax, including any similar tax which may be imposed in place thereof from time to time.

1.3 **Currency References**

“**U.S.\$**” and “**U.S. dollars**” denote the lawful currency of the United States of America and “**roubles**” denotes the lawful currency of Russia.

1.4 **Statutes**

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 **Headings**

Clause and Schedule headings are for ease of reference only.

2. **THE LOAN**

2.1 **Grant of the Loan**

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.\$200,000,000.

2.2 **Purpose and Application**

The Loan is intended to be used by the Borrower for the repayment of certain indebtedness of the Borrower and to partly fund the first stage of its Development Plan (as such term is defined in the Prospectus) and, without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

3. **AVAILABILITY OF THE LOAN**

The Loan will be available by way of a single Advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Advance, on 30 October 2006 (or such later date as may otherwise be agreed by the parties to this Agreement) (the “**Advance Date**”) by payment of the Advance in accordance with the following payment instructions: ABN AMRO Bank ZAO; swift code: ABNARUMM; account number: 40702840100005463556; correspondence account number: 3010181090000000217; BIC: 044525217; for the account of Kazan Open Joint Stock Company “Organichesky sintez”; if:

- (a) the Lender has confirmed to the Borrower (such confirmation not to be unreasonably withheld or delayed) that it has received all of the documents listed in Schedule 1 (*Condition Precedent Documents*) hereto and that each is in a form and substance satisfactory to the Lender, save as the Lender may otherwise agree;
- (b) the Borrower has, two business days prior to the Advance Date, paid the expenses referred to in sub-clause 19.1 (*Transaction Expenses and Fees*) to the Lender;
- (c) the Lender has received the full amount of the gross proceeds for the Notes pursuant to the Subscription Agreement; and
- (d) no Potential Event of Default or Event of Default has occurred and the representations and warranties set out in Clause 11 (*Representations and Warranties of the Borrower*) are true on the Advance Date with respect to the facts then subsisting.

4. **INTEREST PERIODS**

The Borrower will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Advance from time to time at the Rate of Interest, calculated in accordance with the provisions of this Agreement (including, without limitation, Clause 5.2 (*Calculation of Interest*)). Interest shall accrue on the Advance from day-to-day from and including the Advance Date. Each period beginning on (and including) the Advance Date or any Interest Payment Date and ending on the next Interest Payment Date or the Repayment Date is herein called an “**Interest Period**”. Subject as provided in Clause 5.2 (*Calculation of Interest*), interest on the Advance will cease to accrue from

the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before as well as after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payments of Interest

The Borrower shall pay interest in arrear in respect of each Interest Period calculated in accordance with Clause 5.2 (*Calculation of Interest*) on the business day falling two business days prior to the Interest Payment Date on which such Interest Period ends.

5.2 Calculation of Interest

The amount of interest payable in respect of the Advance for any Interest Period shall be calculated by applying the Rate of Interest to the Advance, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5.3 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and/or any other period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Advance outstanding on the day of the calculation is also the amount of the Advance outstanding on the last day of the relevant Interest Period or other period, as the case may be.

6. REPAYMENT

Except as otherwise provided herein, not later than 10.00 a.m. (New York City time) two business days prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payments of Interest*), pay all interest accrued in respect of the last Interest Period (calculated to the last day of the last Interest Period) to the Account.

7. PREPAYMENT

7.1 Prepayment for Tax Reasons

- (a) The Borrower may, if (i) it is required to pay any additional amounts under Clause 8.1 (*Tax Gross-up*), or make any payment by way of indemnity under Clause 8.3 (*Withholding on Notes*), and (ii) such payment cannot be avoided by the Borrower taking reasonable measures available to it, subject to giving to the Lender not less than 30 business days' prior notice to that effect and providing the certificate referred to in (b) below, prepay the whole (but not part only) of the outstanding principal amount of the Loan, together with any amounts then payable under Clauses 8.1 (*Tax Gross-up*) or 8.3 (*Withholding on Notes*) and accrued interest.
- (b) Prior to the delivery of any notice of prepayment pursuant to this paragraph, the Borrower shall deliver to the Lender a certificate signed by two Authorised Signatories of the Borrower stating that the obligation referred to in (a)(i) above cannot be avoided by the Borrower taking reasonable measures available to it and the Lender shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (a)(ii) above.

7.2 Prepayment for Reasons of Increased Costs

The Borrower may, if it is required to make any payment by way of indemnity under Clause 10.1 (*Increased Costs*), subject to giving to the Lender not less than 30 business days' prior notice to that effect, prepay the whole (but not part only) of the outstanding principal amount of the Loan, together with any amounts then payable under Clause 10.1 (*Increased Costs*) and accrued interest.

7.3 Notice of Prepayment

Any notice of prepayment given by the Borrower pursuant to Clauses 7.1 (*Prepayment for Tax Reasons*) or 7.2 (*Prepayment for Reasons of Increased Costs*) shall be irrevocable, shall specify the

date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment on such date.

7.4 **Costs of Prepayment**

The Borrower shall, not later than 10.00 a.m. (New York City time) two business days prior to the date of prepayment, pay all accrued interest (calculated to (but excluding) the date of prepayment) and all other amounts owing to the Lender hereunder. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7.

7.5 **No Other Repayments and no Reborrowing**

The Borrower shall not repay the whole or any part of the outstanding principal amount of the Loan except at the times and in the manner expressly provided for in this Agreement. No amount prepaid under this Agreement may subsequently be reborrowed.

7.6 **Purchase of Notes**

The Borrower or any of its Subsidiaries may purchase the Notes at any time. Any such Notes so purchased may be delivered by the Borrower to the Lender (as issuer of such Notes) for cancellation and, against such surrender and cancellation, the Lender shall credit the Borrower with the prepayment of an amount of the Advance equal to the principal amount of such surrendered and cancelled Notes. Any such amount of the Advance prepaid shall reduce the outstanding principal amount of the Loan by the same amount as of the date of such delivery by or on behalf of the Borrower to the Lender and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

7.7 **Prepayment upon a Change of Control**

- (a) Promptly, and in any event within 5 calendar days after a Change of Control, the Borrower shall deliver to the Lender, the Principal Paying Agent and the Trustee a written notice substantially in the form of Schedule 3 (*Form of Change of Control Notice*) (the “**Change of Control Notice**”) hereto signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower, which notice shall be irrevocable, stating:
 - (i) that a Change of Control has occurred; and
 - (ii) the circumstances and relevant facts giving rise to such Change of Control and the date upon which such Change of Control occurred or was deemed to have occurred.
- (b) The Borrower shall, having been given a Change of Control Redemption Notice by or on behalf of the Lender (following receipt by the Lender of written confirmation from the Principal Paying Agent of the principal amount of the Advance to be prepaid following the Change of Control (the “**Put Redemption Amount**”)), prepay the amount equal to the Put Redemption Amount specified in the Change of Control Redemption Notice, together with accrued interest (if any) on such principal amount, up to (but excluding) the Change of Control Payment Date, and all other amounts owing to the Lender hereunder, not later than 10.00 a.m. (New York City time) two business days prior to the Change of Control Payment Date.

8. **TAXES**

8.1 **Tax Gross-up**

All payments (including, without limitation, any payments under Clause 8.3 (*Withholding on Notes*) below) to be made by the Borrower to the Lender hereunder shall be made free and clear of and without deduction for or on account of tax imposed by any taxing authority of or in Russia, unless the Borrower is required to make such a payment subject to the deduction or withholding of such tax. If at any time such payment is deducted or withheld, the sum payable by the Borrower in respect of which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of the required deduction or withholding, the Lender receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or required to be made.

8.2 Payments

The Borrower shall assist the Lender in ensuring that all payments made under this Agreement are exempt from deduction or withholding of tax.

8.3 Withholding on Notes

Without prejudice to the provisions of Clause 8.1 (*Tax Gross-up*), if the Lender notifies the Borrower that (a) it is obliged to make any withholding or deduction from any payment which, but for the limited recourse nature of its obligations under the Trust Deed, it is or would be obliged to make under or in respect of the Notes or (b) it is or would otherwise be required to pay any tax in relation to any sum (other than fees) received by it under this Agreement, the Borrower agrees to pay to the Lender, no later than two business days prior to the date on which payment is due to the holders of the Notes, an additional amount such that (in the case of (a) above) the net amount received by the holders of the Notes, after such withholding or deduction, will equal the amount which would have been received by the holders of the Notes in the absence of such withholding or deduction or (in the case of (b) above and to the extent not already paid under Clause 10.1 (*Increased Costs*)) the Lender shall be in the same position as it would have been in had it not been required to pay any such tax; provided, however, that (in the case of (a) above) the Lender shall immediately upon receipt from any holder of Notes of any reimbursement of a sum paid pursuant to this provision, to the extent that a holder of Notes is not entitled to such an additional amount pursuant to the terms and conditions of the Notes, pay an amount equal to the amount received by way of such reimbursement to the Borrower (it being understood that the Lender shall not have any obligations to determine whether any holder of Notes is entitled to any such additional amount) *provided that* the Lender shall not be in a worse after-tax position than it would have been in had it not been obliged to make such withholding or deduction.

8.4 Tax Claims

If the Lender intends to make a claim pursuant to Clause 8.3 (*Withholding on Notes*), it shall notify the Borrower thereof *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

- (a) If an increased amount is paid under Clause 8.1 (*Tax Gross-up*) or an additional amount is paid under Clause 8.3 (*Withholding on Notes*) by the Borrower for the benefit of the Lender and the Lender in its reasonable opinion, determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any tax, then, if and to the extent that the Lender, in its reasonable opinion, determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such additional payment or, in the case of an additional payment made pursuant to Clause 8.3 (*Withholding on Notes*), with reference to the liability, expense or loss to which the payment giving rise to the additional payment relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss, *provided that* the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.
- (b) If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by the Russian tax authorities (a) such tax is deducted or withheld by the Borrower and pursuant

to Clause 8.1 (*Tax Gross-up*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of tax as referred to above the Borrower applies on behalf of the Lender to the relevant Russian tax authorities for a tax refund and such tax refund is credited by the Russian tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

8.6 Tax Position of the Lender

The Lender represents that it (a) is a société anonyme which at the date hereof is a resident of Luxembourg in the sense of Article 4 of the double taxation treaty between Russia and Luxembourg, it is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not merely subject to taxation in Luxembourg on income from sources in Luxembourg or connected with property located in Luxembourg, and it will be able to receive certification to this effect from the tax authorities and based upon such residency will be in a position to claim that interest received from the Borrower is taxable in Luxembourg, with relevant set off expenses allowable under Luxembourg tax laws, (b) does not have a permanent establishment in Russia, and (c) does not have any current intentions to effect, during the term of the Advance, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg in the sense of Article 4 of the double tax treaty between Russia and Luxembourg. The Lender makes no representation as to the application or interpretation of any double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated.

8.7 Delivery of Forms

The Lender shall within 30 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian laws) deliver to the Borrower such duly completed certificate issued by the competent taxing authority in Luxembourg confirming that the Lender is a tax resident in Luxembourg and such other information or forms, including a power of attorney in form and substance acceptable to the Borrower authorising it to file the certificate on behalf of the Lender with the relevant tax authority, as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The certificate shall be duly stamped or otherwise approved by the competent tax authority in Luxembourg and apostilled or otherwise legalised and, if required, other forms referred to in this Clause 8.7 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Luxembourg and the power of attorney shall be duly signed and all such documents shall be stamped or otherwise approved by competent authorities in Luxembourg and apostilled or otherwise legalised.

8.8 Alternative Jurisdictions

If the Lender or the Borrower becomes subject at any time to any taxing jurisdiction other than Luxembourg or Russia, as the case may be, references in this Clause 8 to Luxembourg and/or Russia shall be construed as references to Luxembourg and/or Russia and/or such other jurisdiction.

8.9 Obligation to Notify of a Change in Circumstances

The Lender agrees promptly, upon becoming aware of such, to notify the Borrower if it ceases to be resident in Luxembourg or if any of the representations and warranties set forth in Clause 8.6 (*Tax Position of the Lender*) are no longer true and correct.

9. TAX RECEIPTS

9.1 Borrower Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax by Borrower

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant tax or other authority (subject to any right which the Borrower may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Lender, within 30 days after it has made such payment to the applicable authority, an original payment document (or a certified copy thereof) evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment.

9.3 Lender Notification of Requirement to Deduct Tax

If, at any time, the Lender is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Lender shall promptly notify the Borrower.

9.4 Evidence of Payment of Tax by Lender

If the Lender makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant tax or other authority (subject to any right which the Lender may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Borrower, within 30 days after it has made such payment to the applicable authority, an original receipt (or a certified copy thereof) issued by such authority evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment.

10. CHANGES IN CIRCUMSTANCES

10.1 Increased Costs

If, by reason of (a) any change in, repeal of or introduction of any tax, law (including any statute, treaty, order, decree, ordinance or similar legislative or executive action), regulation, regulatory requirement or official directive (having the force of law), letter, instruction, request, notice, guideline, policy or practice statement (whether or not having the force of law) or in the decision or ruling on, or the interpretation or application thereof by any court of law, tribunal, Central Bank, monetary authority, taxation authority, any other person charged with the administration thereof or other competent authority in Russia or Luxembourg, which, in each case, occurs on or after 26 October 2006 and/or (b) any compliance by the Lender in respect of the Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned) from or of the Central Bank, the Federal Tax Service, any Agency thereof or any other central bank or other authority having effect in Russia or Luxembourg on or after 26 October 2006:

- (i) the Lender incurs an additional cost as a result of its entering into or performing its obligations (including its obligation to make the Advance) under this Agreement; or
- (ii) the Lender becomes liable to make any additional payment on account of tax or otherwise (not being a tax imposed on its net income or the amounts due pursuant to the Fees Letter) on or calculated by reference to the amount of the Advance and/or to any sum received or receivable by it hereunder,

then the Borrower shall, from time to time within 30 days of receiving a written demand from the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented (1) cost or (2) liability, *provided that* the Lender will not be entitled to indemnification where such additional cost or liability arises as a result of the negligence, fraud or wilful default of the Lender and *provided, further*, that the amount of such increased cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*) above) including a description of the relevant

affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

10.3 **Illegality**

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Advance made or to be made by it hereunder or to allow the Notes to remain outstanding then the Lender shall, promptly after becoming aware of the same, deliver to the Borrower a notice (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

- (a) if the Advance has not then been made, the Lender shall not thereafter be obliged to make the Advance; and
- (b) if the Advance is then outstanding and the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or such earlier day as the Borrower elects, repay the whole (but not part only) of the outstanding principal amount of the Loan together with accrued interest (up to but excluding the date of such payment) thereon and all other amounts owing to the Lender hereunder.

10.4 **Mitigation**

If circumstances arise which would result in:

- (a) any payment falling due to be made to the Lender or for its account pursuant to Clause 10.3 (*Illegality*);
- (b) any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*Tax Gross-up*); or
- (c) a claim for additional amounts pursuant to Clause 8.3 (*Withholding on Notes*) or indemnification pursuant to Clause 10.1 (*Increased Costs*),

then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall promptly upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances, *provided that* the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might be in breach of any provisions of the Notes.

11. **REPRESENTATIONS AND WARRANTIES OF THE BORROWER**

The Borrower makes the representations and warranties set out in Clause 11.1 (*Status*) to Clause 11.22 (*Overdue Tax Liabilities*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 **Status**

It and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and in the case of the Borrower only to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and/or delivery by it of this Agreement, and the performance of this Agreement in accordance with its terms.

11.2 **Governmental Approvals**

Save as provided in Clause 14.4 (*Maintenance of Authorisations*), all actions or things required to be taken, fulfilled or done by the laws and regulations of Russia, authorisation, order, licence or

qualification of or with any court or Agency (including, without limitation, the Central Bank), and all registrations, filings or notarisations required by the laws and regulations of Russia in order to ensure:

- (a) that the Borrower and each of its Material Subsidiaries is able to own its assets and carry on its business and, if not, the absence of which could not reasonably be expected to have a Material Adverse Effect;
 - (b) the due execution, delivery and performance by the Borrower of this Agreement; and
 - (c) the validity or enforceability against the Borrower of this Agreement,
- have been obtained, fulfilled or done and are in full force and effect.

11.3 Validity and Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed to make this Agreement admissible in evidence in Russia (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed, subject to the Russian law requirements to provide a Russian court with a duly notarised translation into Russian of this Agreement.

11.4 Valid and Binding Obligations

This Agreement has been duly executed and delivered by and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability,

- (a) to general principles of equity;
- (b) to the fact that the gross up provisions contained in Clauses 8.1 (*Tax Gross-up*) and 8.3 (*Withholding on Notes*) may not be enforceable under Russian law; and
- (c) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments.

11.5 No Stamp Taxes

Under the laws of Russia in force at the date hereof, the execution, delivery and enforceability of this Agreement is not subject to any Russian tax, duty, fee or other charge including, without limitation, any registration or transfer tax, stamp duty or similar levy.

11.6 No Events of Default

No event has occurred or circumstance arisen which would constitute an Event of Default or a Potential Event of Default or a default under any other agreement or instrument evidencing any Indebtedness of the Borrower or any of its Subsidiaries and no such event will occur upon or as a result of the making of the Loan.

11.7 No Material Proceedings

Other than as disclosed in the Prospectus, there are no lawsuits, litigation or other legal or administrative or arbitration proceedings (including, but without limitation to, with respect of taxes) current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might:

- (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder;
- (b) adversely affect the right and power of the Borrower to enter into this Agreement; or
- (c) have a Material Adverse Effect.

11.8 No Significant Change

Since 31 December 2005, there has been no significant change in the financial or trading position of the Borrower and/or the Group and, since such date, save as disclosed in the Prospectus, there has

been no material adverse change in the financial position or prospects of the Borrower and/or the Group.

11.9 Execution of Agreement

The Borrower's execution and delivery of each of this Agreement and the Issue Documents to which it is a party and its exercise of its rights and performance of its obligations hereunder and thereunder does not and will not:

- (a) violate or conflict with any existing applicable law, rule, regulation, judgment, order, directive or decree of any government, governmental body or court in Russia binding upon the Borrower or any of its Material Subsidiaries; or
- (b) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, trust deed, mortgage or other contract, agreement or instrument to which the Borrower or any of its Material Subsidiaries is a party or by which it or any of its Material Subsidiaries, or any of its or its Material Subsidiaries' properties or assets, is bound; or
- (c) give rise to a moratorium in respect of any of the obligations of the Borrower or any of its Material Subsidiaries or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Material Subsidiaries which, in any case, could reasonably be expected to have a Material Adverse Effect; or
- (d) conflict with the provisions of its constitutive documents, its rules and regulations, or any resolution of its shareholders.

11.10 Compliance with Laws

The execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of:

- (a) any law, directive or regulation or any order of any governmental, judicial or public body or authority in Russia;
- (b) the constitutive documents, rules or regulations of the Borrower or any of its Subsidiaries; or
- (c) any agreement or other undertaking or instrument to which the Borrower or any of its Material Subsidiaries is a party or which is binding upon the Borrower or any of its Material Subsidiaries or any of their respective assets,

and the Borrower and each of its Material Subsidiaries is in compliance in all material respects with all applicable provisions of the laws and regulations in Russia.

11.11 Title to Property; Pari Passu Obligations

Except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1 (*Definitions*), the Borrower and each of its Subsidiaries has good title to its property free and clear of all Liens and the Borrower's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness.

11.12 Audited Financial Statements

The audited financial statements of the Group as at and for the years ended 31 December 2004 and 2005:

- (a) were prepared in accordance with IFRS, as consistently applied;
- (b) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and
- (c) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at the date and results of operations of the Group during the relevant financial year.

11.13 Interim Financial Statements

The interim financial statements of the Group as at and for the six months ended 30 June 2006:

- (a) were prepared in accordance with IFRS, as consistently applied;
- (b) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and
- (c) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at the date and results of operations of the Group during the relevant period.

11.14 No Undisclosed Material Assets or Liabilities

Neither the Borrower nor any other member of the Group had, as at the date on which (a) the audit report on the consolidated financial statements of the Borrower for each of the years ended and as at 31 December 2005 and 2004 and (b) the review reports on the consolidated financial statements of the Borrower for the six month period, ended and as at 30 June 2006 and 30 June 2005 was issued, any material assets or liabilities (contingent or otherwise) which were not disclosed or adequately reserved against in accordance with IFRS in such financial statements nor were there at that date any unrealised or anticipated losses of the Borrower, any other member of the Group arising from commitments entered into by any of them which were not disclosed or reserved against in such financial statements.

11.15 Immunity

Neither the Borrower nor any Subsidiary nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceedings relating in any way to this Agreement.

11.16 No Labour Disputes

No labour dispute with the employees of the Borrower or any Material Subsidiary exists or, to the knowledge of the Borrower, is imminent that might have a Material Adverse Effect.

11.17 Governing Law and Arbitration

In any proceedings taken in Russia in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in Russia after compliance with the applicable procedural rules and all other legal requirements in Russia.

11.18 Withholding Tax

Subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any taxes is required to be made from any payment by the Borrower under this Agreement.

11.19 Environmental Matters

- (a) The Borrower and each of its Subsidiaries is, in all material respects, in compliance with, and has complied with, all Environmental Laws to which it is or may be subject, obtained all Environmental Licences required in connection with its business and has complied, in all material respects, with the terms and conditions of those Environmental Licences;
- (b) There is no Environmental Claim pending or, to the best of the Borrower's knowledge and belief, threatened against the Borrower or any of its Subsidiaries and, to the best of the Borrower's knowledge and belief, there are no past or present acts, omissions, events or circumstances which, in each case, are reasonably likely to form the basis of any Environmental Claim against it or any of them; and
- (c) To the best of the Borrower's knowledge and belief after due and careful consideration and enquiry, no property currently or previously owned, leased, occupied or controlled by the Borrower or any of its Subsidiaries is contaminated with any Hazardous Substance and no discharge, release, leaching, migration or escape of any Hazardous Substance into the Environment has occurred or is occurring on, under or from such property in each case, above the limits established by Environmental Laws which, if occurred, would have a Material Adverse Effect.

11.20 Private and Commercial Acts

The Borrower is subject to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of rights and performances of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes.

11.21 Overdue Tax Liabilities

The Borrower and each Subsidiary has no material overdue tax liabilities other than those which have been disclosed in the Prospectus or which it is contesting in good faith and by appropriate proceedings.

12. REPRESENTATIONS AND WARRANTIES OF THE LENDER

The Lender represents and warrants to the Borrower as follows:

12.1 Status and Due Authorisation

The Lender is duly incorporated under the laws of Luxembourg and is resident for Luxembourg tax purposes in Luxembourg and has full power and capacity to execute this Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement, to issue the Notes and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

12.2 Execution of Agreement

The execution of this Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement, the issue of the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety or the provisions of its constitutional documents.

12.3 Valid and Binding Obligations

This Agreement, the Trust Deed, the Agency Agreement, the Subscription Agreement and the Notes have been duly executed by and constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

12.4 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

13. INFORMATION

The Borrower shall supply or procure to be supplied to the Lender (in sufficient copies as may reasonably be required by the Lender) all such information as the London Stock Exchange (or any other or further stock exchange(s) or any other relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading on such stock exchange or relevant authority of the Notes.

14. COVENANTS BY THE BORROWER

The covenants in this Clause 14 remain in force from the date of this Agreement for so long as the Advance or any part of it is or may be outstanding.

14.1 Negative Pledge

The Borrower shall not and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its or their assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness,

unless, at the same time or prior thereto, the Loan is secured equally and rateably with such other Indebtedness.

14.2 Mergers

- (a) The Borrower shall not, enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation); and
- (b) The Borrower shall ensure that, without the prior written consent of the Lender (and following the assignment under Clause 4.2 of the Trust Deed, the Trustee) no Material Subsidiary (i) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation) or (ii) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia, participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction),

if, in the case of either (a) or (b) above, any such reorganisation or other type of corporate reconstruction might have a Material Adverse Effect.

14.3 Disposals

Except as otherwise permitted herein, the Borrower shall not, and shall ensure that its Subsidiaries do not, sell, lease, transfer or otherwise dispose of by one or more transactions or series of transactions (whether related or not), the whole or any material part of its revenues or its assets (except for sales or other disposals of assets in the ordinary course of business and payments of cash) unless the terms of such transactions are substantially no less favourable to the Borrower, or the relevant Subsidiary, as the case may be, than those which would be obtained in a comparable arm's length transaction. This Clause 14.3 (*Disposals*) does not apply to any transaction between the Borrower and any of its Subsidiaries, or between any Subsidiaries of the Borrower. With respect to a sale or disposal of assets (other than a sale or disposal of assets, including securities, carried out in the ordinary course of the Borrower's business) involving aggregate payments or value in excess of 10 per cent. of the gross assets of the Group determined by reference to the balance sheet date for the Borrower's most recent annual IFRS consolidated financial statements, the Borrower shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that such sale is fair, from a financial point of view, to the Borrower or the relevant Subsidiary, as the case may be, and such written opinion shall be conclusive and binding on the parties.

14.4 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain or do or cause to be done all things reasonably necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain and do or cause to be done all things reasonably necessary to ensure the continuance of all consent, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in Russia for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof.

14.5 Maintenance of Property

The Borrower shall, and shall ensure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Borrower or any Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, *provided that* if the Borrower and/or the relevant Material Subsidiary can remedy any failure to comply with the above within 30 days or any failure relates to property with a value not exceeding U.S.\$5,000,000 (or its foreign currency equivalent), this covenant shall be deemed not to have been breached.

14.6 **Payment of Taxes and Other Claims**

The Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Subsidiaries; provided, however, that none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$10,000,000.

14.7 **Withholding Tax Exemption**

The Borrower shall give to the Lender all assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year, the Lender can provide the Borrower with the documents required under Russian laws for the relief of the Lender from Russian withholding tax in respect of payments hereunder.

14.8 **Maintenance of Insurance**

So long as any amount remains outstanding hereunder, the Borrower shall, and shall ensure that each of its Material Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

14.9 **Financial Information**

- (a) The Borrower shall deliver to the Lender (and following the assignment under Clause 4.2 of the Trust Deed, the Trustee) within five months after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IFRS applied consistently with the corresponding financial statements for the preceding period.
- (b) The Borrower shall deliver to the Lender (and following the assignment under Clause 4.2 of the Trust Deed, the Trustee) within four months after the end of the first half-year each of its financial years, copies of the Borrower's unaudited unreviewed consolidated financial statements for that half-year, prepared in accordance with IFRS applied consistently with the corresponding financial statements for the preceding period.
- (c) The Borrower shall deliver to the Lender (and following the assignment under Clause 4.2 of the Trust Deed, the Trustee), without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender (and following the assignment under Clause 4.2 of the Trust Deed, the Trustee) may reasonably request.

14.10 **Limitation on Indebtedness**

The Borrower shall not cause, or permit any of its Subsidiaries to create, issue, incur, assume, guarantee or otherwise in any manner become directly or indirectly liable for the payment of or otherwise incur, contingently or otherwise, any Indebtedness *provided that* the Borrower and any Subsidiary may incur Indebtedness, in each case, if, (a) after such incurrence of Indebtedness, the ratio of (i) the Group's total consolidated Indebtedness to (ii) the Group's consolidated earnings before interest, taxation, depreciation and amortisation (as taken, in the case of (ii), from the most recent annual IFRS consolidated financial statements of the Group) is less than 4.0:1.0; and (b) no Potential Event of Default or Event of Default has occurred and is continuing.

14.11 **Restricted Payments**

The Borrower shall not, and shall procure and ensure that each of its Subsidiaries will not, directly or indirectly:

- (a) declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital (other than a dividend or other distribution payable to the Borrower or a Subsidiary of the Borrower); or
- (b) voluntarily purchase, redeem or otherwise retire for value any Capital Stock or subordinated debt (other than (i) Capital Stock or subordinated debt held by the Borrower or a Subsidiary of the Borrower and (ii) Capital Stock purchased by the Borrower from any Person other than an Affiliate for re-sale to an Affiliate within 90 days of the date of purchase at a price at least equal to the price which the Borrower paid for such Capital Stock),

(any such action, a “**Restricted Payment**”) if such Restricted Payments when aggregated with all other Restricted Payments previously made in respect of the relevant fiscal year exceed 50 per cent. of the Group’s consolidated net profit (calculated in accordance with IFRS) for such fiscal year or if such Restricted Payment would cause or result in a breach of the covenant contained in Clause 14.10 (*Limitation on Indebtedness*).

14.12 **Certificates**

The Borrower shall deliver to the Lender (and following the assignment under Clause 4.2 of the Trust Deed, the Trustee) within 15 days of any written request by the Lender (or following the assignment under Clause 4.2 of the Trust Deed, the Trustee) written notice in the form of an Officers’ Certificate in the form set out in Schedule 2 (*Form of Officers’ Certificate*) hereto stating whether any Potential Event of Default or Event of Default has occurred and is continuing and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

14.13 **Change of Business**

The Borrower shall procure that no material change is made to the general nature of the business of itself or any of its Material Subsidiaries from that carried on at the date of this Agreement.

14.14 **Ranking of Claims**

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all the other unsecured and unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

15. **EVENTS OF DEFAULT**

Each of Clause 15.1 (*Failure to Pay*) to Clause 15.8 (*Analogous Events*) describes circumstances which constitute an Event of Default for the purposes of this Agreement. Clause 15.9 (*Acceleration*) and Clause 15.10 (*Amounts Due on Demand*) deal with the rights of the Lender after the occurrence of an Event of Default.

15.1 **Failure to Pay**

The Borrower fails to pay within three business days the principal amount of the Loan when the same becomes due and payable either at maturity, by declaration or otherwise or the Borrower is in default with respect to the payment of interest or any additional amount payable in respect of the Loan and such default in respect of interest or additional amounts continues for a period of three business days.

15.2 **Obligations**

The Borrower defaults in the performance or observance of any of its obligations other than that set out in Clause 6 (*Repayment*) and in Clause 15.1 (*Failure to Pay*) under or in respect of this Agreement and such default (if capable of being remedied) is not remedied within 30 days after the Lender has given written notice thereof to the Borrower.

15.3 **Cross Default**

Any Indebtedness of the Borrower or any of its Subsidiaries shall become (or become capable of being declared) due and payable prior to the stated maturity thereof (other than at the option of the debtor) following a default of the Borrower or any of its Subsidiaries, or the Borrower or any of its Subsidiaries shall fail to make any payment of principal in respect of any Indebtedness of the Borrower or any of its Subsidiaries on the date on which such payment is due and payable or at the

expiration of any grace period originally applicable thereto or the Borrower or any of its Subsidiaries shall fail to honour any guarantee or indemnity given by the Borrower or any of its Subsidiaries in respect of Indebtedness, unless the aggregate amount of Indebtedness relating to all the above events is less than U.S.\$20,000,000 (or its equivalent in any other currency).

15.4 **Validity and Illegality**

The validity of this Agreement is contested by the Borrower or the Borrower shall deny any of its obligations under this Agreement or (save as provided in Clause 14.4 (*Maintenance of Authorisations*)) it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under or in respect of this Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding.

15.5 **Authorisations**

- (a) Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or (save as provided in Clause 14.4 (*Maintenance of Authorisations*)) perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender.
- (b) The occurrence of any of the following events: (i) any of the Borrower or any of its Material Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of the Borrower or any of its Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of the Borrower or any of its Material Subsidiaries in any court, arbitration court or before any agency alleging or for the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceeding) of any of the Borrower or any of its Material Subsidiaries; (iii) the institution of any bankruptcy prevention measures or prejudicial sanction (*dosudednaya sanatsia*), the institution of the supervision (*nablyudeniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) of any of the Borrower or any of its Material Subsidiaries; (iv) the convening or announcement of an intention to convene a meeting of creditors of any of the Borrower or any of its Material Subsidiaries for the purposes of considering an amicable settlement (*mirovoe soglashenie*), as the above terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" of 26th October, 2002; and/or (v) any extra judicial liquidation or analogous act in respect of any of the Borrower or any of its Material Subsidiaries by any governmental, regulatory or supervisory body in or of Russia.
- (c) The Borrower or any of its Material Subsidiaries (i) fails or is unable to pay its debts generally as they become due, or (ii) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding or to the appointment of a custodian of it or for any substantial part of its property or (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding or for the appointment of a custodian in respect of the Borrower or any of its Material Subsidiaries or any of its property and such order or decree remains unstayed and in effect for 60 days.
- (d) (i) all or any substantial part of the undertaking, assets and/or revenues of the Borrower or any Subsidiary is condemned, seized, nationalised or otherwise appropriated by any person acting under the authority of any national, regional or local government; or (ii) the Borrower or any Subsidiary is prevented by any such person other than the Republic of Tatarstan based on the Golden Share from exercising normal control over all or any substantial part of its undertaking, assets and/or revenues.
- (e) The shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower.

15.6 **Judgments**

The aggregate amount of unsatisfied final judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower and/or any

Subsidiaries of the Borrower exceeds U.S.\$5,000,000 or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof during which all such judgments, decrees or orders are not discharged, waived or the execution thereof stayed and such default continues for ten days.

15.7 **Business**

The Borrower ceases to carry on the principal business it carried on at the date hereof.

15.8 **Analogous Events**

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clauses 15.4 (*Validity and Illegality*) to 15.6 (*Judgments*).

15.9 **Acceleration**

Upon the occurrence of an Event of Default or at any time thereafter, the Lender may by written notice to the Borrower declare the outstanding principal amount of the Loan to be immediately due and payable (whereupon the same shall become so payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Loan to be due and payable on demand of the Lender.

15.10 **Amounts Due on Demand**

If, pursuant to Clause 15.9 (*Acceleration*), the Lender declares the outstanding principal amount of the Loan to be due and payable on demand of the Lender, then, and at any time thereafter, the Lender may by written notice to the Borrower require repayment of the outstanding principal amount of the Loan on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

16. **ACCRUAL OF INTEREST AND INDEMNITY**

16.1 **Accrual of Interest**

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 18 (*Payments*), interest will continue to accrue on such sum at a rate per annum equal to the Rate of Interest up to but excluding the date on which it is paid by the Borrower.

16.2 **The Borrower's Indemnity**

The Borrower undertakes to the Lender, that if the Lender, any of its Affiliates, or any director, officer, employee or agent of the Lender or any such Affiliate or any person controlling the Lender within the meaning of the United States securities laws or the Trustee (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation, (a) in connection with any amount payable by the Lender under this Agreement (or the enforcement thereof) where payment of such amount is subject to receipt by the Lender of the relevant amount from the Borrower; and (b) Taxes, legal fees and expenses and any applicable stamp duties, stamp duty reserve tax or other duties payable, demand or damage together with in each case any VAT thereon) and in respect of any such loss an indemnified party shall exercise reasonable endeavours to provide relevant documentation to the Borrower evidencing such loss) (a "**Loss**") except a Loss (i) which is caused by an indemnified party's gross negligence, wilful misconduct or wilful default or (ii) which is caused by a breach of representation by the Lender or of the selling restrictions in the Subscription Agreement or (iii) which is recovered under Clause 8.1 (*Tax Gross-Up*) or (iv) where an indemnity is sought already under Clause 8.3 (*Withholding on Notes*), 10 (*Changes in Circumstances*) or 19 (*Costs and Expenses*); as a result of or in connection with any Event of Default, Potential Event of Default, the Advance, this Agreement (or enforcement thereof), or the issue, constitution, sale, listing or enforcement of the Notes or the Notes being outstanding or any combination of any of the foregoing, the Borrower shall pay to the Lender or the Trustee, as the case may be, on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred. The Lender shall not have any duty or obligation, whether as fiduciary or trustee or otherwise, for any indemnified party or

otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 16.2.

16.3 **Independent Obligation**

Clause 16.2 (*The Borrower's Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

16.4 **Survival**

The obligations of the Borrower pursuant to Clauses 8.1 (*Tax Gross-Up*), 8.3 (*Withholding on Notes*), 16.2 (*The Borrower's Indemnity*) and 18.3 (*No Set-off*) shall survive the execution and delivery of this Agreement, the drawdown of the Loan and the repayment of the Advance, in each case by the Borrower.

17. **CURRENCY OF ACCOUNT AND PAYMENT**

17.1 **Currency of Account**

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

17.2 **Currency Indemnity**

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

18. **PAYMENTS**

18.1 **Payments to the Lender**

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds not later than 10.00 a.m. (New York City time) two business days prior to such date (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars) to the Account *provided that* if the Trustee notifies the Borrower that a Relevant Event has occurred, the Borrower shall make all subsequent payments, which would otherwise be made to the Account, to such other account as shall be notified by the Trustee to the Borrower. Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that, before 10.00 a.m. (New York City time) on the third Banking Day before the due date of each payment made by it under this Agreement, the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. For these purposes, "**Banking Day**" means a day on which banks are open for general business in New York City and London.

18.2 **Alternative Payment Arrangements**

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments hereunder in the manner specified in Clause 18.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made *provided that*, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

18.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

19. COSTS AND EXPENSES

19.1 Transaction Expenses and Fees

In consideration of the Lender making the Advance, the Borrower agrees that it shall pay the fees and expenses of the Lender as specified in the Fees Letter two business days prior to the Advance Date in U.S. dollars and in Same-Day Funds not later than 10.00 a.m. (New York City time) on such date.

19.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on demand of the Lender and following receipt from the Lender of a description in writing in reasonable detail of the relevant costs and expenses, together with the relevant supporting documents evidencing the matters described therein, reimburse the Lender for all costs and expenses (including legal fees and expenses) together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

19.3 Stamp Taxes

The Borrower shall pay all Russian, Luxembourg, Belgian and United Kingdom stamp, registration and other similar duties or taxes to which the Issue Documents, the Notes or any judgment given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any properly documented liabilities, losses, costs, expenses and claims resulting from any failure to pay or any delay in paying any such duty or tax.

19.4 The Lender's Costs

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 16.2 (*the Borrower's Indemnity*) and Clause 19.2 (*Preservation and Enforcement of Rights*)) compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for the time and expenditure, all costs and expenses (including telephone, fax, copying, travel and personnel costs) reasonably incurred and properly documented by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by the Borrower in connection with:

- (a) the granting or proposed granting of any waiver or consent requested hereunder by the Borrower;
- (b) any actual breach by the Borrower of its obligations hereunder; or
- (c) any amendment or proposed amendment hereto requested by the Borrower.

20. ASSIGNMENTS AND TRANSFERS

20.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

20.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

20.3 Assignments by the Lender

- (a) Prior to an Event of Default, the Lender may, subject to the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) at any time assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder:

- (i) to the Trustee; or
 - (ii) to any company which, as a result of any amalgamation, merger or reconstruction or which, as a result of any agreement with the Lender (or any previous substitute) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Lender prior to such amalgamation, merger, reconstruction or agreement coming into force and where, in the case of any company which will own the whole or substantially the whole of the undertaking, property or assets of the Lender, the substitution of that company as principal debtor in relation to the Notes would not be materially prejudicial to the holders of the Notes.
- (b) On or following an Event of Default, the Lender may, by notice to the Borrower, assign all or any of its rights and benefits hereunder or transfer all or any of its rights, benefits and obligations hereunder to the Trustee.

21. EVIDENCE OF DEBT

21.1 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

21.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Tax Gross-up*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Withholding on Notes*) or Clause 10.1 (*Increased Costs*) shall, in the absence of manifest error, be prima facie evidence of the existence and amounts of the specified obligations of the Borrower.

22. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

22.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

22.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

23. NOTICES; LANGUAGE

23.1 Communications in Writing

Each communication and document to be made or delivered hereunder shall be made in writing and, unless otherwise stated, shall be made by fax, by hand or by courier addressed as follows:

- (a) *Lender*: if to the Lender, to it at:

Kazanorgsintez S.A.
1, Allée Scheffer
L-2520, Luxembourg

Fax: +352 24 14 333 00

Attention: The Managing Directors

(b) *Borrower*: if to the Borrower, to it at:

Kazan Open Joint Stock Company “Organichesky sintez”
101, Belomorskaya Street
Kazan 420051
Republic of Tatarstan
Russia

Fax: +7 843 533 99 22

Attention: Marat Mukhametshin/Fanis Kalimullin

23.2 **Delivery**

Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall be deemed to have been delivered when despatched (in the case of any communication by facsimile) or (in the case of any communication made by letter) when left at the address or (as the case may be) ten days after being deposited in the post (postage pre-paid) in an envelope addressed to it at that address.

23.3 **English Language**

(a) Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and any Russian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or any Russian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

(b) This Agreement may be signed in both English and Russian, *provided that* in the event of any conflict or inconsistency or in case of doubt as to the proper interpretation or construction of this Agreement, the English text shall be controlling.

24. **LAW AND JURISDICTION**

24.1 **Governing Law**

This Agreement and all matters arising from or connected with it are governed by, and shall be construed in accordance with, English law.

24.2 **English Courts**

Subject to Clause 24.7 (*Arbitration*), the Borrower agrees for the benefit of the Lender that the courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”), arising from or connected with this Agreement (including a Dispute regarding the existence, validity or termination of this Agreement) or the consequences of its nullity.

24.3 **Appropriate Forum**

The parties agree that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that they will not argue to the contrary.

24.4 **Non-exclusivity**

The submission by the Borrower to the exclusive jurisdiction of the English courts shall not (and shall not be construed so as to) limit the right of the Lender to bring proceedings relating to a Dispute (“**Proceedings**”) in any other court of competent jurisdiction.

24.5 **Service of Process**

The Borrower agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Clifford Chance Secretaries Limited at its registered office (being, on the date hereof, at 10 Upper Bank Street, London E14 5JJ, England. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Borrower, the Borrower shall, on the written demand of the Lender addressed to the Borrower and delivered to the Borrower appoint a further person in

England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice addressed to the Borrower and delivered to the Borrower. Nothing in this paragraph shall affect the right of the Lender to serve process in any other manner permitted by law.

24.6 Waiver of immunity and consent to enforcement

The Borrower hereby waives with respect to this Agreement any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process in connection with any Proceedings or Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings or Disputes.

24.7 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement (or any supplement, modification or addition thereto) (each a “**Dispute**”), the Lender may elect, by notice in writing to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “**Rules**”) as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any arbitration shall be London, England. The language of the arbitration shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the President of the London Court of International Arbitration.

24.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

24.9 Counterparts

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.”

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the individual note certificates, if any, and (subject to the provisions thereof) apply to the Global Notes.

The U.S.\$200,000,000 9.25 per cent. Loan Participation Notes due 2011 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Kazanorgsintez S.A. (the “**Issuer**”) are constituted by, are subject to, and have the benefit of, a trust deed dated 30 October 2006 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and The Bank of New York, acting through its London Branch as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 30 October 2006 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, The Bank of New York, as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York, acting through its London Branch as principal paying and transfer agent (the “**Principal Paying and Transfer Agent**”, which expression includes any successor principal paying and transfer agent appointed from time to time in connection with the Notes), the paying and transfer agents named therein (together with the Principal Paying and Transfer Agent, the “**Paying and Transfer Agents**”, which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the “**Agents**” are to the Registrar, the Principal Paying and Transfer Agent and the Paying and Transfer Agents and any reference to an “**Agent**” is to any one of them.

Certain provisions of these Conditions include definitions to be found in, and summaries of detailed provisions of, the Trust Deed, the Loan Agreement and/or, as the case may be, the Agency Agreement and such summaries are subject to their detailed provisions and definitions.

The Noteholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed, the Loan Agreement and are deemed to have notice of the provisions of the Agency Agreement applicable to them.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, London E14 5AL, England and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer authorised the creation, issue and sale of the Notes for the sole purpose of funding a loan to be made by the Issuer to Kazan Open Joint Stock Company “Organichesky sintez” (the “**Borrower**”) (the “**Loan**”) under a Loan Agreement between the Issuer and the Borrower dated 26 October 2006 (the “**Loan Agreement**”).

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 6 (*Payments*) and Condition 7 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest or other amounts, if any, actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights (as defined below)). Noteholders must therefore rely solely and exclusively upon the covenant of the Borrower to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

1. Form and Denomination; Status; Limited Recourse; Security

- (a) *Form and denomination:* The Notes are in registered form, without interest coupons attached, in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an “**Authorised Holding**”).
- (b) *Status:* The Notes constitute direct limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited in the manner described in Condition 1(c) (*Limited Recourse*) below. The Notes are secured in the manner described in Condition 1(d) (*Security*) below and shall rank at all times *pari passu* and without preference amongst themselves and at least *pari passu* with all other

present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The sole purpose of the issue of the Notes is to provide the funding for the Loan.

- (c) *Limited Recourse*: The obligations of the Issuer are solely to make payments of amounts which in aggregate are equal to principal, interest, or other amounts, if any, actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights), Noteholders must therefore rely solely and exclusively upon the covenant of the Borrower to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

Subject to the foregoing and these Conditions, payments in respect of the Notes will be made *pro rata* among all Noteholders, on the dates on which such payments are due. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed.

Noteholders are deemed to have accepted that:

- (i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, or other amounts, if any, due or to become due from the Borrower under the Loan Agreement;
- (ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;
- (iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;
- (iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar or the Principal Paying and Transfer Agent of their respective obligations under the Agency Agreement;
- (v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representations and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Transferred Rights (as defined below);
- (vi) pursuant to the assignment of the Transferred Rights, the Trustee may rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not be otherwise responsible for investigating any aspect of the Borrower's performance in relation thereto. Subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Note Security (as defined below) and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property represented by the Note Security whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Note Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or

perfecting such security and the Trustee will have no responsibility for the value of such security; and

- (vii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement, or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received from the Borrower pursuant to the Loan Agreement in respect of such payment, including, if applicable, any other amounts (in respect of the tax required to be so withheld or deducted);

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Note Security. Neither the Issuer nor the Trustee pursuant to the Transferred Rights shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

(d) *Security*: The Issuer has:

- (i) charged by way of first fixed charge to the Trustee all of the Issuer's rights, interests and benefits in and to: (A) principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer under the Loan Agreement; and (B) all amounts now or hereafter paid or payable by the Borrower to the Issuer under or in respect of any claim, award or judgment relating to the Loan Agreement (in each case other than its right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Loan Agreement: (the second sentence of Clause 7.4 (*Costs of Prepayment*); Clause 8.5 (*Tax Credits and Tax Refunds*); Clause 10 (*Changes in Circumstances*); Clause 11 (*Representations and Warranties of the Borrower*); Clauses 16.2, 16.3 and 16.4 of Clause 16 (*Accrual of Interest and Indemnity*); Clause 17.2 (*Currency Indemnity*); Clause 18.3 (*No set-off*) and Clause 19 (*Costs and Expenses*) (to the extent that the Lender's claim is in respect of one of the aforementioned clauses of the Loan Agreement) of the Loan Agreement (such rights are referred to herein as the "**Reserved Rights**"));
- (ii) charged by way of security to the Trustee all of the Issuer's rights, interest and benefits in and to all sums held on deposit from time to time, in the Account (as defined in the Loan Agreement) with the Principal Paying and Transfer Agent, together with the debt represented thereby (except to the extent such debt relates to Reserved Rights) pursuant to the Trust Deed (this sub-clause (d)(ii), together with sub-clause (d)(i) other than the Reserved Rights, the "**Charged Property**"); and
- (iii) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) and the Subscription Agreement, other than the Charged Property and the Reserved Rights and amounts payable by the Borrower in relation to the Charged Property and the Reserved Rights (the "**Transferred Rights**" and together with the Charged Property, the "**Note Security**").

In the circumstances set out in Condition 12 (*Enforcement*), the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Note Security).

2. Register; Title; Transfers

- (a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a

Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. An up-to-date register of the Notes shall be kept at the registered office of the Issuer (the “**Issuer’s Register**”). Under the terms of the Agency Agreement, the Registrar will provide to the Issuer such information about the changes in the Register as shall enable the Issuer to keep the Issuer’s Register up-to-date. In case of any inconsistency between the Register and the Issuer’s Register, the Issuer’s Register shall prevail.

- (b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers*: Subject to Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*), a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Paying and Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer, *provided that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.
- (d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) (*Transfers*), the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Paying and Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Paying and Transfer Agent has its Specified Office.
- (e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying and Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Paying and Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 (fifteen) days ending on the due date for any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Paying and Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are admitted to trading on the London Stock Exchange plc’s Gilt Edged and Fixed Interest Market, a copy of the current regulations will be publicly available at the Specified Offices of the Principal Paying and Transfer Agent in London.

3. Issuer’s Covenants

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any

amendments to, any modification of, any waiver of or authorise any breach or proposed breach of the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee, from time to time, with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

4. Interest

The Notes bear interest from 30 October 2006 (the “**Issue Date**”) at the rate of 9.25 per cent. per annum (the “**Rate of Interest**”) payable in two equal instalments semi-annually in arrear on 30 April and 30 October in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an “**Interest Period**”.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to accrue interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying and Transfer Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of a Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is required to be calculated in respect of a period other than an Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5. Redemption; Purchase

- (a) *Scheduled redemption*: Unless previously (i) prepaid pursuant to Clause 7.1 (*Prepayment for Tax Reasons*), Clause 7.2 (*Prepayment for Increased Costs*) or Clause 7.7 (*Prepayment upon a Change of Control*) of the Loan Agreement; (ii) purchased and cancelled as provided in Clause 7.6 (*Purchase of Notes*) of the Loan Agreement; or (iii) repaid in accordance with Clause 15 (*Events of Default*) (and if prepaid in part only the remainder of this Condition 5(a) will apply to the outstanding part that is still to be repaid but the reference to “all the Notes” shall be read as a reference to those Notes that are still outstanding only), the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement, all the Notes will be redeemed at their principal amount on 30 October 2011, subject as provided in Condition 6 (*Payments*).
- (b) *Mandatory Redemption*: The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 30 days’ nor more than 90 days’ notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the relevant notice of prepayment referred to in Condition 5(b)(i) or (ii) below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to (but excluding) the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:
- (i) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) of the Loan Agreement; or
 - (ii) the Issuer has delivered a notice to the Borrower requiring (A) the Borrower to repay the whole (but not part only) of the Loan in accordance with the provisions of Clause 7.2 (*Prepayment for Increased Costs*) of the Loan Agreement and (B) setting out details of the circumstances contemplated by such provisions.

Prior to the publication of any notice of redemption to Noteholders referred to in this Condition 5(b), the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer:

- (i) stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(b);
- (ii) including (A) copies of the Borrower's notice of prepayment (if Condition 5(b)(i) above applies); or (B) (aa) copies of the Issuer's notice to the Borrower (if Condition 5(b)(i) applies) and (bb) details of the circumstances contemplated by Clause 7.2 (*Prepayment for Increased Costs*) of the Loan Agreement (as set out in the notice received from the Lender); and
- (iii) stating the date fixed for redemption of the Notes.

The Trustee shall be entitled to accept any certificate delivered by the Issuer in accordance with this Condition 5(b) as sufficient evidence of the satisfaction of the applicable circumstances, in which event such certificate shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5, subject as provided in Condition 6 (*Payments*).

(c) *Redemption at the option of the Noteholders*

If a Change of Control (as defined below) occurs, each Noteholder shall have the option (unless, prior to giving the Put Option Exercise Notice referred to below, the Issuer gives notice to the Noteholders under Condition 5(b) (*Mandatory Redemption*) above or the Loan becomes due and payable pursuant to Clause 15 (*Events of Default*) of the Loan Agreement) to give notice or procure that notice is given to the Borrower pursuant to the Loan Agreement to prepay the Loan in an amount specified in such notice. To the extent that such payment is received by the Issuer under the Loan Agreement, the Issuer shall be required to redeem each Note held by the relevant Noteholder on the Put Settlement Date (as defined below) at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date. Such option shall operate as set out below.

Upon the Issuer being notified pursuant to the Loan Agreement that a Change of Control has occurred, the Issuer shall and upon the Trustee becoming so aware (of the Issuer having failed to do so) the Trustee may, and, if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding, shall, give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 14 (*Notices*) specifying the nature of the Change of Control and the procedure for exercising the option contained in this Condition 5(c) (*Redemption at the option of the Noteholders*).

To exercise the right to require the redemption of a Note under this Condition 5(c) (*Redemption at the option of the Noteholders*), the Noteholder must deliver, on any Put Business Day falling within the period (the "**Put Period**") of 30 days after the Change of Control Notice is given, to the specified office of any Paying Agent, the Note Certificate relating to such Note together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "**Put Option Exercise Notice**").

The Paying Agent to which such Note Certificate and Put Option Exercise Notice is delivered will issue to the Noteholder concerned a non-transferable receipt. Provided that any Note Certificate that is the subject of such Put Option Exercise Notice has been delivered to the Principal Paying Agent or other Paying Agent prior to the expiry of the Put Period, the Issuer shall redeem each Note represented by such Note Certificate on a date which is the fifteenth Put Business Day immediately following the last day of the Put Period (the "**Put Settlement Date**"). A Put Option Exercise Notice, once given, shall be irrevocable.

In this Condition 5(c)(Redemption at the option of the Noteholders):

A "*Change of Control*" shall be deemed to have occurred at each time (whether or not approved by the board of directors of the Borrower) that JSC TAIF ceases to own directly or indirectly (a) more than 50 per cent. of the issued or allotted ordinary share capital of the Borrower or (b) shares in the capital of the Borrower carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the shareholders of the Borrower and where an event described in (a) and/or (b) above results in a Rating Decline;

"*Person*" means any individual, company, corporation, firm, partnership, joint venture, association, trust, organisation, state or agency of a state or any other entity, whether or not having separate legal personality;

“*Put Business Day*” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York, London, Luxembourg and the Russian Federation and in the place of presentation;

“*Rating Agency*” means Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc. (“**S&P**”) or Fitch Ratings Ltd (“**Fitch**”), or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender (and, following the assignment under Clause 4.2 of the Trust Deed, the Trustee without regard to the Lender);

“*Rating Categories*” means (i) with respect to S&P, any of the following categories (any of which may or may not include a “+” or “-”): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Fitch, any of the following categories (any of which may or may not include a “+” or “-”): AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D (or equivalent successor categories) and (iii) the equivalent of any such categories of S&P or Fitch used by another rating agency, if applicable;

“*Rating Decline*” means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the announcement or the occurrence of a Change of Control, the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by that Rating Agency after the date hereof) which, for the purposes hereof, shall include a downgrade of “+” or “-” or the equivalent of any such categories of S&P or Fitch used by another rating agency, if applicable;

- (d) *No other redemption*: the Issuer shall not be entitled to redeem the Notes prior to that due date otherwise than as provided in Conditions 5(b) (*Mandatory Redemption*) and 5(c) (*Redemption at the option of the Noteholders*).
- (e) *Purchase*: The Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Notes held by the Borrower or any of its subsidiaries will cease to carry the right to attend and vote at meetings of the Noteholders and will not be taken into account, *inter alia*, for the purposes of Conditions 11 (*Meetings of Noteholders; Modification and Waiver; Substitution*) and 12 (*Enforcement*).
- (f) *Cancellation*: The Loan Agreement provides that the Borrower may deliver to the Issuer, at any time, Notes purchased by the Borrower or any of its subsidiaries, pursuant to Condition 5(e) (*Purchase*) (provided the aggregate principal amount of such Notes is not less than U.S.\$1,000,000) with instructions that the Issuer procure the cancellation of such Notes by the Registrar in accordance with the provisions of the Agency Agreement. The Loan Agreement provides that the outstanding amount thereunder shall be reduced *pro tanto* with effect from the date of cancellation by the Registrar of such Notes.
- (g) *Notice*: In the event that the Notes are redeemed prior to their scheduled redemption, the Issuer shall notify the Noteholders, in accordance with Condition 14 (*Notices*), and the London Stock Exchange of the reason for, and the timing of, such early redemption.

6. Payments

- (a) *Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying and Transfer Agent.
- (b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and (in the case of interest payable on

redemption) shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying and Transfer Agent.

- (c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days:* Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying and Transfer Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments:* If a Paying and Transfer Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business or, if such day is not a business day, 9.00 am in the place of the Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (g) *Payment to the Issuer’s account:* Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer pursuant to the provisions of Clause 7 of the Agency Agreement require the Borrower to make all payments of principal, interest or other amounts, if any, to be made pursuant to the Loan Agreement to the Account (less any amounts in respect of the Reserved Rights).
- (h) *Payment obligations limited:* Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Conditions 5 (*Redemption; Purchase*) and 6 (*Payments*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest or other amounts, if any, actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights).

7. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature (“**Taxes**”) imposed or levied by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction of Taxes is required by law. In that case, the Issuer shall, subject as provided below, pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no additional amounts shall be payable in respect of any Note:

- (a) surrendered for payment by or on behalf of a holder which is liable to Taxes in respect of such Note by reason of his having some connection with Luxembourg other than the mere holding of the Note; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC) or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) surrendered for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note Certificates to another Paying Agent in a Member State of the European Union; or
- (d) surrendered for payment by or on behalf of a holder more than 30 days after the Relevant Date (as defined below) except to the extent that the relevant holder would have been entitled to additional amounts on surrendering the relevant Note Certificates for payment on the last day of such period of 30 days.

Notwithstanding the foregoing provisions, the Issuer shall only make such additional payments to the Noteholders pursuant to this Condition 7 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount from the Borrower under the Loan Agreement.

To the extent that the Issuer does not receive from the Borrower such equivalent amount in full, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (*Taxation*) for an additional amount equivalent to a *pro rata* portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer.

In these Conditions, “**Relevant Date**” means whichever is the later of (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received in London by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 14 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

8. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

9. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Principal Paying and Transfer Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

10. Trustee and Agents

Under a fees letter dated 26 October 2006 between, *inter alios*, the Borrower and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid and indemnified for its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and any entity relating to the Issuer or the Borrower without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or

substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between the Borrower and the Agents and under the Agency Agreement, the Agents are entitled to be indemnified for costs and expenses and relieved from certain responsibilities in certain circumstances.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying and transfer agent or registrar and additional or successor paying and transfer agents, *provided that* the Issuer shall at all times maintain (a) a principal paying and transfer agent and a registrar; (b) a paying and transfer agent in London; and (c) a paying and transfer agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

11. Meetings of Noteholders; Modification and Waiver; Substitution

- (a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including to propose the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons present being or representing Noteholders whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals *inter alia*: (i) to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes; (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment; (iv) to change the currency of payments under the Notes; (v) to change the quorum requirements relating to Noteholders' meetings or the majority required to pass an Extraordinary Resolution; (vi) to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement; (vii) to change any date fixed for payment of principal or interest under the Loan Agreement; (viii) to alter the method of calculating the amount of any payment under the Loan Agreement; or (ix) to change the currency of payment under the Loan Agreement or, without prejudice to the rights under Condition 11(b) (*Modification and Waiver*) below, change the definition of "Event of Default" under the Loan Agreement (each, a "**Reserved Matter**"), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if

it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement (other than, in each case, in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of the Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Transferred Rights, the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

- (c) *Substitution:* The Trust Deed contains provisions under which the issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are admitted to trading on the London Stock Exchange plc's Gilt Edged and Fixed Interest Market, in the event of such substitution, the London Stock Exchange will be informed of such substitution, a supplemental prospectus will be produced and will be made publicly available at the Specified Offices of the Paying and Transfer Agent in London and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

12. Enforcement

At any time after an Event of Default (as defined in the Loan Agreement) or Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction declare or require the Lender to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding. Following any partial repayment of the Loan following an Event of Default, the Notes will be partially redeemed or repaid on a *pro rata* basis.

The Trust Deed also provides that, in the case of a Relevant Event (as defined in the Trust Deed), the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction enforce the security created in the Trust Deed by the Issuer.

13. Further Issues

The Issuer may, from time to time, with the consent of the Borrower and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to consolidate and form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Note Security in relation to the Lender's rights under the original Loan Agreement which will, together with the Note Security referred to in the Conditions, secure both the Notes and such further Notes.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to overseas addresses) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are admitted to trading on the London Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

15. Governing Law; Jurisdiction

- (a) *Governing law:* The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded.
- (b) *Jurisdiction:* The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Form of Notes

The Notes will be represented by a Global Note Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for and deposited with The Bank of New York as common depository for Euroclear and Clearstream, Luxembourg.

Exchange

The Global Note Certificate will become exchangeable in whole, but not in part, for individual note certificates (“Individual Note Certificates”) if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions. Thereupon, the Holder may give notice to the Issuer of its intention to exchange the Global Note Certificate for Individual Note Certificates.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person’s holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Notices

Notwithstanding Condition 14 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; *provided, however, that*, so long as the Notes are admitted to trading on the London Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

Payment

To the extent that the Issuer has actually received the relevant funds from the Company, payments in respect of Notes represented by a Global Note Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of such Global Note Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payment while Notes are represented by a Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system as appropriate.

Cancellation

Cancellation of any Note will be effected by a reduction in the principal amount of the Notes in the Register.

Exercise of Put Option

For so long as all of the Notes are represented by the Global Note Certificate and such Global Note Certificate is registered in the name of, and held on behalf of a common depository for, Euroclear and/or Clearstream, Luxembourg, the exercise of the option of the Noteholders provided for in Condition 5(c) (*Redemption at the option of the Noteholders*) will be subject to the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

SUBSCRIPTION AND SALE

ABN AMRO Bank N.V. and VTB Bank Europe plc (the “Managers”) have, pursuant to the terms and conditions set forth in a subscription agreement dated 26 October 2006 (the “Subscription Agreement”) between the Issuer, the Company and the Managers jointly and severally agreed with the Issuer to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. The Subscription Agreement also provides for the Managers to receive a combined management and underwriting commission and selling concession of 1.00 per cent. of the aggregate principal amount of the Notes. The Company has agreed to reimburse the Managers for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

The Lead Manager and its affiliates may engage in transactions with and perform investment banking, financial advisory and other services for the Company or one or more of its affiliates in the ordinary course of business.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Company; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Manager has represented and agreed that this Prospectus may not be distributed and the Notes (including rights representing an interest in a global note) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in The Netherlands (“Dutch Residents”) other than professional market parties within the meaning of the Exemption regulation under the Dutch Act on the Supervision of Credit Institutions 1992 (*Vrijstellingsregeling Wtk 1992*) (“PMPs”) who acquire the notes for their own account or for the account of another PMP.

Russian Federation

Each Manager has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless to the extent otherwise permitted by Russian laws or regulations.

Singapore

The Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Prospectus any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes may not be circulated or distributed, nor may any Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions of, any other applicable provision of the SFA.

Where any Notes are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired any Notes under Section 275 except:
 - (i) to an institutional investor or to a relevant person, or to any person pursuant to an offer that is made on terms that such rights or interests are acquired at a consideration of not less than U.S.\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;
 - (ii) where no consideration is given for the transfer; or
 - (iii) by operation of law.

Hong Kong

Each Manager has represented and agreed that Notes have been offered or sold, and will not be offered or sold in Hong Kong, by means of any document, other than (a) to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong (the “CO”)) or which do not constitute an offer to the public within the meaning of the CO. No advertisement, invitation or document relating to any Notes, whether in Hong Kong or elsewhere, has, been or will be issued, or has been or will be in the possession of any person for the purposes of issue, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (the “SFO”)) and any rules made under the SFO.

Luxembourg

In relation to the Grand Duchy of Luxembourg (“Luxembourg”), which has implemented the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the “Prospectus Directive”) by the Luxembourg act dated 10 July 2005 relating to prospectuses for securities (the “Prospectus Act 2005”), each Manager has represented and agreed that it has not made and will not make an offer of Notes to the public in Luxembourg, except that it may make an offer of Notes to the public in Luxembourg:

- (a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the Commission de surveillance du secteur financier (the “CSSF”), as competent authority in Luxembourg or, where appropriate, approved in another Member State of the European Economic Area which has implemented the Prospectus Directive and notified to the CSSF, all in accordance with the Prospectus Directive;
- (b) at any time, to legal entities which are authorised or regulated to operate in the financial markets (including, credit institutions, investment firms, other authorised or regulated financial institutions, insurance companies, undertakings for collective investment and their management companies, pension and retirement funds and their management companies, commodity dealers as well as entities not so authorised or regulated whose corporate purpose is solely to invest in securities);

- (c) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organisations);
- (d) at any time, to any legal entities which have two or more of (i) an average number of employees during the financial year of at least 250, (ii) a total balance sheet of more than EUR 43,000,000 and (iii) an annual net turnover of more than EUR 50,000,000, as shown in their last annual or consolidated accounts;
- (e) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Prospectus Act 2005) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the CSSF; and
- (f) at any time, in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to the Prospectus Act 2005.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in Luxembourg means the communication in any form by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to these Notes.

The Notes may not be offered or sold within the territory of Luxembourg unless:

- (a) a prospectus has been duly approved by the CSSF if Luxembourg is the home member state (as defined in the Law of 10 July 2005 on prospectuses for securities and implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the “Law”)); or
- (b) if Luxembourg is not the home member state, the CSSF has been notified by the competent authority in the home member state that the prospectus has been duly approved; or
- (c) the offer benefits from an exemption to or constitutes a transaction not subject to, the requirement to publish a prospectus.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Company or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Company and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

TAXATION

The following is a general description of certain tax laws relating to the Notes and the Loan as in effect on the date hereof and does not purport to be a complete analysis of all tax considerations relating to the Notes or the Loan. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

This summary is based upon the law as in effect the date of this Prospectus and is subject to any change in law that may take effect after such date.

Russian Federation

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of Notes by non-resident holders, including information regarding the taxation of payments on any corresponding Loan. The summary is based on the laws of the Russian Federation in effect on the date of this Prospectus and is subject to any change that may come into effect after that date. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, or practical difficulties involved in obtaining such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and taxation systems. In this regard, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

For the purposes of this summary, a “non-resident holder” means an individual actually present in the Russian Federation for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into the Russian Federation, but including days of departure from the Russian Federation) or a legal person or organisation in each case not organised under Russian law which purchases, holds and disposes of the Notes otherwise than through its permanent establishment in the Russian Federation. Please be aware that with respect to individual tax payers new rules of Russian tax residency status determination have been introduced with effect from 1 January 2007. According to the new rules the individuals who spend 183 days or more in Russia in any 12-months rolling period will be considered Russian tax residents.

The Russian tax treatment of interest payments made by the Company to the Issuer under the Loan Agreement may affect the holders of the Notes. See “—Taxation of interest on the Loan.”

Non-resident holders

A non-resident holder will not be subject to any Russian taxes in respect of the purchase or ownership of the Notes or interest payments on the Notes received from the Issuer.

A non-resident holder also generally should not be subject to any Russian taxes in respect of a redemption, sale or other disposition of the Notes, provided that the proceeds of such disposition are not deemed to be Russian-source income. According to the legislation, sale of the Notes may lead to Russian-source income if the Notes are sold in the territory of the Russian Federation. Since it is not entirely clear how this criterion would be applied by the tax office, in practice if the payment for the sale of the Notes comes from within the Russian Federation, it may be treated as Russian-source income.

In the event that proceeds of a disposition of Notes are received from a Russian source, a non-resident holder that is a legal person or organisation should not be subject to any Russian taxation in respect of the proceeds, provided that no portion thereof is attributable to accrued interest. There is some residual uncertainty regarding the treatment of the portion of such proceeds, if any, that is attributable to accrued interest, and such portion may be taxed at a rate of 20 per cent., even if the disposal results in a capital loss. Non-resident holders that are legal persons or organisations should consult their own tax advisers

with respect to this possibility. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double taxation treaty. Advance treaty relief should be available, subject to the requirements of Russian law. Please note that the confirmation of the treaty country residence of a non-resident holder must be obtained in advance, and there is no assurance that this will be practically possible. Obtaining a refund can be extremely difficult, if not impossible.

A non-resident holder who is an individual will generally be subject to tax at a rate of 30 per cent., subject to any available double tax treaty relief, in respect of gain from a disposal of Notes if the proceeds are received from a Russian source. In this regard, if the Notes are disposed of to a resident of the Russian Federation and payment is made within or from the Russian Federation, the proceeds of such disposal are likely to be regarded as received from a Russian source. The tax may be withheld at source of payment or if the tax is not withheld, then the non-resident individual may be required to file personal tax returns with the Russian tax authorities and be liable to pay the tax. There is some uncertainty regarding the treatment of the portion of proceeds attributable to accrued interest. Subject to reduction or elimination under provisions of an applicable tax treaty related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30 per cent., even if the disposal results in a capital loss. There is also a risk that gain realised on a disposal of the Notes may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale and roubles.

In order to use the double taxation treaty relief an individual should provide appropriate documentary proof of tax residency in the home country and other documentation including confirmation of tax payments made outside of the Russian Federation on income with respect of which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain advance relief on receipt of proceeds from a source within the Russian Federation and obtaining a refund can be extremely difficult. Non-resident holders who are individuals should consult their own tax advisors with respect to this possibility.

Resident holders

A holder of a Note, who is an individual resident in the Russian Federation for tax purposes or a legal person or organisation, which is not a non-resident in the Russian Federation, is subject to all applicable Russian taxes in respect of gains from a disposal of the Notes and interest received on the Notes.

Taxation of interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20 per cent., absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, the Company believes that payments of interest on the Loan should not be subject to withholding tax under the terms of the double tax treaty between the Russian Federation and Luxembourg. However, there can be no assurance that such relief will be obtained. There is a risk that the Russian tax authorities would argue that the Issuer is not a beneficial owner of the interest on the Loan and would try to challenge the application of the double tax treaty between the Russian Federation and Luxembourg. In practice, the Russian tax authorities have increased their knowledge on the subject of beneficial ownership which can be understood from the various recent published Clarifications by the Ministry of Finance of the Russian Federation. In addition, if interest under such Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between the Russian Federation and Luxembourg will cease and payments of interest could be subject to Russian withholding tax.

Prior to 1 January 2002, a claim for treaty relief from Russian withholding tax was subject to preliminary approval by the Russian tax authorities after review of relevant contracts. As at 1 January 2002, such preliminary approval from and contract disclosure to the Russian tax authorities is no longer required. As a result of this procedure, the Russian tax authorities may review the Issuer's eligibility for treaty relief in greater detail during tax audits of the Company.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the relevant Series of Notes in the amount of such withholding), the Company is obliged (subject to certain conditions) to increase payments as may be necessary so that net payments received by the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It should be noted, however, that tax gross-up provisions may not be enforceable under Russian law. If the Company is obliged to increase payments, it may, subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in the Russian Federation on any payment of interest or principal in respect of the Loan.

Luxembourg

Withholding Tax

All payments of interest and principal by the Issuer under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with applicable Luxembourg law, subject however to the application of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive (see, paragraph “EU Savings Directive” below, which may be applicable in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive);

Taxes on Income and Capital Gains

A holder of a Note who derives income from such Note or who realises a gain on the disposal or redemption thereof will not be subject to Luxembourg taxation on such income or capital gains unless:

- (i) such holder is, or is deemed to be, resident in Luxembourg for Luxembourg tax purposes (or for the purposes of the relevant provisions); or
- (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg;

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a holder of a Note unless:

- (i) such holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- (ii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg;

Inheritance and Gift Tax

Where the Notes are transferred for no consideration, note in particular:

- (i) no Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a holder of a Note in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes.
- (ii) Luxembourg gift tax will be levied in the event that the gift is made pursuant to a notarial deed signed before a Luxembourg notary;

Value Added Tax

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note; provided that Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

Other Taxes and Duties

It is not compulsory that the Notes be filed, recorded or enrolled with any court or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes in accordance therewith, except that in case of court proceedings in a Luxembourg court (including but not limited to a Luxembourg Insolvency Proceeding), registration of the Notes may be ordered by the court, in which case the Notes will be subject to a fixed duty of EUR 12. Registration would in principle further be

ordered, and the same registration duties could be due, when the Notes are produced, either directly or by way of reference, before an official authority (“autorité constituée”) in Luxembourg.

Residence

A holder of a Note will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Note or the execution, performance, delivery and/or enforcement of that or any other Note.

EU Savings Directive

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the Law of 21 June 2005. Under the directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within the meaning of the EU Savings Directive to an individual (or certain types of entities called “residual entities”) resident in that other Member State. For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner, at rates rising over the course of the transitional period to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. See “European Union Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC).

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with Common Code of 027105050. The International Securities Identification Number for the Notes is X50271050501.
2. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange plc for such Notes to be admitted to trading on the London Stock Exchange plc's Gilt Edged and Fixed Interest Market.
3. So long as any of the Notes remains listed on the Official List, copies in English of the following documents will, when published, be available from the specified office of the Principal Paying and Transfer Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
 - (a) the Charter of the Company;
 - (b) the constitutional documents of the Issuer;
 - (c) the Agency Agreement;
 - (d) the Trust Deed which constitutes the Notes and which includes the form of the Global Note and the definitive Notes;
 - (e) the Subscription Agreement;
 - (f) the Loan Agreement;
 - (g) copies of the authorisations listed below;
 - (h) the annual consolidated financial statements of the Company in respect of each of the financial years ended 31 December 2005 and 2004. The Company currently prepares consolidated accounts on an annual basis which are audited; and
 - (i) the unaudited consolidated financial statements of the Company in respect of each of the six months ended 30 June 2006 and 2005.
4. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes.
5. The Company and the Issuer have obtained all necessary consents, approvals and authorisations required in connection with the Loan and the issue and performance of the Notes.

The issuance of the Notes and the granting of the Loan were authorised by the Issuer by a resolution of the board of directors of the Issuer passed on 24 October 2006.

The Loan was authorised by the Company by a resolution of the General Meeting of Shareholders passed on 12 September 2005.
6. There has been no material adverse change in the prospects of the Company and its subsidiaries since 31 December 2005 or in the case of the Issuer, since the Issuer's date of incorporation nor has there been any significant change in the financial or trading position of the Company and its subsidiaries, taken as a whole, which has occurred since 31 December 2005 or in the case of the Issuer, since the Issuer's date of incorporation.
7. There have been no recent events particular to the Company and its subsidiaries since 31 December 2005 or in the case of the Issuer, since the Issuer's date of incorporation, which are to a material extent relevant to the evaluation of the Company's or the Issuer's solvency.
8. The Company's IFRS consolidated financial statements as at and for the years ended 31 December 2005 and 2004 included in this document have been audited by Deloitte & Touche CIS who have expressed an opinion on those statements, as stated in their report appearing herein.
9. The Company, its subsidiaries or the Issuer neither are, nor have been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company, its subsidiaries or the Issuer are aware) during the 12 months before the date of this Prospectus which may have, or have had in the recent past, significant effects on the Company's, its subsidiaries' or the Issuer's financial position or profitability.

10. Neither the Company nor the Issuer has not entered into any material contracts outside the ordinary course of its business which could result in any Group member being under an obligation or entitlement that is material to the Company's ability to meet its obligations under the Loan Agreement or the Issuer's ability to make payments under the Notes, as the case may be.
11. The Trust Deed will provide, *inter alia*, that the Trustee may act on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert, notwithstanding that such opinion or advice contains a limitation on liability. The Notes provide for the Trustee to take action on behalf of the Noteholders in certain situations, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for the Noteholders to take action directly.
12. The Bank of New York will act as Registrar in relation to the Notes. A register of the Notes shall also be kept at the registered office of the Issuer. In case of inconsistency between the register kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer at its registered office shall prevail.
13. The total fees and expenses in connection with the admission of the Notes to trading on the London Stock Exchange plc's Gilt Edged and Fixed Interest Market are expected to be approximately £1,178,610.00.

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COMPANY “ORGANICHESKY SINTEZ”**

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OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

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

Management is responsible for the preparation of consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2006, and the results of its operations, changes in shareholders’ equity and cash flows for the six months then ended, in compliance with International Financial Reporting Standards (“IFRS”).

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

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated interim financial statements; and
- preparing the consolidated interim 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 is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated interim financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the Russian Federation and other jurisdiction where the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated interim financial statements for the six months ended 30 June 2006 were approved on 11 September 2006 by:



L.S. Alekhin
General Director



M. F. Mukhametshin
Chief Financial Officer

Kazan
11 September 2006

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006

	Notes	Unaudited 30 June 2006 RUR '000	Audited 31 December 2005 RUR '000
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	4	18,507,126	14,064,728
Intangible assets	5	37,893	40,528
Non-current available-for-sale investments	6	52,044	52,084
Investments in associates	7	29,049	31,801
Other non-current assets	8	1,044,265	683,665
		<u>19,670,377</u>	<u>14,872,806</u>
CURRENT ASSETS:			
Inventories	9	1,843,602	1,819,261
Trade and other receivables	10	894,249	893,115
Value added tax and other taxes receivable		1,333,733	1,084,509
Available-for-sale investments		3,665	3,243
Cash and cash equivalents	11	1,295,816	426,320
		<u>5,371,065</u>	<u>4,226,448</u>
TOTAL ASSETS		<u>25,041,442</u>	<u>19,099,254</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	12	1,904,710	1,904,710
Additional paid-in capital		1,515,015	1,515,015
Treasury shares	12	(21,977)	-
Retained earnings		7,766,460	7,457,828
Equity attributable to shareholders of the parent company		11,164,208	10,877,553
Minority interest		34,498	43,590
		<u>11,198,706</u>	<u>10,921,143</u>
NON-CURRENT LIABILITIES:			
Long-term borrowings	14	9,697,015	4,692,117
Deferred tax liabilities	15	852,479	762,632
Long-term finance lease obligations	16	92,891	124,527
		<u>10,642,385</u>	<u>5,579,276</u>
CURRENT LIABILITIES:			
Trade payables	17	901,599	1,037,237
Short-term borrowings	18	1,212,293	913,398
Taxes payable		136,289	87,017
Advances received		379,530	150,659
Other payables and accrued liabilities	19	570,640	410,524
		<u>3,200,351</u>	<u>2,598,835</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>25,041,442</u>	<u>19,099,254</u>

The notes on pages F-8 to F-34 form an integral part of these consolidated interim financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	Unaudited six months ended 30 June 2006 RUR ‘000	Unaudited six months ended 30 June 2005 RUR ‘000
Sales	20	7,185,399	6,949,687
Cost of sales	21	<u>(5,315,995)</u>	<u>(4,727,022)</u>
GROSS PROFIT		1,869,404	2,222,665
Selling, general and administrative expenses	22	(874,518)	(745,029)
Other operating expenses, net		<u>(24,387)</u>	<u>(33,855)</u>
OPERATING PROFIT		970,499	1,443,781
Financial costs, net	23	(84,077)	(28,239)
Loss from investments		(2,752)	(309,381)
Non-operating expenses	24	(71,132)	(69,129)
Foreign exchange (loss) gain, net		<u>(5,400)</u>	<u>22,991</u>
PROFIT BEFORE TAX		807,138	1,060,023
Income tax	15	<u>(207,280)</u>	<u>(306,925)</u>
PROFIT FOR THE PERIOD		<u>599,858</u>	<u>753,098</u>
Attributable to:			
Shareholders of the parent company		608,950	720,865
Minority interest		<u>(9,092)</u>	<u>32,233</u>
		<u>599,858</u>	<u>753,098</u>
EARNINGS PER SHARE (RUR)			
-Basic	25	0.34	0.40
-Diluted	25	0.32	0.38

The notes on pages F-8 to F-34 form an integral part of these consolidated interim financial statements.

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2006

RUR '000	Notes	Share capital	Additional paid-in capital	Treasury stock	Retained earnings	Equity attributable to shareholders of the parent company	Minority interest	Total
Balance at 1 January 2005 (audited)		1,904,710	1,515,015	(100,077)	6,245,872	9,565,520	11,694	9,577,214
Profit for the year		-	-	-	1,732,134	1,732,134	31,896	1,764,030
Dividends	26	-	-	-	(520,178)	(520,178)	-	(520,178)
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 (audited)		1,904,710	1,515,015	-	7,457,828	10,877,553	43,590	10,921,143
Profit for the period		-	-	-	608,950	608,950	(9,092)	599,858
Dividends	26	-	-	-	(300,318)	(300,318)	-	(300,318)
Re-acquisition of issued shares		-	-	(21,977)	-	(21,977)	-	(21,977)
Balance at 30 June 2006 (unaudited)		1,904,710	1,515,015	(21,977)	7,766,460	11,164,208	34,498	11,198,706

The notes on pages F-8 to F-34 form an integral part of these consolidated interim financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2006

	<u>Notes</u>	<u>Unaudited six months ended 30 June 2006 RUR ‘000</u>	<u>Unaudited six months ended 30 June 2005 RUR ‘000</u>
OPERATING ACTIVITIES:			
Cash flows from operations	27	638,958	948,185
Income tax paid		(103,022)	(21,821)
Interest paid		(309,607)	(412,759)
Net cash inflow from operating activities		<u>226,329</u>	<u>513,605</u>
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(4,516,600)	(1,653,333)
Proceeds on disposal of property, plant and equipment		792	2,961
Dividends received		5,445	-
Proceeds on disposal of equity investments		-	100
Net cash outflow from investing activities		<u>(4,510,363)</u>	<u>(1,650,272)</u>
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		1,084,153	2,072,315
Repayments of short-term borrowings		(742,851)	(1,004,549)
Proceeds from long-term borrowings		5,436,335	490,031
Repayments of long-term borrowings		(437,053)	(183,179)
Interest received		1,160	3,560
Dividends paid		(80,923)	-
Re-acquisition of issued shares		(21,977)	(19,473)
Re-issuance of ordinary shares from treasury shares		-	99,098
Repayment of obligations under finance lease		(85,314)	(55,840)
Net cash inflow from financing activities		<u>5,153,530</u>	<u>1,401,963</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		869,496	265,296
CASH AND CASH EQUIVALENTS, beginning of period		<u>426,320</u>	<u>146,829</u>
CASH AND CASH EQUIVALENTS, end of period		<u><u>1,295,816</u></u>	<u><u>412,125</u></u>

The notes on pages F-8 to F-34 form an integral part of these consolidated interim financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. NATURE OF THE BUSINESS

Open Joint Stock Company “Kazanorgsintez” (the “Company”) was incorporated in Kazan, Republic of Tatarstan, Russian Federation on 1 September 1993. The Company and its subsidiaries (the “Group”) produce chemical products and derivatives thereof (mainly ethylene and polyethylene) which are marketed and sold primarily in the Russian Federation. The principal operating office of the Company is situated at 101 Belomorskaya street, 420051, Kazan, Republic of Tatarstan, Russian Federation.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of presentation

The consolidated interim financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS include standards and interpretations approved by International Accounting Standards Board (“IASB”), including International Accounting Standards (“IAS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation and other jurisdiction where the Group operates. The accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated interim financial statements are presented in accordance with IFRS.

The consolidated interim financial statements of the Group are prepared on the historical cost basis, except for:

- fair value of subsidiaries acquired, in accordance with IFRS 3 “Business Combinations”; and
- valuation of financial instruments in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”).

Adoption of new and revised International Financial Reporting Standards

In the current reporting period the Group has adopted all new and revised standards and interpretations issued by the IASB and IFRIC that are relevant to its operations and effective for accounting periods beginning on 1 January 2006.

Reclassifications

Certain comparative information, presented in the consolidated financial statements for prior reporting periods, has been reclassified in order to achieve comparability with the presentation used in the consolidated interim financial statements for the six months ended 30 June 2006.

Functional and presentation currency

The functional and presentation currency of the Company and all subsidiaries, which reflects the economic substance of their operations, is the Russian Rouble (“RUR”).

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The Group’s significant accounting policies are set out below:

Basis of consolidation

Subsidiaries

The consolidated interim financial statements incorporate the financial statements of the parent company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s proportionate share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent company.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into the line with those of the Group.

All intra-group balances, transactions and any unrealised profit or losses arising from intra-group transactions, are eliminated on consolidation.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted from the date significant influence commenced until the date that significant influence effectively ceased, except when the investment is classified as held for sale.

The results of associates are equity accounted based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is reduced to zero. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which such circumstances are identified.

Unrealised gains and losses resulting from transactions with associates are eliminated to the extent of the Group’s interest in these associates.

Accounting for acquisitions

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets and liabilities at the date of acquisition is recognised as goodwill. Goodwill in respect of subsidiaries is disclosed as an asset and goodwill relating to associates is included within the carrying value of the investment in associates.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement in the period during which the circumstances are identified and is not subsequently reversed. On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the income statement immediately.

Foreign currency transactions and balances

Transactions in foreign currencies are recorded at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to RUR at the exchange rate at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Exchange differences arising from changes in exchange rates are recognised in the income statement.

Revenue recognition

Revenue is recognized when the risks and rewards of ownership are transferred to the buyer, which is typically at the date of loading to third party transportation. Sales are recognized net of value added tax.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation.

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	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.

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, on the same basis as for other property assets, commences when the assets are put into operation.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the lesser of their estimated useful lives or the term of the lease.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in interest paid, and the capital repayment, which reduces the related lease obligation to the lessor.

Intangible assets

Intangible assets include software costs. 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.

Other non-current assets

Other non-current assets are costs to acquire operating licenses for use of technology, are capitalised and amortised from the date the Group commences operations relating to that license, on a straight-line basis over the license term, subject to periodic reviews for impairment.

Impairment

An impairment review of tangible and intangible assets and other non-current assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. 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.

The recoverable amount is the higher of fair value less cost to sell and value in use. 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 (or cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised in the income statement immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognized in prior periods. A reversal of an impairment loss is recognised in the income statement immediately.

Financial instruments

Financial instruments recognised on the Group's balance sheet include investments, trade and other receivables, cash and cash equivalents, trade and other payables and borrowings. Financial instruments are initially measured at fair value, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is addressed below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

of the asset is included in the income statement. On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

Investments

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit and loss; and
- available-for-sale.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost less any allowance for impairment. Amortisation of the discount or premium on the acquisition of a held-to-maturity investment is recognized in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Investments at fair value through profit and loss include investments held for trading and investments designated upon initial recognition as at fair value through profit and loss.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit and loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss are recognised in the income statement for the period. Gain or loss arising from a change in the fair value of investments available-for-sale is recognised directly in equity through the statement of changes in shareholders' equity, until such investments are derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in the income statement.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate provisions for estimated unrecoverable amounts, calculated as the difference between the carrying amount of receivables and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition, are recognised in the income statement when there is the objective evidence receivables are impaired.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Borrowings

Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost comprises direct materials and, where applicable, direct labour, customs duties, 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 realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Interest on borrowings

Interest on borrowings 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 as an expense in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

Employee benefit obligations

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

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the tax payable on the taxable income in the year, using tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred taxation is also dealt with in equity.

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 recognized as a liability in the period in which they become legally payable.

Accumulated profits 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.

Accounting judgements and sources of estimation uncertainty

In the process of applying accounting policies, the Group makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgments which are based on historical experience, current and expected economic conditions, and all other available information. Due to the inherent uncertainty in making those estimated and assumptions, actual results reported in the future periods could differ from those estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

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.

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.

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.

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 there is recorded as an expense in the period incurred. No other provisions for environmental obligations are recorded.

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 judgement and estimates of the outcome of future events.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

4. PROPERTY, PLANT AND EQUIPMENT

RUR '000	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
<i>Cost</i>					
Balance at 1 January 2005 (audited)	8,190,091	9,360,087	439,772	1,281,946	19,271,896
Additions	-	48,610	-	6,794,831	6,843,441
Disposals	(18,765)	(94,985)	(3,750)	(18,161)	(135,661)
Disposed on a disposal of a subsidiary	(166,951)	(146,124)	(7,073)	(28,062)	(348,210)
Transfers from construction in progress	289,956	1,341,849	105,266	(1,737,071)	-
Balance at 31 December 2005 (audited)	8,294,331	10,509,437	534,215	6,293,483	25,631,466
Additions	-	-	-	4,785,638	4,785,638
Disposals	(1,019)	(85,261)	(2,815)	(6,945)	(96,040)
Transfers from construction in progress	6,179	235,013	45,159	(286,351)	-
Balance at 30 June 2006 (unaudited)	8,299,491	10,659,189	576,559	10,785,825	30,321,064
<i>Accumulated depreciation</i>					
Balance at 1 January 2005 (audited)	(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 a subsidiary	60,136	46,463	485	-	107,084
Eliminated on disposal	8,591	117,361	8,664	-	134,616
Balance at 31 December 2005 (audited)	(5,091,585)	(6,232,052)	(243,101)	-	(11,566,738)
Charge for the period	(93,151)	(211,664)	(20,543)	-	(325,358)
Eliminated on disposals	1,009	73,586	3,563	-	78,158
Balance at 30 June 2006 (unaudited)	(5,183,727)	(6,370,130)	(260,081)	-	(11,813,938)
<i>Net book value</i>					
31 December 2005, (audited)	3,202,746	4,277,385	291,114	6,293,483	14,064,728
30 June 2006, (unaudited)	3,115,764	4,289,059	316,478	10,785,825	18,507,126

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 2006 property, plant and equipment with a carrying value of RUR 405,814 thousand (31 December 2005 – RUR 446,802 thousand) was pledged to secure certain short-term and long-term loans granted to the Group (refer to notes 14 and 18).

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Lease obligations were secured by the following production assets:

	Unaudited 30 June 2006 RUR ‘000	Audited 31 December 2005 RUR ‘000
Cost of assets under finance leases	396,604	396,604
Accumulated depreciation	(69,360)	(56,975)
Net book value	327,244	339,629

5. 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.

6. NON-CURRENT AVAILABLE-FOR-SALE INVESTMENTS

Name	Ownership	Unaudited 30 June 2006 RUR ‘000	Audited 31 December 2005 RUR ‘000
OJSC “Tatneftekhiminvestholding”	7%	38,537	38,537
National non-state pension fund	7%	10,557	10,557
OJSC “Kazanskaya yarmarka”	2%	2,950	2,950
Other		56	96
Less: Impairment provision		(56)	(56)
Total		52,044	52,084

7. INVESTMENTS IN ASSOCIATES

Name and country of incorporation	Principal Activity	Ownership interest 30 June 2006	Profit (loss) of investee for six months ended 30 June 2006 RUR ‘000	Dividends paid by investee for six months ended 30 June 2006 RUR ‘000	Group share of net assets, as of 31 December 2005 RUR ‘000
LLC “Taif-Invest”, Russian Federation	Investing	40%	20,507	-	16,296
CJSC “Ankorit”, Russian Federation	Industrial production	39%	(10,582)	(13,962)	16,206
LLC “Novomoskovsky trubny zavod”, Russian Federation	Industrial production	26%	(5,319)	-	(701)
Total			4,606	(13,962)	31,801

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited 30 June 2006 RUR '000	Audited 31 December 2005 RUR '000
Cost of investments	5,021	5,021
Share of post-acquisition profits	24,028	26,780
Total	29,049	31,801

8. OTHER NON-CURRENT ASSETS

Other non-current assets mostly comprise prepaid amounts for licenses for bisphenol, polycarbon plastic and low density polyethylene production technologies.

Licenses for new projects	1,037,799	683,665
Other	6,466	-
Total	1,044,265	683,665

9. INVENTORIES

Stores and materials	1,368,885	1,264,027
Work in progress and semi-finished products	215,538	174,669
Finished goods	267,469	393,028
Less: Impairment provision	(8,290)	(12,463)
Total	1,843,602	1,819,261

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

10. TRADE AND OTHER RECEIVABLES

Trade receivables	507,456	602,379
Advances paid	296,701	196,373
Other receivables	144,171	133,975
Prepaid expenses	41,377	27,202
Less: Impairment provision	(95,456)	(66,814)
Total	894,249	893,115

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited 30 June 2006 RUR'000	Audited 31 December 2005 RUR'000
11. CASH AND CASH EQUIVALENTS		
Cash in banks, in RUR	239,972	120,866
Cash in banks, in foreign currencies	36,635	94,014
Restricted cash	14,654	17,789
Letters of credit	990,016	192,051
Other cash equivalents	14,539	1,600
Total	1,295,816	426,320

Restricted cash represents cash reserve required under Russian Federal currency legislation.

12. SHARE CAPITAL

	Unaudited 30 June 2006 (thousand of shares)	Audited 31 December 2005 (thousand of shares)
<i>Authorized</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 authorized share capital	2,624,710	2,624,710
<i>Issued and fully paid</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 share capital	1,904,710	1,904,710
<i>Treasury shares</i>		
At the beginning of the period	-	25,257
Acquired by the Company	1,539	10,030
Re-issued	-	(35,287)
At the end of the period	1,539	-

Treasury shares recorded as a deduction from issued and fully paid share capital at 30 June 2006 comprised RUR 21,977 thousand (31 December 2005 – nil).

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Shareholding structure of the Company was as follows:

	Unaudited 30 June 2006 Ownership	Audited 31 December 2005 Ownership
OJSC “Svyazinvestneftekhim”	26.6%	26.6%
LLC “Telecom-Management”	48.8%	48.6%
Other legal entities and individuals	24.6%	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 shareholders are entitled to an annual payment of dividends in an amount equal to 25% of their par value.

In addition to common shareholders, the Republic of Tatarstan has a special right to participate in the Company’s management by the way of golden share which entitles it to introduce issues onto the agenda of the Company’s General Shareholders’ Meetings and possess the right to veto certain decisions taken at the General Shareholders’ Meetings, including:

- amendments and changes to the Company’s Articles of Association or approval of the reviewed Articles;
- reorganisation of the Company;
- liquidation of the Company and appointment a liquidation committee and approval of the interim and finalised liquidation balance sheets;
- changes to the Company’s share capital; and
- entering into transactions listed in Chapters X and XI of the Federal Law “On Joint-Stock Companies”.

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 INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

13. RECONCILIATION OF SHAREHOLDERS' EQUITY

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

	Unaudited 30 June 2006 RUR '000	Audited 31 December 2005 RUR '000
Group equity per RAS	9,703,461	9,365,878
Increase (decrease) due to effect of:		
Property, plant and equipment valuation	2,761,055	2,582,152
Investments valuation	55,533	46,769
Inventory valuation	(8,290)	(12,463)
Provision for impairment of trade receivables	(95,456)	(10,835)
Additional deferred tax liabilities	(588,709)	(614,673)
Other accrued expenses	(23,768)	(69,765)
Additional paid-in capital valuation	(337,030)	(337,030)
Dividends accrued	(300,318)	-
Other	32,228	(28,890)
Group equity per IFRS	11,198,706	10,921,143

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

Group profit for the period per RAS	591,313	1,946,053
Increase (decrease) due to effect of:		
Additional depreciation expense	(47,678)	(140,890)
Change in deferred tax provision	25,811	19,346
Change in provision for impairment of trade receivables	(29,273)	-
Change in provision for fines and penalties	-	(16,438)
Changes in provision for impairment of inventory	(4,173)	558
Fixed assets disposals and write-offs	(8,422)	(12,604)
Changes in provision for impairment of investments	-	19
Annual bonuses reversal (accrual)	62,110	(62,110)
Other	19,262	(1,800)
Group profit for the period per IFRS	608,950	1,732,134

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14. LONG-TERM BORROWINGS

	Unaudited 30 June 2006 RUR '000	Audited 31 December 2005 RUR '000
Vneshtorgbank		
A RUR denominated loan facility bearing interest at 12.5% per annum payable in full on 22 March 2008. The loan is secured by buildings, machinery and equipment with a carrying value of RUR 8,149 thousand. The loan has been repaid on 3 July 2006.	841,151	841,438
Sberbank		
A RUR denominated loan with a limit in the amount equivalent to USD 40,000 thousand at interest rate that changed in the period from 13.25% to 12% per annum with final repayment due on 29 April 2012. The principal is repayable in equal quarterly instalments beginning after seven quarters from the date of drawing the facility. The loan is secured by equipment with a carrying value of RUR 109,322 thousand and TAIF Group's stake in the Company's shares.	1,156,891	1,158,494
A RUR denominated loan facility with a limit in the amount equivalent to USD 60,000 thousand, bearing an interest rate that changed in the period from 13.25% to 12% per annum with final repayment due on 20 November 2012. The principal is repayable in equal quarterly instalments beginning after seven quarters from the date of drawing the facility. The loan is secured by equipment with a carrying of RUR 4,018 thousand and TAIF Group's stake in the Company's shares.	1,657,260	588,107
A RUR denominated loan facility with a limit in the amount equivalent to USD 24,000 thousand bearing an interest rate that changed in the period from 13.25% to 12% per annum with final repayment due on 28 September 2012. The principal is repayable in equal quarterly instalments beginning after twelve quarters from the date of drawing the facility. The loan is secured by TAIF Group's stake in the Company's shares.	522,494	249,471
A RUR denominated loan facility with a limit in the amount equivalent to USD 85,855 thousand bearing an interest rate that changed in the period from 13.25% to 12% per annum with final repayment due on 30 September 2012. The principal is repayable in quarterly instalments ranging from 1% to 10% of principal beginning after eleven quarters from the date of drawing the facility. The loan is secured by equipment with a carrying value of RUR 2,521 thousand and TAIF Group's stake in the Company's and OJSC “Nizhnekamskneftekhim”'s shares.	1,877,547	479,667
A USD denominated loan facility with a limit of USD 81,200 thousand bearing a varying interest rate with a maximum of 5.8052% 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 secured by TAIF Group's stake in the Company's and OJSC “Nizhnekamskneftekhim”'s shares.	2,210,482	558,007

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	Unaudited 30 June 2006 RUR ‘000	Audited 31 December 2005 RUR ‘000
A USD denominated loan facility with a limit of USD 6,673 thousand bearing a maximum interest rate of 2% per annum with final repayment due on 24 April 2015. The principal is repayable in equal semi-annual instalments commencing after six quarters period. The loan is secured by OJSC “TAIF”’s stake in the Company’s and OJSC “Nizhnekamskneftekhim”’s shares.	181,347	-
ABN AMRO		
A EUR denominated loan facility with a limit of 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-annually instalments starting from sixth month after mean-weighted delivery date. As a term of the loan, the Company has taken out credit insurance on behalf of ABN AMRO.	900,555	466,870
A EUR denominated loan facility with a limit of 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-annually instalments 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.	592,554	443,614
A EUR denominated loan facility with a limit of 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-annually instalments starting from sixth month after delivery date. The loan is secured by equipment with a carrying value of RUR 85,190 thousand.	265,354	141,024
A EUR denominated loan facility with a limit of 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-annually instalments 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.	53,329	-
Other	6,057	5,965
Total	10,265,021	4,932,657
Less: Current portion repayable within twelve months shown under short-term borrowings (refer to note 18)	(568,006)	(240,540)
Net long-term borrowings	9,697,015	4,692,117

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The long-term borrowings are repayable as follows:

	Unaudited 30 June 2006 RUR '000	Audited 31 December 2005 RUR '000
Due within one year	568,006	240,540
Due in second year	1,935,628	753,048
Due thereafter	<u>7,761,387</u>	<u>3,939,069</u>
Total	<u>10,265,021</u>	<u>4,932,657</u>

The maturity dates of ABN AMRO loans are defined as the earliest of date of delivery and putting into operation of the purchased equipment (financed by these loans) and date fixed in the contract.

15. INCOME TAX

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

	Unaudited six months ended 30 June 2006 RUR '000	Unaudited six months ended 30 June 2005 RUR '000
Current income tax charge	117,433	353,868
Deferred income tax charge (release)	<u>89,847</u>	<u>(46,943)</u>
Total	<u>207,280</u>	<u>306,925</u>

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

Profit before tax	<u>807,138</u>	<u>1,060,023</u>
Statutory income tax rate	24%	24%
Theoretical income tax expense at statutory rate	193,713	254,406
Loss on disposal of a subsidiary	-	32,640
Effect of non-deductible expenses and permanent differences, net	<u>13,567</u>	<u>19,879</u>
Income tax expense	<u>207,280</u>	<u>306,925</u>

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Temporary differences between the Russian statutory tax accounts and these consolidated financial statements in accordance with IFRS give rise to the following deferred tax liabilities:

	Unaudited 30 June 2006 RUR '000	Audited 31 December 2005 RUR '000
Property, plant and equipment	875,678	780,818
Accrued income	(5,704)	(16,744)
Provisions	(13)	(13)
Other	(17,482)	(1,429)
Deferred tax liabilities, net	852,479	762,632
Deferred tax rollforward		
Balance at beginning of the period	762,632	738,299
Charge to income statement	89,847	24,333
Balance at end of the period	852,479	762,632

16. FINANCE LEASE OBLIGATIONS

Minimum lease payments		
Due within one year	113,418	153,046
Due later than 1 year and not later than 5 years	99,220	136,103
Total future lease payments	212,638	289,149
Less: future finance charges	(19,156)	(30,385)
Present value of minimum lease payments	193,482	258,764
Less: amount due for settlement within twelve months (refer to note 19)	(100,591)	(134,237)
Long-term finance lease obligations	92,891	124,527

At 30 June 2006 lease obligations were denominated in USD and EUR and secured by production equipment with a carrying value of RUR 327,244 thousand (31 December 2005 – RUR 339,629 thousand) (refer to note 4).

17. TRADE PAYABLES

Trade payables to third parties	718,808	868,426
Trade payables to related parties	182,791	168,811
Total	901,599	1,037,237

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited 30 June 2006 RUR ‘000	Audited 31 December 2005 RUR ‘000
18. SHORT-TERM BORROWINGS		
ABN Amro, EUR	474,725	327,040
ABN Amro, USD	-	302,063
CIB Bank Rt., EUR	-	1,483
Alfa-bank, RUR	100,000	-
JSC “Tatfondbank”, RUR	-	36,401
Other, RUR	69,562	5,871
Current portion of long-term borrowings repayable within twelve months and shown under current liabilities (refer to note 14)	<u>568,006</u>	<u>240,540</u>
Total	<u>1,212,293</u>	<u>913,398</u>

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

EURO-denominated borrowings	EURIBOR + 2.75%	EURIBOR + 2.75% to 3.25%
USD-denominated borrowings	LIBOR + 2.75% to 6%	LIBOR + 3.25% to 8.75%
RUR-denominated borrowings	9.5%	0% to 13%

At 30 June 2006 property, plant and equipment with a carrying value of RUR 196,614 thousand was pledged to secure certain short-term loans granted to the Group (31 December 2005 – RUR 232,865 thousand) (refer to note 4).

19. OTHER PAYABLES AND ACCRUED LIABILITIES

	Unaudited 30 June 2006 RUR ‘000	Audited 31 December 2005 RUR ‘000
Current portion of finance lease obligations (refer to note 16)	100,591	134,237
Wages and salary payable	99,948	131,757
Dividends payable	300,561	81,166
Deferred income	1,080	150
Other payables and accruals	<u>68,460</u>	<u>63,214</u>
Total	<u>570,640</u>	<u>410,524</u>

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	Unaudited six months ended 30 June 2006 RUR'000	Unaudited six months ended 30 June 2005 RUR'000
20. SALES		
By destination:		
Domestic sales	5,747,404	5,080,302
Export sales	1,437,995	1,869,385
Total	7,185,399	6,949,687
By product:		
Low density polyethylene	2,972,106	2,707,740
High density polyethylene	2,090,203	1,559,008
Organic products	780,981	895,334
Ethylene	788,613	1,252,570
Plastic goods	553,496	535,035
Total	7,185,399	6,949,687
21. COST OF SALES		
Raw materials	2,993,393	2,635,933
Energy and water	1,020,015	1,040,371
Labour cost	596,989	496,597
Depreciation and amortization	288,029	216,418
Maintenance and repairs	174,760	153,769
Auxiliary materials	245,222	178,468
Release of provision for impairment of inventory	(4,173)	(4,404)
Other	1,760	9,870
Total	5,315,995	4,727,022
22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
General and administrative expenses	663,616	451,220
Selling expenses	142,709	224,148
Taxes, other than income tax	49,181	49,658
Bank charges	21,852	20,003
Other, net	(2,840)	-
Total	874,518	745,029
23. FINANCIAL COSTS, NET		
Interest expense	72,818	21,821
Lease charges and interest under finance leases	13,498	10,054
Interest income	(1,160)	(3,636)
Other, net	(1,079)	-
Total	84,077	28,239

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	Unaudited six months ended 30 June 2006 RUR'000	Unaudited six months ended 30 June 2005 RUR'000
24. NON-OPERATING EXPENSES		
Rent of land	66,984	54,900
Maintenance of social infrastructure	3,728	4,864
Other expenses, net	420	9,365
Total	71,132	69,129

Land rental cost relates to the rent of an idle plot of land in a remote region of Tatarstan Republic. The respective agreement was concluded at the request of the local tax authorities to increase tax collections in the Tatarstan Republic.

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

25. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to shareholders of the parent company for six months ended 30 June 2006 of RUR 608,950 thousand (30 June 2005 – RUR 720,865 thousand) divided by the weighted average number of ordinary shares of 1,785,114 thousand (30 June 2005–1,785,114 thousand), excluding preferred shares.

The calculation of fully diluted earnings per share is based on profit attributable to shareholders of the parent company for six months ended 30 June 2006 of RUR 608,950 thousand (30 June 2005 – RUR 720,865 thousand) divided by the weighted average number of ordinary and the effect of preferred shares of 1,904,710 thousand (30 June 2005–1,904,710 thousand).

26. DIVIDENDS

	Unaudited six months ended 30 June 2006 RUR'000	Unaudited six months ended 30 June 2005 RUR'000
Dividends declared in respect of the year ended 31 December 2004:		
- ordinary shares (RUR 0.25 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 0.15 per share)	270,419	-
- preferred shares (RUR 0.25 per share)	29,899	-
Total	300,318	520,178

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	Unaudited six months ended 30 June 2006 RUR'000	Unaudited six months ended 30 June 2005 RUR'000
27. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS		
OPERATING ACTIVITIES:		
Profit before tax	807,138	1,060,023
Adjustments for:		
Depreciation and amortization	292,704	225,053
Change in provision for impairment of trade accounts receivable	28,642	1,628
Change in provision for impairment of inventories	(4,173)	(4,404)
Loss (profit) from associates	2,752	(820)
Loss on disposal of equity investments	-	310,201
Loss (profit) on disposal of property, plant and equipment	17,090	(9,032)
Financial costs, net	84,077	28,239
Foreign exchange loss (gain)	5,400	(22,991)
Operating cash flow before movements in working capital	1,233,630	1,587,897
Increase in trade and other receivables	(29,776)	(366,997)
Increase in value added tax and other taxes receivable	(249,224)	(83,353)
(Increase) decrease in other non-current assets	(360,600)	21,710
Increase in inventories	(20,168)	(115,976)
(Increase) decrease in available-for-sale investments	(422)	15,659
(Decrease) increase in trade payables	(135,638)	210,031
Increase (decrease) in advances received	228,871	(109,006)
Increase in other current liabilities	26,035	200,979
Decrease in taxes payable	(53,750)	(412,759)
Cash flows from operations	638,958	948,185

28. RELATED PARTIES

Related parties include shareholders, affiliates and entities under common ownership and control with the Group.

During six months ended 30 June 2006 and year 2005, the Group entered into the following transactions with related parties:

With parent		
Sales of goods and services	56,852	272,558
Purchase of goods and services	12,154	2,914
With other related parties		
Sales of goods and services	35,682	130,203
Purchase of goods and services	1,611,181	156,565

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Balances with related parties outstanding at the end of the period were as follows:

	Unaudited 30 June 2006 RUR'000	Audited 31 December 2005 RUR'000
With parent		
Trade accounts receivable	3,054	2,990
Accounts payables	2,195	-
With other related parties		
Investments in related parties	21,261	21,261
Cash and cash equivalents	156,855	64,763
Trade accounts receivable	127,484	205,501
Trade accounts payables	182,971	161,556
Other receivables	25,000	55,127

Compensation of key management of the Group for six months ended 30 June 2006 amounted to RUR 25,545 thousand (30 June 2005 – RUR 22,125 thousand).

29. COMMITMENTS AND CONTINGENCIES

Litigation

The Group has been and continues to be the subject of 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 such matters will not have a material impact on the Group's financial position or operating results. Unresolved tax litigation at 30 June 2006 amounted to approximately RUR 28,332 thousand. Management believes that probability of unfavourable outcome of litigation is moderate.

Taxation contingencies in the Russian Federation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle such liabilities.

Management believes that it has provided adequately for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

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Local authorities have significant influence over the Group’s operations. For the six months ended 30 June 2006 the Group spent 66,980 RUR thousand (30 June 2005 – RUR 54,900 thousand) under a rent agreement with Government of Tatarstan Republic (refer to note 23). 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

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. 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 characterised by a currency that is not freely convertible outside of the country, various 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.

Furthermore, substantially all privatisations in the Russian Federation in the early 1990’s were flawed in some manner, with the result that even minor administrative flaws in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the state, local authorities and administration, the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Russian, and the Group’s business, will depend upon the Government’s ability to institute supervisory, judicial and other regulatory reforms.

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 installation of the following new production facilities commenced:

- bisphenol producing plant
- polycarbonate plastics plant
- ethylene plant
- polyethylene plant and
- other auxiliary workshops.

The total capital commitments are estimated at RUR 20.8 billion, including RUR 12.1 billion of contracted commitments. Management expects to finance the capital expenditures through long-term borrowings.

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Russian insurance environment

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

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.

30. 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:

	Within 1 year RUR ‘000	From 1 year to 5 years RUR ‘000	Later than 5 years RUR ‘000	Total RUR ‘000
31 December 2005				
Finance lease liabilities	134,237	124,527	-	258,764
Long term borrowings	-	1,729,084	1,304,663	3,033,747
Total	134,237	1,853,611	1,304,663	3,202,511
30 June 2006				
Finance lease liabilities	113,418	99,220	-	212,638
Long term borrowings	114,415	3,764,732	3,726,876	7,606,023
Total	227,833	3,863,952	3,726,876	7,818,661

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.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management’s valuation.

Other financial assets, trade and other receivables, cash and cash equivalents and trade and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on short-term borrowings and capitalised finance leases are market related, with the majority of debt at floating rates. Consequently the carrying values of these financial instruments approximate their fair values.

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The fair values of financial instruments are estimates and do not necessarily reflect the amount of cash that would have been realized had these instruments been liquidated at the date of valuation.

32. RISK MANAGEMENT

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management believes that this risk is currently not significant because majority of the Group's borrowings are at a fixed rate (refer to note 30).

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group is exposed to currency risk in that a significant portion of long- and short-term borrowings are denominated in foreign currencies.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. The Group manages its liquidity risk through a combination of share capital issues, short-term and long-term financing and self generated funds.

Operational risk

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 one of the main Group's supplier of gas. The government of the Russian Federation primarily regulates the pricing for gas. Management of the Group is continuously engaged in ensuring a stable supply of gas.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's major products.

Credit risk

Credit risk is the risk that customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of customers. The Group is not economically dependent on a limited number of customers for the sale of its products because of the existence of liquid commodity markets for all of its products.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

33. INVESTMENTS IN SUBSIDIARIES

The Company’s ownership interest in significant subsidiaries was as follows:

Subsidiaries	Nature of business	Ownership	
		Unaudited 30 June 2006	Audited 31 December 2005
<i>Incorporated in the Russian Federation</i>			
LLC “AgrosynteZ”	Agriculture	100.0%	100.0%
OJSC “Luch SynteZ”	Agriculture	-	98.0%
OJSC “Spetsneftekhimmontazh”	Repair & Maintenance	91.0%	91.0%
OJSC “Shelangovsky plodovoyagodny sovkhoz”	Agriculture	89.5%	89.5%
LLC “Tatkhirremont”	Repair & Maintenance	100.0%	100.0%
LLC “Trade House OrgsynteZ”	Trading	70.0%	70.0%
LLC “Koloz-SynteZ”	Agriculture	51.0%	51.0%
LLC “DK Khimikov”	Entertainment	100.0%	-
<i>Incorporated in Hungary</i>			
LLC “Elmer”	Trading	50.0%	50.0%

As of 30 June 2006 LLC “AgrosynteZ”, OJSC “Luch SynteZ”, OJSC “Spetsneftekhimmontazh”, LLC “Trade House OrgsynteZ”, OJSC “Shelangovsky plodovoyagodny sovkhoz” and LLC “Tatkhirremont” were under liquidation.

34. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Refinancing of ABN AMRO loan

In July 2006 the Group received long-term loan from ABN Amro Bank with principle USD 30 million bearing interest LIBOR + 2.85% with maturity in 2009. The loan was used to retire long-term loan of Vneshtorgbank in the amount RUR 841,151 thousand.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following statement, which should be read in conjunction with the responsibilities of the independent auditors stated in the report of the independent auditors set out on page 2, 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 2005, and the results of its operations, changes in shareholders equity and cash flows for the year then ended, in compliance 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 judgements 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.

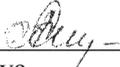
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them 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 2005 were approved on behalf of group management on 6 March 2005 in Kazan, Republic of Tatarstan, Russian Federation, by:



L.S. Alekhin
General Director



L. N. Kaleeva
Chief accountant

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company "Kazanorgsintez" and subsidiaries (the "Group") as at 31 December 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005 and the results of the Group's operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.



6 March 2005

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	Notes	2005 RUR '000	2004 RUR '000
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	4	14,064,728	8,030,259
Non-current available for sale investments	5	52,084	292,052
Intangible assets	6	40,528	50,081
Investments in associates	7	31,801	25,654
Non-current value added tax receivable		-	27,676
Other non-current assets	8	710,867	659,929
		14,900,008	9,085,651
CURRENT ASSETS:			
Inventories	9	1,819,261	1,409,555
Trade and other accounts receivable	10	865,913	808,272
Value added tax and other taxes receivable		1,084,509	474,038
Available for sale investments		3,243	30,072
Cash and cash equivalents	11	426,320	146,829
		4,199,246	2,868,766
TOTAL ASSETS		19,099,254	11,954,417
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	12	1,904,710	1,904,710
Additional paid-in capital		1,515,015	1,515,015
Treasury stock	12	-	(100,077)
Retained earnings		7,457,828	6,245,872
Equity attributable to shareholders of parent company		10,877,553	9,565,520
Minority interest		43,590	11,694
Total equity		10,921,143	9,577,214
NON-CURRENT LIABILITIES:			
Long-term borrowings	14	4,692,117	-
Deferred tax liability	15	762,632	738,299
Non-current portion of finance lease obligations	16	124,527	165,954
		5,579,276	904,253
CURRENT LIABILITIES:			
Trade accounts payable	17	1,037,237	523,329
Short-term borrowings	18	913,398	495,036
Tax liability		87,017	160,776
Advances received		150,659	113,171
Other payables and accrued liabilities	19	410,524	180,638
		2,598,835	1,472,950
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		19,099,254	11,954,417

The notes on pages F-41 to F-67 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	<u>2005</u> RUR '000	<u>2004</u> RUR '000
SALES	20	13,240,850	11,655,520
COST OF SALES	21	<u>(8,769,801)</u>	<u>(7,405,458)</u>
GROSS PROFIT		4,471,049	4,250,062
Selling, general and administrative expenses	22	(1,444,282)	(1,418,029)
Income/(loss) from other sales		31,275	(29,290)
Other operating expenses, net	24	<u>(351,493)</u>	<u>(285,779)</u>
OPERATING PROFIT		2,706,549	2,516,964
Loss on disposal of equity investment		(311,035)	-
Finance (expense)/income, net	23	(86,188)	20,677
Income/(loss) from associates		6,145	(626)
Exchange rate gain/(loss), net		<u>17,446</u>	<u>(34,169)</u>
PROFIT BEFORE TAX AND MINORITY INTEREST		2,332,917	2,502,846
INCOME TAX	15	<u>(568,887)</u>	<u>(567,551)</u>
PROFIT FOR THE YEAR		<u>1,764,030</u>	<u>1,935,295</u>
Attributable to:			
Shareholders of parent company		1,732,134	1,947,521
Minority interest		<u>31,896</u>	<u>(12,226)</u>
		<u>1,764,030</u>	<u>1,935,295</u>
EARNINGS PER SHARE		<u>RUR</u>	<u>RUR</u>
-Basic	26	0.97	1.09
-Diluted	26	0.91	1.02

The notes on pages F-41 to F-67 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

RUR '000	Notes	Ordinary and preferred share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
Balance at 1 January 2004		1,904,710	1,515,015	-	4,774,109	8,193,834
Net profit for the year		-	-	-	1,947,521	1,947,521
Dividends	27	-	-	-	(475,758)	(475,758)
Acquisition of treasury shares		-	-	(100,077)	-	(100,077)
Balance at 31 December 2004		1,904,710	1,515,015	(100,077)	6,245,872	9,565,520
Net profit for the year		-	-	-	1,732,134	1,732,134
Dividends	27	-	-	-	(520,178)	(520,178)
Acquisition of treasury shares		-	-	(86,687)	-	(86,687)
Disposal of treasury shares		-	-	186,764	-	186,764
Balance at 31 December 2005		1,904,710	1,515,015	-	7,457,828	10,877,553

The notes on pages F-41 to F-67 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	<u>2005</u> RUR '000	<u>2004</u> RUR '000
OPERATING ACTIVITIES:			
Cash flows from operations	28	3,205,521	2,125,218
Income tax paid		(726,523)	(649,897)
Interest paid		(37,995)	(4,151)
Net cash inflow from operating activities		<u>2,441,003</u>	<u>1,471,170</u>
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(6,776,670)	(1,380,971)
Proceeds on disposal of property, plant and equipment		3,712	22,700
Acquisition of equity investments		(35,243)	(3,462)
Proceeds on disposal of equity investments		8,594	54,489
Proceeds on disposal of subsidiary		100	2,200
Interest received		5,690	32,442
Dividends received		7	10,549
Net cash outflow from investing activities		<u>(6,793,810)</u>	<u>(1,262,053)</u>
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		2,571,975	471,747
Repayments of short-term borrowings		(2,352,899)	(60,735)
Proceeds from long-term borrowings		4,898,389	-
Dividends paid		(441,183)	(473,806)
Acquisition of treasury shares		(86,687)	(100,077)
Disposal of treasury shares		186,764	-
Repayment of obligations under finance lease		(144,061)	(117,883)
Net cash inflow / (outflow) from financing activities		<u>4,632,298</u>	<u>(280,754)</u>
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		279,491	(71,637)
CASH AND CASH EQUIVALENTS, beginning of year		<u>146,829</u>	<u>218,466</u>
CASH AND CASH EQUIVALENTS, end of year		<u><u>426,320</u></u>	<u><u>146,829</u></u>

The notes on pages F-41 to F-67 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. NATURE OF THE BUSINESS

Open Joint Stock Company “Kazanorgsintez” (the “Company”) was incorporated in Kazan, Republic of Tatarstan, Russian Federation on 1 September 1993. The Company and its subsidiaries (the “Group”) produce chemical products and derivatives thereof (mainly ethylene and polyethylene) which are marketed and sold primarily in the Russian Federation. The principal operating office of the Company is situated at the following address: 101 Belomorskaya street, 420051, Kazan, Republic of Tatarstan, Russian Federation.

The Group employed 7,607 and 7,061 people at 31 December 2005 and 2004 respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation in which they are incorporated and registered. Accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated financial statements are presented in compliance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

- Valuation of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment” (“IAS 16”);
- Valuation of financial instruments in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39, which is more fully described in note 3).

Adoption of New and Revised IFRS – In the current year the Group has adopted all of the new and revised Standards and Interpretations used by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to operations and effective for accounting periods beginning on 1 January 2005.

Reclassification – Certain comparative information, presented in the consolidated annual financial statements for the year ended 31 December 2004, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2005.

Use of Estimates and Assumptions – The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Research and Development Costs – Expenditure on research activities is recognized as an expense in the period in which it is incurred.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Functional and Presentation Currency – The functional currency of the consolidated financial statements, which reflects the economic substance of the underlying events and transactions of the Group’s operations, is the Russian Rouble (“RUR”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation – The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased.

Control is presumed to exist when the parent company:

- Owns, directly or indirectly through subsidiaries, more than 50% of the voting equity of an enterprise; or
- Owns, directly or indirectly through subsidiaries, less than 50% of the voting equity of an enterprise, but has the ability to:
 - Govern the financial and operating policies of the enterprise under a charter or an agreement;
 - Appoint or remove the majority of the members of the board of directors, or the equivalent governing body; or
 - Cast the majority of votes at meetings of the board of directors or equivalent governing body.

Subsidiaries that meet the definition of control are not consolidated by the Group if control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Such subsidiaries are accounted for as investments.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s proportion share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent company.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Investments in Associates – An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results and the assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognize any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group’s interest in the relevant associate, except where unrealized losses provide evidence of an impairment of the asset transferred.

Accounting for Acquisitions – Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Goodwill relating to subsidiaries is disclosed as an asset and goodwill relating to associates is included within the carrying value of the investment in associates.

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement during the period in which the circumstances are identified and is not subsequently reversed.

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

Where an investment in a subsidiary or an associate is made, any excess of the Group’s share in the fair value of acquirer’s identifiable assets, liabilities and contingent liabilities over cost is recognised in the income statement immediately.

Foreign Currency Transactions – Transactions in currencies other than Russian Roubles are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All translation differences are recognized in the consolidated income statement.

Revenue Recognition – Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. Sales are recognized net of value added tax.

Property, Plant and Equipment – Property, plant and equipment is stated at cost as modified by the application of IAS 29 “Financial Reporting in Hyperinflationary Economies”.

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

Depreciation is computed under the straight-line method utilizing useful lives of the assets determined by independent appraisers and over the estimated useful economic lives of assets, acquired subsequent to valuation date, which are:

Buildings	25 – 40 years
Machinery and equipment	10 – 22 years
Vehicles	10 – 20 years
Instruments	10 years
General equipment	10 years

Land occupied by the Group’s facilities is owned by the Group. Land is not depreciated and is included in buildings or machinery and equipment.

Construction in progress comprises costs directly related to construction of buildings, machinery and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

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.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset.

Intangible Assets – Software costs incurred for the development, implementation and enhancement of the operating systems, are capitalized and amortized over the expected useful life of the system. Software costs relating to the maintenance of the operating system are recognized as an expense in the period in which they occur.

Cost to acquire operating licenses are capitalized and amortized from the date the Group commences operations relating to that license, on a straight line basis over the license term, subject to periodic reviews for impairment.

Impairment of Tangible and Intangible Assets – 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 impossible 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.

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 (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land, buildings, other than investment property, or equipment, carried at a revalued amount, in which case the impairment loss is treated as a decrease in revaluation reserve.

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

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rents paid under operating leases are charged to the income statement as incurred.

Investments – Investments other than investments in subsidiaries and associates, are initially measured at fair value on a trade date basis, including directly attributable transaction costs. Investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. As no readily available market exists for the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in the consolidated financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of after initial recognition its full holdings of a particular instrument. Investments in non-marketable equity instruments for which fair value could not be estimated reliably are measured at cost less any provision for impairment.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. For unquoted securities fair value is determined by reference to market prices of securities with similar credit risk and/or maturity and in other cases by reference to the share in estimated equity capital of an investee. Gains or losses on measurement to fair value of investments are recognized in the income statement for the period.

Held-to-maturity investments are carried at amortized cost calculated using the effective interest rate method, less any provision for impairment or permanent diminution in value.

Loans granted by or to the Group at interest rates that are below the market are discounted to fair value using the effective interest method.

Inventories – Inventories are stated at the lower of cost or net realizable value. Cost comprises direct materials, and where applicable direct labour, customs duties, transportation and handling costs and those overhead costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Work in progress is valued at the net unit cost of production based on the percentage of completion method.

Trade and Other Receivables – Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts, calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition, are recognised in the income statement when there is the objective evidence the asset is impaired.

Cash and Cash Equivalents – Cash includes petty cash and cash held on current bank accounts. Cash equivalents include short-term investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

Bank Loans and Other Non-Bank Borrowings – All loans and borrowings are initially recorded at the proceeds received, net of direct issue costs. After initial recognition all loans and borrowings are subsequently measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 recognized as an expense in the period in which they are incurred.

Trade and Other Payables – Liabilities for trade and other amounts payable are stated at their nominal value.

Taxation – Income taxes have been computed in accordance with the laws of Russian Federation. They are based on the results for the year as adjusted for items that are non-assessable or non-tax deductible.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences:

- Except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax is calculated at rates that are expected to apply to the period when the asset is realized or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement Benefit Costs – The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. Any related expenses are recognized in the income statement as incurred.

The Group participates in a defined contribution plan under which the Group makes certain payments to non-state pension fund for its employees. Contributions made by the Group to defined contribution plans are charged to expense when incurred.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Segment Reporting – The majority of the Group’s business operations are located in the Russian Federation and relate primarily to 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 addressed in the consolidated financial statements of the Group as one reportable segment.

For the information of readers the Group provides in note 20 to the consolidated financial statements an analysis of sales by geographic region and product.

Provisions – A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligations. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of management.

Contingencies – Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

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

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4. PROPERTY, PLANT AND EQUIPMENT

RUR '000	<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 2004	8,141,050	8,920,717	511,933	492,060	18,065,760
Additions	-	153,182	-	1,531,266	1,684,448
Disposals	(7,420)	(194,143)	(140,952)	-	(342,515)
Write-offs	-	-	-	(135,797)	(135,797)
Transfers	56,461	480,331	68,791	(605,583)	-
At 31 December 2004	<u>8,190,091</u>	<u>9,360,087</u>	<u>439,772</u>	<u>1,281,946</u>	<u>19,271,896</u>
Additions	-	48,610	-	6,776,670	6,825,280
Disposals	(152,100)	(292,188)	(16,823)	(4,599)	(465,710)
Transfers	289,956	1,359,312	111,266	(1,760,534)	-
At 31 December 2005	<u>8,327,947</u>	<u>10,475,821</u>	<u>534,215</u>	<u>6,293,483</u>	<u>25,631,466</u>
<i>Accumulated depreciation</i>					
At 1 January 2004	(4,790,966)	(5,893,359)	(270,234)	-	(10,954,559)
Charge for the year	(205,515)	(336,691)	(46,336)	-	(588,542)
Eliminated on disposals	6,914	181,866	112,684	-	301,464
At 31 December 2004	<u>(4,989,567)</u>	<u>(6,048,184)</u>	<u>(203,886)</u>	-	<u>(11,241,637)</u>
Charge for the year	(170,745)	(347,692)	(48,363)	-	(566,800)
Eliminated on disposals	34,572	197,979	9,148	-	241,699
At 31 December 2005	<u>(5,125,740)</u>	<u>(6,197,897)</u>	<u>(243,101)</u>	-	<u>(11,566,738)</u>
<i>Net book value</i>					
At 31 December 2004	<u>3,200,524</u>	<u>3,311,903</u>	<u>235,886</u>	<u>1,281,946</u>	<u>8,030,259</u>
At 31 December 2005	<u>3,202,207</u>	<u>4,277,924</u>	<u>291,114</u>	<u>6,293,483</u>	<u>14,064,728</u>

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 2005 and 2004 buildings, machinery and equipment with an estimated net book value of RUR 3,489,324 thousand and RUR 1,225,063 thousand respectively, were pledged to secure certain short-term and long-term loans granted to the Group (refer to notes 14 and 18).

At 31 December 2005 and 2004, property, plant and equipment include assets held under a number of finance lease agreements (refer to note 16). At the end of the lease term the Group takes automatic ownership of the assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

At 31 December 2005 and 2004 lease obligations were secured by the following capitalized production assets:

	<u>2005</u> RUR ‘000	<u>2004</u> RUR ‘000
Cost – capitalized finance leases	396,604	347,994
Accumulated depreciation	(56,975)	(30,458)
Net book value	<u>339,629</u>	<u>317,536</u>

5. NON-CURRENT AVAILABLE FOR SALE INVESTMENTS

	% Ownership		<u>2005</u> RUR ‘000	<u>2004</u> RUR ‘000
	<u>2005</u>	<u>2004</u>		
LLC “KITB Kazansky”	-	20%	-	228,787
OJSC “Tatneftekhinvestholding”	7%	7%	38,537	38,537
National non-state pension fund	7%	7%	10,557	10,557
OJSC AKB “Spurt”	-	1%	-	8,733
OJSC “Kazanskaya yarmarka”	2%	-	2,950	-
Other	-	-	96	5,513
Less investment valuation reserve			(56)	(75)
Total			<u>52,084</u>	<u>292,052</u>

6. INTANGIBLE ASSETS

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

7. INVESTMENTS IN ASSOCIATES

	<u>2005</u> RUR ‘000	<u>2004</u> RUR ‘000
Cost of investments	5,021	5,019
Share of post acquisition profits	26,780	20,635
Total	<u>31,801</u>	<u>25,654</u>

<u>Principal activity</u>	<u>Country of incorporation and operation</u>	<u>% of ownership interest</u>	<u>Principal activity</u>
LLC “Taif-Invest”	Russian Federation	40%	Investing
CJSC “Ankorit”	Russian Federation	39%	Production
LLC “Novomoskovsky trubny zavod”	Russian Federation	26%	Production

During 2004 the Group disposed of its 25 % interest in OJSC “Ekohimpromservice”. No profit or loss was recognized on the disposal of this investment.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

8. OTHER NON-CURRENT ASSETS

Other non-current assets comprise of prepaid amounts for licences for bisphenol and polycarbonate plastic production acquired mostly during 2004 year (refer to note 32).

	2005 RUR '000	2004 RUR '000
Licences for new projects	683,665	643,789
Other	27,202	16,140
Total	710,867	659,929

9. INVENTORIES

Stores and materials	1,264,027	885,274
Work in progress and semi-finished products	174,669	222,964
Finished goods	393,028	314,338
Less: valuation allowance	(12,463)	(13,021)
Total	1,819,261	1,409,555

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.

At 31 December 2004 the Group's future custom payments were secured by a guarantee issued by AKB AK Bars, collateralized by finished goods with a carrying value of RUR 18,343 thousand.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 RUR '000	2004 RUR '000
10. TRADE AND OTHER ACCOUNTS RECEIVABLE		
Trade receivables	602,379	394,177
Advances paid	196,373	359,068
Other receivables	133,975	138,864
Less: Valuation allowance	(66,814)	(83,837)
Total	865,913	808,272
11. CASH AND CASH EQUIVALENTS		
Cash in banks, in RUR	56,103	64,865
Cash in banks, in RUR – related parties	64,763	24
Cash in banks, in hard currency	30,997	75,284
Cash in banks, in hard currency – related parties	63,017	4
Restricted cash	17,789	-
Petty cash	1,255	636
Letters of credit	192,051	5,508
Other cash equivalents	345	508
Total	426,320	146,829
	2005 '000 shares	2004 '000 shares
12. SHARE CAPITAL		
<i>Authorized</i>		
Ordinary share 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 authorized share capital	2,624,710	2,624,710
<i>Issued and fully paid</i>		
Ordinary share 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
	1,904,710	1,904,710
<i>Treasury shares</i>		
At the beginning of the year	25,257	-
Acquired by the Group	10,030	23,627
Disposed	(35,287)	-
At the end of the year	-	23,627

Treasury shares recorded as a deduction from issued and fully paid share capital at 31 December 2004 comprised RUR 100,077 thousand.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Ownership distribution was as follows:

	2005	2004
	<u>% of ownership</u>	<u>% of ownership</u>
LLC “Syntez-Management”	-	45.6%
OJSC “Svyazinvestneftekhim”	26.6%	26.6%
OJSC “TAIF”	-	1.3%
LLC “Telecom-Management”	48.6%	-
Other legal entities and individuals	<u>24.8%</u>	<u>26.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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.

In respect of the Company the Republic of Tatarstan takes advantage of its special right to participate in the Company’s management (“golden share”).

The representatives of the Republic of Tatarstan are entitled to introduce issues into the agenda of the Company’s General Shareholders’ Meeting and demand that an extraordinary General Shareholders’ Meeting be convened

The representatives of the Republic of Tatarstan, who are appointed members of the Board of Directors, participate in the General Shareholders’ Meetings and possess the right to veto certain decisions taken at the General Shareholders’ meetings:

- on inclusion of amendments and changes into the Company’s Articles of Association or approval of the reviewed Articles;
- on reorganization of the Company;
- on liquidation of the Company and appointing the liquidation committee and approval of the interim and finalized liquidation balance sheets;
- on changes in the Company’s charter capital;
- on performing transactions listed in Chapters X and XI of the Federal Law “On Joint-Stock Companies”.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

13. SHAREHOLDERS' EQUITY

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

	2005	2004
	RUR '000	RUR '000
Group equity per RAS	9,365,878	7,834,628
Increase/(decrease) due to effect of:		
Property, plant and equipment valuation	2,582,152	2,627,649
Investments valuation	46,769	94,927
Inventory valuation	(12,463)	(13,021)
Allowance for doubtful accounts	(10,835)	(10,835)
Additional deferred income tax liability	(614,673)	(634,021)
Other accrued expense, net	(69,765)	(16,438)
Additional paid-in capital valuation	(337,030)	(337,030)
Other	(72,480)	19,661
Group equity per IFRS	10,877,553	9,565,520

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

Group earnings per RAS	1,946,053	1,869,788
Increase/(decrease) due to effect of:		
Additional depreciation expense	(140,890)	(262,719)
Change in deferred income tax provision	19,346	118,820
Bad debt provision recovery/(expense)	-	118,336
Change in provision for fines and penalties	(16,438)	11,729
Changes in inventory valuation reserves	558	19,052
Fixed assets disposals and write-down, net	(12,604)	(18,351)
Changes in investments valuation reserve	19	1,711
Annual bonuses accrual	(62,110)	-
Other	(1,800)	89,155
Group earnings per IFRS	1,732,134	1,947,521

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

14. LONG-TERM BORROWINGS

	<u>2005</u> <u>RUR'000</u>	<u>2004</u> <u>RUR'000</u>
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 is secured by buildings, machinery and equipment with estimated value of RUR 1,066,590 thousand.	841,438	-
Total due to Vneshtorgbank	<u>841,438</u>	<u>-</u>
Sberbank		
A RUR denominated loan facility of USD 40,000 thousand bearing an interest rate of 13.25% per annum with final repayment due on 29 April 2012. The loan is secured by acquired equipment at an estimated cost of RUR 287,197 thousand and shares of the Company pledged by shareholders.	1,158,494	-
A RUR denominated loan facility of USD 60,000 thousand bearing an interest rate of 13.25% per annum with final repayment due on 20 November 2012. The loan is secured by shares of the Company pledged by shareholders.	588,107	-
A RUR denominated loan facility of USD 24,000 thousand bearing an interest rate of 13.25% per annum with final repayment due on 27 September 2012. The loan is secured by shares of the Company pledged by shareholders.	249,471	-
A RUR denominated loan facility of USD 85,855 thousand bearing an interest rate of 13% per annum with final repayment due on 29 September 2012. The loan is secured by shares of the Company pledged by shareholders.	479,667	-
A USD denominated loan facility of USD 81,200 thousand bearing an interest rate of 7.8825% per annum with final repayment due on 24 January 2016. The loan is secured by equipment at an estimated cost of RUR 843,836 thousand and shares of the Company pledged by shareholders.	558,007	-
Total due to Sberbank	<u>3,033,746</u>	<u>-</u>
ABN AMRO		
A EUR denominated loan bearing interest at Euribor + 1.25% per annum repayable in 10 installments commencing on 25 March 2007 with the final installment due on 24 November 2011. The loan is secured by insurance.	466,870	-
A EUR denominated loan bearing interest at Euribor + 0.4% per annum repayable in 20 installments commencing on 24 July 2007 with the final installment due on 24 July 2017. The loan is secured by insurance.	443,614	-
A EUR denominated loan facility of EUR 7,800 thousand bearing interest at Euribor + 2.75% per annum with final repayment due on 22 June 2007. The loan is secured by equipment at an estimated cost of EUR 10,330 thousands.	141,024	-
Total due to ABN AMRO	<u>1,051,508</u>	<u>-</u>

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> <u>RUR'000</u>	<u>2004</u> <u>RUR'000</u>
Other borrowings	5,965	-
Total long-term borrowings	<u>4,932,657</u>	<u>-</u>
Less: Current portion repayable in twelve months and shown under current liabilities (refer to note 18)	(240,540)	-
Net long-term borrowings	<u>4,692,117</u>	<u>-</u>
The long-term borrowings are repayable as follows:		
Due in one year	240,540	-
Due in second year	753,048	-
Due thereafter	3,939,069	-
Total	<u>4,932,657</u>	<u>-</u>

15. INCOME TAX

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

Current income tax charge	(544,554)	(661,989)
Deferred income tax (charge)/release	(24,333)	94,438
Total	<u>(568,887)</u>	<u>(567,551)</u>

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

Income before income taxes	2,332,917	2,502,846
Statutory income tax rate	24%	24%
Theoretical income tax expense at statutory rate	(559,900)	(600,683)
Loss on disposal of subsidiary	(32,640)	-
Effect of non-deductible expenses and permanent differences, net	23,653	33,132
Income tax expense	<u>(568,887)</u>	<u>(567,551)</u>

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

Property, plant and equipment	(780,818)	(740,899)
Accrued expenses/(income)	16,744	(3,636)
Provisions	13	18
Other	1,429	6,218
Deferred tax liability, net	<u>(762,632)</u>	<u>(738,299)</u>

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> <u>RUR '000</u>	<u>2004</u> <u>RUR '000</u>
Deferred tax rollforward		
Balance at beginning of the period	738,299	832,737
Charge/(release) to income statement	24,333	(94,438)
Balance at end of the period	<u>762,632</u>	<u>738,299</u>
 16. FINANCE LEASES OBLIGATIONS		
Minimum lease payments		
Due within one year	153,046	107,473
Due later than 1 year and not later than 5 years	136,103	181,430
Total future lease payments	289,149	288,903
Less: future finance charges	(30,385)	(34,599)
Present value of minimum lease payments	258,764	254,304
Less: amount due for settlement within 12 months (refer to note 19)	(134,237)	(88,350)
Long-term finance lease obligations	<u>124,527</u>	<u>165,954</u>
 At 31 December 2005 and 2004 the lease obligations are denominated in USD and secured by leased production equipment with a carrying value of RUR 339,629 thousand and RUR 317,536 thousand, respectively – (refer to note 4).		
 17. TRADE ACCOUNTS PAYABLE		
Trade payables to third parties	868,426	521,812
Trade payables to related parties	168,811	1,517
Total	<u>1,037,237</u>	<u>523,329</u>

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 RUR '000	2004 RUR '000
18. SHORT-TERM BORROWINGS		
ABN Amro, EURO	327,040	272,198
LLC “Mislid”, RUR	-	45,455
LLC “Vois”, RUR	-	45,182
LLC “Pamir”, RUR	-	45,182
ABN Amro, USD	302,063	41,623
CIB Bank Rt., EURO	1,483	30,342
LLC “Vaytel”, RUR	-	9,637
OJSC AIKT Tatfondbank, RUR	36,401	-
Other, RUR	5,871	5,417
Current portion of long-term borrowings repayable within twelve month and shown under current liabilities (refer to note 14)	240,540	-
Total	913,398	495,036

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

EURO-denominated	Euribor+2.75% to Euribor+3.25%	Euribor+1.25% to 10%
USD-denominated	Libor+3.25% to 8.75%	-
RUR-denominated	0%-13%	0%-15%

At 31 December 2005 and 2004 buildings, machinery and equipment with an estimated value of RUR 937,028 thousand and RUR 1,225,063 respectively, were pledged to secure certain short-term loans granted to the Group (refer to note 4).

19. OTHER PAYABLES AND ACCRUED LIABILITIES

Current portion of finance lease obligations (refer to note 16)	134,237	88,350
Employee benefits	131,757	59,465
Dividends payable	81,166	2,170
Deferred income	150	180
Provision for tax claims	-	16,438
Other payables and accruals	63,214	14,035
Total	410,524	180,638

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> <u>RUR '000</u>	<u>2004</u> <u>RUR '000</u>
20. SALES		
By geographic region:		
Domestic sales	10,601,990	8,547,012
Export sales	<u>2,638,860</u>	<u>3,108,508</u>
Total	<u>13,240,850</u>	<u>11,655,520</u>
By product:		
High density polyethylene	4,569,345	4,321,055
Low density polyethylene	3,337,157	2,968,524
Organic products	1,891,444	1,741,267
Ethylene	2,166,481	1,728,172
Plastic goods	<u>1,276,423</u>	<u>896,502</u>
Total	<u>13,240,850</u>	<u>11,655,520</u>
21. COST OF SALES		
Raw materials	4,301,705	3,581,258
Energy and water	2,086,444	1,628,034
Salary of production staff	1,057,802	884,644
Depreciation and amortization	566,800	588,542
Maintenance and repairs	415,299	381,475
Auxiliary materials	339,119	359,387
Obsolescence provision released	(558)	(19,052)
Other	<u>3,190</u>	<u>1,170</u>
Total	<u>8,769,801</u>	<u>7,405,458</u>
22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
General and administrative expenses	683,240	649,985
Selling expenses	431,757	401,178
Taxes	164,547	154,286
Bank charges	27,187	63,609
Payment to defined contribution plan	15,055	31,400
Research and development costs	24,997	24,871
Loss on disposal of property, plant and equipment	11,310	18,351
Other	<u>86,189</u>	<u>74,349</u>
Total	<u>1,444,282</u>	<u>1,418,029</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> <u>RUR '000</u>	<u>2004</u> <u>RUR '000</u>
23. FINANCE (EXPENSE) / INCOME, NET		
Interest income	5,690	32,442
Income from investments	7	10,549
Change in investment provision	19	1,711
Total finance income	<u>5,716</u>	<u>44,702</u>
Interest expense	(72,263)	(8,176)
Lease charges and interest under finance leases	(19,641)	(14,699)
Other expense	-	(1,150)
Total finance cost	<u>(91,904)</u>	<u>(24,025)</u>
Total	<u><u>(86,188)</u></u>	<u><u>20,677</u></u>
24. OTHER OPERATING EXPENSES, NET		
Rent of land	133,968	109,801
Maintenance of social infrastructure	144,326	132,643
Other expenses, net	73,199	43,335
Total	<u><u>351,493</u></u>	<u><u>285,779</u></u>

Expenses for rent of land represent 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.

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

Other expenses, net include mostly operating (losses) / income of other non-core entities of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

25. EMPLOYEE BENEFITS

The following employee benefits were included in arriving at net profit before tax and minority interest:

	<u>2005</u> <u>RUR '000</u>	<u>2004</u> <u>RUR '000</u>
Wages and salaries	1,190,538	815,853
Pension expenses	333,351	228,439
Payment to defined contribution plan	15,055	31,400
Other benefits and compensations	<u>59,278</u>	<u>73,996</u>
Total	<u>1,598,222</u>	<u>1,149,688</u>

The Group participates in a defined contribution plan under which the Group makes certain payments to a non-state pension fund for its employees. Contributions made by the Group to the defined contribution plan are charged to expense when incurred and are recognized in other operating expenses in the income statement.

26. EARNINGS PER SHARE

The calculation of basic earnings per share is based on net profit for the year of RUR 1,944,978 thousand (2004: RUR 1,947,521 thousand) divided by weighted average number of ordinary shares of 1,732,134 thousand (2004: 1,785,114 thousand), excluding convertible preferred shares.

The calculation of fully diluted earnings per share is based on net profit for the year ended of RUR 1,732,134 thousand (2004: RUR 1,947,521 thousand) divided by a weighted average number of ordinary shares and the effect of convertible preferred shares of 1,904,710 thousand (2004: 1,904,710 thousand).

There have been no other transactions involving ordinary shares or potential ordinary shares subsequent to the reporting date of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 RUR '000	2004 RUR '000
27. DIVIDENDS PAID AND PROPOSED		
Dividends declared and paid 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 and paid in respect of the year ended 31 December 2003:		
– ordinary shares (RUR 0.25 per share)	-	445,859
– preferred shares (RUR 0.25 per share)	-	29,899
Total	520,178	475,758

Accumulated profits legally distributable by the Group 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 that make up the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

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

OPERATING ACTIVITIES:

Profit before tax	2,332,917	2,502,846
Adjustments for:		
Depreciation and amortization	566,800	597,852
(Income)/loss from associates	(6,145)	626
Loss on disposal of equity investments	311,035	-
Loss on disposal of property, plant and equipment	11,310	18,351
Finance costs/(income), net	86,188	(20,677)
Operating cash flow before movements in working capital	3,302,105	3,098,998
(Increase)/decrease in trade accounts receivable	(57,641)	3,619
Increase in value added tax and other taxes receivable	(474,760)	(235,746)
Increase in inventories	(409,706)	(237,187)
Increase in other non-current assets	(50,938)	(632,723)
Decrease/(increase) in available for sale investments	26,829	(30,072)
Increase in trade accounts payable	513,908	52,008
Increase in advances received	37,489	58,059
Increase/(decrease) in other current liabilities	105,003	(9,080)
Decrease in taxes payable	213,232	57,342
Cash flow from operations	3,205,521	2,125,218

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

29. DISPOSAL OF SUBSIDIARY

In June 2005 the Group disposed of its subsidiary - LLC “Keramika Syntez” (refer to note 36)

	31 December 2005 RUR'000
Net assets disposed	
Property, plant and equipment	241,126
Other receivables	14,760
Other payables	(5,999)
	<u>249,887</u>
Total consideration	<u>100</u>
Loss on disposal	<u>249,787</u>

The operations of the disposed entity were immaterial for the Group.

30. RELATED PARTIES

Related parties include shareholders, affiliates and entities under common ownership, over which the Group has the ability to exercise a significant influence.

Included in balance sheet and income statement are the following transactions and balances with related parties:

	2005 RUR'000	2004 RUR'000
Sales of goods and services	653,934	657,462
Purchase of goods and services	975,326	294,516
Dividends received	-	10,540
Dividends paid	229,749	-
Purchase of debentures and shares	16,582	52,620
Sales of treasury shares	186,764	-
Accounts receivable balance	208,491	48,414
Accounts payable balance	161,556	1,517
Bank interest received	1,107	-
Purchase of treasury shares	55,127	-
Key management compensation	39,587	36,353

31. SEGMENT REPORTING

The Group produces and sells chemical products. Management considers that the Group operates in one industry segment being the production and sales of chemical products. The Group has both domestic and export sales. However, management considers that risks related to domestic and export sales do not differ.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

32. COMMITMENTS AND CONTINGENCIES

Litigation

The Group has been and continues to be the subject of 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 recently 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.

Local authorities have significant influence on the Group's operations. In 2005 the Group incurred expenditure of RUR 133,968 thousand (2004: RUR 109,801 thousand) under a rent agreement with Government of Tatarstan Republic. (Refer to note 24). 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

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy.

The current Government is attempting to address these issues, however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. Furthermore, substantially all privatisations in the Russian Federation in the early 1990's were flawed in some manner, and even the most minor administrative flaw in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the state, local authorities and administration, the former owners of property and other

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Group’s business, will depend upon the Government’s ability to institute supervisory, judicial and other regulatory reforms.

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;
- Ethylene plant;
- Polyethylene plant; and
- Other auxiliary workshops.

The total capital commitments for 2005 are estimated at RUR 13 billion, including RUR 2.8 billion of contracted commitments. The capital expenditures will be mostly financed through 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.

While the Group maintains insurance cover for damage related to explosion caused by the operating process, the Group does not have full coverage for its processing facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group’s property or environmental damage arising from accidents on the Group’s property or relating to the Group’s operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material effect on the Group’s operations and financial position.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

33. 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:

	Within 1 year RUR ‘000	Later than 1 year and not later than 5 years RUR ‘000	Later than 5 years RUR ‘000	Total RUR ‘000
31 December 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
31 December 2004				
Finance lease liabilities	88,350	165,954	-	254,304
Short-term borrowings	495,036	-	-	495,036
Long-term borrowings	-	-	-	-
Total	583,386	165,954	-	749,340

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.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management’s valuation.

Other financial assets, trade accounts and other receivables, other current assets, cash and cash equivalents, bank overdrafts and trade accounts and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on short-term borrowings and capitalized finance leases are market related, with the majority of debt at floating rates. Consequently the carrying values of these financial instruments approximate their fair values.

The fair values of financial instruments are estimates and do not necessarily reflect the amount of cash that would have been realized had these instruments been liquidated at the date of valuation.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

35. RISK MANAGEMENT

The Group’s financial instruments at 31 December 2005 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.

A significant portion of the Group’s monetary assets and trade liabilities are denominated in RUR. Interest rate risk and currency risk are not considered to be significant.

The Group is exposed to currency risk in that a portion of long- and short term borrowings are denominated in foreign currencies.

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

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 only supplier of gas. The government of Russian Federation primarily regulates the pricing for gas. The management of the Group is continuously engaged in ensuring a stable supply of gas.

36. INVESTMENTS IN SUBSIDIARIES

The Company’s ownership interest in significant subsidiaries is as follows:

Subsidiaries	Nature of business	% of ownership	
		2005	2004
<i>Incorporated in Russian Federation</i>			
LLC “AgrosynteZ”	Agriculture	100%	100%
LLC “Keramika SynteZ”	Intermediary services	-	100%
OJSC “Luch SynteZ”	Agriculture	98%	98%
OJSC “Spetsneftekhimmontazh”	Repair & Maintenance	91%	91%
OJSC “Shelangovsky plodoyagodny sovkhoz”	Agriculture	90%	90%
LLC “Tatkhimremont”	Repair & Maintenance	100%	100%
LLC “Trade House OrgsynteZ”	Trading	70%	70%
LLC “Kolos-SinteZ”	Agriculture	51%	-
<i>Incorporated in Hungary</i>			
LLC “Elmer”	Trading	50%	50%

On 3 December 2004 the Company acquired the remaining 26.7% of the issued share capital of LLC “Tatkhimremont” for a cash consideration of RUR 3,462 thousand. As a result, LLC “Tatkhimremont” became a wholly owned subsidiary of the Group.

On 7 December 2004 the Group disposed of its 55 % holding in CJSC “SynteZ Sandra” for total proceeds of RUR 2,200 thousand. CJSC “SynteZ Sandra” specialized in trading activities and contributed a profit before tax of RUR 1,825 thousand from 1 January 2004 to the date of its disposal. Management ceased to consolidate this company from the date on which control ceased.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

To concentrate the control over agricultural assets, in April 2005 the Company sold 49% of the registered ordinary stock of OJSC “Luch Syntez” for RUR 9,774,400 and 41% of the registered ordinary stock of OJSC “Shelangovsky plodoyagodny sovkhoz” for RUR 1,650,200 to LLC “Agrosyntez”, 100% subsidiary of the Company. As a result, LLC “Agrosyntez” owned 98% of registered stock of OJSC “Luch-Syntez” and 90% of registered stock of OJSC “Shelangovsky plodoyagodny sovkhoz” at December 31, 2005.

In May 2005 the Company increased the share capital of LLC “Keramika Syntez” 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 Syntez” to OJSC “Kazan silicate walling plant” and LLC “Industrial enterprise Kazan” for a cash consideration of RUR 100 thousand. Management ceased to consolidate this company from the date on which control ceased.

On 18 February 2005 the Group founded a new agricultural entity, LLC “Kolos-Syntez”, 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-Syntez”. The additional investment did not result in an increase in the Group’s percentage holding in the company.

In September 2005 the Company acquired 26% of shares in LLC “Novomoskovsky tube plant” for a cash consideration of RUR 3 thousands. This entity is dormant as at the reporting date.

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OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the report of the independent auditors set out on page 2, 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 2004, and the results of its operations, and cash flows for the year then ended, in compliance 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 judgements 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 is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them 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 2004 were approved on 16 March 2005 in Kazan, Republic of Tatarstan, Russian Federation, by:


L.S. Alekhin
General Director




R. A. Galeev
Chief accountant

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company "Kazanorgsintez" (the "Company") and subsidiaries (the "Group") as at 31 December 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004, and the results of the Group's operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.



16 March 2005

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ" AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 RUR '000	2003 RUR '000
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	4	8,030,259	7,111,201
Investments	5	292,052	344,209
Intangible assets	6	50,081	59,391
Investments in associates	7	25,654	26,280
Non-current VAT receivable		27,676	29,080
Other non-current assets	8	659,929	11,973
		9,085,651	7,582,134
CURRENT ASSETS:			
Inventories	9	1,409,555	1,172,368
Trade and other accounts receivable	10	808,272	811,891
Value added tax and other taxes receivable		474,038	238,292
Short-term investments		30,072	-
Cash and cash equivalents	11	146,829	218,466
		2,868,766	2,441,017
TOTAL ASSETS		11,954,417	10,023,151
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	12	1,904,710	1,904,710
Additional paid-in capital		1,515,015	1,515,015
Treasury stock	12	(100,077)	-
Retained earnings		6,245,872	4,774,109
		9,565,520	8,193,834
MINORITY INTEREST		11,694	23,921
DEFERRED TAX LIABILITIES, NET	14	738,299	832,737
LONG-TERM FINANCE LEASE OBLIGATIONS	15	165,954	139,667
CURRENT LIABILITIES:			
Trade accounts payable	16	523,329	471,321
Advances received		113,171	55,112
Short-term borrowings	17	495,036	69,375
Tax liability		160,776	91,341
Other payables and accrued liabilities	18	164,200	114,120
Provisions	19	16,438	31,723
		1,472,950	832,992
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		11,954,417	10,023,151

The notes on pages F-75 to F-97 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	<u>2004</u> <u>RUR '000</u>	<u>2003</u> <u>RUR '000</u>
SALES	20	11,905,651	8,934,583
COST OF SALES	21	<u>(7,627,225)</u>	<u>(6,589,346)</u>
GROSS PROFIT		4,278,426	2,345,237
Selling, general and administrative expenses	22	(1,418,029)	(1,281,908)
(Loss)/income from other sales		(57,654)	159,162
Tangible assets write-down to recoverable amount		<u>-</u>	<u>(77,529)</u>
OPERATING PROFIT		2,802,743	1,144,962
Finance income, net	23	20,677	45,417
(Loss)/income from associates		(626)	9,600
Non-operating expenses, net	24	(285,779)	(120,064)
Exchange rate (loss)/gain, net		<u>(34,169)</u>	<u>3,384</u>
PROFIT BEFORE TAX AND MINORITY INTEREST		2,502,846	1,083,299
INCOME TAX	14	<u>(567,551)</u>	<u>(473,591)</u>
PROFIT AFTER TAX AND BEFORE MINORITY INTEREST		1,935,295	609,708
MINORITY INTEREST		<u>12,226</u>	<u>(2,360)</u>
NET PROFIT for the year		<u>1,947,521</u>	<u>607,348</u>
EARNINGS PER SHARE		<u>RUR</u>	<u>RUR</u>
-Basic	26	1.09	0.34
-Diluted	26	1.02	0.32

The notes on pages F-75 to F-97 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

RUR '000	Notes	Ordinary and preferred share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
Balance at 1 January 2003		19,047	1,515,015	(54,405)	6,134,984	7,614,641
Increase in share capital	12	1,885,663	-	-	(1,885,663)	-
Dividends	27	-	-	-	(82,560)	(82,560)
Net profit for the year		-	-	-	607,348	607,348
Acquisition of treasury shares		-	-	(46,000)	-	(46,000)
Disposal of treasury shares		-	-	100,405	-	100,405
Balance at 31 December 2003		1,904,710	1,515,015	-	4,774,109	8,193,834
Dividends	27	-	-	-	(475,758)	(475,758)
Net profit for the year		-	-	-	1,947,521	1,947,521
Acquisition of treasury shares		-	-	(100,077)	-	(100,077)
Disposal of treasury shares		-	-	-	-	-
Balance at 31 December 2004		1,904,710	1,515,015	(100,077)	6,245,872	9,565,520

The notes on pages F-75 to F-97 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	<u>2004</u> RUR '000	<u>2003</u> RUR '000
OPERATING ACTIVITIES:			
Cash flows from operations	28	2,125,218	1,359,185
Income tax paid		(649,897)	(313,156)
Interest paid		(4,151)	(18,970)
Net cash provided by operating activities		<u>1,471,170</u>	<u>1,027,059</u>
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,380,971)	(430,267)
Proceeds on disposal of property, plant and equipment		22,700	7,206
Acquisition of equity investments		(3,462)	(128,694)
Acquisition of subsidiary		-	(9,600)
Proceeds on disposal of equity investments		54,489	43,475
Proceeds on disposal of subsidiary		2,200	2,882
Interest received		32,442	8,369
Dividends received		10,549	10,414
Net cash used in investing activities		<u>(1,262,053)</u>	<u>(496,215)</u>
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		471,747	806,582
Repayments of short-term borrowings		(60,735)	(987,174)
Dividends paid		(473,806)	(93,928)
Acquisition of treasury shares		(100,077)	(46,000)
Repayment of obligations under finance lease		(117,883)	(47,453)
Net cash from financing activities		<u>(280,754)</u>	<u>(367,973)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(71,637)	162,871
CASH AND CASH EQUIVALENTS, beginning of year		<u>218,466</u>	<u>55,595</u>
CASH AND CASH EQUIVALENTS, end of year		<u><u>146,829</u></u>	<u><u>218,466</u></u>

The notes on pages F-75 to F-97 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. NATURE OF THE BUSINESS

Open Joint Stock Company “Kazanorgsintez” (the “Company”) was incorporated in Kazan, Republic of Tatarstan, Russian Federation on 1 September 1993. The Company and its subsidiaries (the “Group”) produce chemical products and derivatives thereof (mainly ethylene and polyethylene) which are marketed and sold primarily in the Russian Federation. The principal operating office of the Company is situated at the following address: 101 Belomorskaya street, 420051, Kazan, Republic of Tatarstan, Russian Federation.

The Group employed 7,061 and 6,858 people at 31 December 2004 and 2003 respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation in which they are incorporated and registered. Accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated financial statements are presented in compliance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

- Valuation of property, plant and equipment in accordance with IAS No. 16 “Property, Plant and Equipment” (“IAS 16”);
- Valuation of financial instruments in accordance with IAS No. 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”).

Reclassification – Certain comparative information, presented in the consolidated annual financial statements for the year ended 31 December 2003, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2004.

Use of Estimates and Assumptions – The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Measurement and Presentation Currency – The measurement currency of the consolidated financial statements, which reflects the economic substance of the underlying events and transactions of the Group’s operations, is the Russian Rouble (“RUR”).

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation – The consolidated financial statements incorporate the financial statements of OJSC “Kazanorgsintez” and other enterprises, where the Company, directly or indirectly exercises control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognized. 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.

All significant intercompany transactions, balances and unrealized gains or losses on transactions are eliminated on consolidation.

Investments in Associates – An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results and the assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognize any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group’s interest in the relevant associate, except where unrealized losses provide evidence of an impairment of the asset transferred.

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis following an assessment of its useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment in associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

At each balance sheet date, the Group reviews the carrying amounts of its goodwill to determine whether there is any indication that goodwill has suffered an impairment loss. Impairment loss, if any, is recognized as expense in the current period.

Foreign Currencies Transactions – Transactions in currencies other than Russian Roubles are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All translation differences are recognized in the consolidated income statement.

Revenue Recognition – Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. Sales are recognized net of value added tax.

Property, Plant and Equipment – Property, plant and equipment is stated at cost as modified by the application of IAS 29.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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

Depreciation is computed under the straight-line method utilizing useful lives of the assets determined by independent appraisers and over the estimated useful economic lives of assets, acquired subsequent to valuation date, which are:

Buildings	25 – 40 years
Machinery and equipment	10 – 22 years
Vehicles	10 – 20 years
Instruments	10 years
General equipment	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.

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 these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset.

Impairment of Tangible and Intangible Assets – 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 impossible 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.

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 (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land, buildings, other than investment property, or equipment, carried at a revalued amount, in which case the impairment loss is treated as a decrease in revaluation reserve.

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

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Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rents paid under operating leases are charged to the income statement as incurred.

Investments – In accordance with IAS 39, investments are classified into the following categories: held-to-maturity, trading, available-for-sale and loans and receivables originated by enterprise. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale.

Held-to-maturity investments, loans and receivables originated by Group companies are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Estimation of fair values of financial instruments is made in accordance with the requirements of IAS No. 32 “Financial Instruments: disclosure and presentation” and IAS 39 “Financial instruments: Recognition and Measurement”. As no readily available market exists for the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in the consolidated financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of after initial recognition its full holdings of a particular instrument. Investments in non-marketable equity instruments for which fair value could not be estimated reliably are measured at cost less any provision for impairment.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. For unquoted securities fair value is determined by reference to market prices of securities with similar credit risk and/or maturity and in other cases by reference to the share in estimated equity capital of an investee. Gains or losses on measurement to fair value of investments are recognized in the income statement for the period.

Held-to-maturity investments are carried at amortized cost calculated using the effective interest rate method, less any provision for impairment or permanent diminution in value.

Loans granted by or to the Company (Group) at interest rates that are below the market are discounted to fair value using the effective interest method.

Inventories – Inventories are stated at the lower of cost or net realizable value. Cost comprises direct materials, customs duties, transportation and handling costs. Cost is calculated using average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

Accounts Receivable – Accounts receivable are stated at their net realizable value after deducting provisions for uncollectable amounts.

Cash and Cash Equivalents – Cash includes petty cash and cash held on current bank accounts. Cash equivalents include short-term investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

Bank Loans and Other Non-Bank Borrowings – All loans and borrowings are initially recorded at the proceeds received, net of direct issue costs. After initial recognition all loans and borrowings are subsequently measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred.

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 recognized as an expense in the period in which they are incurred.

Trade and Other Payables – Liabilities for trade and other amounts payable are stated at their nominal value.

Income Taxes – Income taxes have been computed in accordance with the laws of Russian Federation. They are based on the results for the year as adjusted for items that are non-assessable or non-tax deductible.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences:

- Except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax is calculated at rates that are expected to apply to the period when the asset is realized or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement Benefit Costs – The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. Any related expenses are recognized in the income statement as incurred.

The Group participates in a defined contribution plan under which the Group makes certain payments to non-state pension fund for its employees. Contributions made by the Group to defined contribution plans are charged to expense when incurred.

Segment Reporting – The majority of the Group’s business operations are located in the Russian Federation and relate primarily to 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 addressed in the consolidated financial statements of the Group as one reportable segment.

Provisions – A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligations. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of management.

Contingencies – Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

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

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

4. PROPERTY, PLANT AND EQUIPMENT

RUR '000	<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 2003	8,337,627	8,330,172	523,239	556,938	17,747,976
Additions	-	176,745	27,603	520,232	724,580
Disposals	(216,745)	(70,221)	(26,152)	-	(313,118)
Acquisition of subsidiary	-	-	10,109	-	10,109
Disposal of subsidiary	-	-	(22,866)	-	(22,866)
Transfers	20,168	484,021	-	(504,189)	-
Tangible assets write-down to recoverable amount	-	-	-	(80,921)	(80,921)
At 31 December 2003	8,141,050	8,920,717	511,933	492,060	18,065,760
Additions	-	153,182	-	1,531,266	1,684,448
Disposals	(7,420)	(194,143)	(140,952)	-	(342,515)
Write-offs	-	-	-	(135,797)	(135,797)
Transfers	56,461	480,331	68,791	(605,583)	-
At 31 December 2004	8,190,091	9,360,087	439,772	1,281,946	19,271,896
<i>Accumulated depreciation</i>					
At 1 January 2003	(4,785,238)	(5,656,361)	(280,214)	-	(10,721,813)
Charge for the year	(205,382)	(307,219)	(37,522)	-	(550,123)
Accumulated depreciation on acquisition of subsidiary	199,654	70,221	45,588	-	315,463
Accumulated depreciation on disposal of subsidiary	-	-	(1,516)	-	(1,516)
Eliminated on disposals	-	-	3,430	-	3,430
At 31 December 2003	(4,790,966)	(5,893,359)	(270,234)	-	(10,954,559)
Charge for the year	(205,515)	(336,691)	(46,336)	-	(588,542)
Eliminated on disposals	6,914	181,866	112,684	-	301,464
At 31 December 2004	(4,989,567)	(6,048,184)	(203,886)	-	(11,241,637)
<i>Net book value</i>					
At 31 December 2003	3,350,084	3,027,358	241,699	492,060	7,111,201
At 31 December 2004	3,200,524	3,311,903	235,886	1,281,946	8,030,259

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 2004 property, plant and equipment with an estimated value of RUR 1,225,063 thousand, were pledged to secure certain short-term loans granted to the Group (refer to note 17).

At 31 December 2004 and 2003, property, plant and equipment includes assets held under a number of finance lease agreements (refer to note 15). At the end of the lease term the Group takes automatic ownership of the assets.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

At 31 December 2004 and 2003 lease obligations were secured by the following capitalized production assets:

	2004 RUR ‘000	2003 RUR ‘000
Cost – capitalized finance leases	347,994	194,812
Accumulated depreciation	(30,458)	(8,151)
Net book value	317,536	186,661

5. INVESTMENTS

	% Ownership		2004	2003
	2004	2003	RUR ‘000	RUR ‘000
LLC “KITB Kazansky”	20%	20%	228,787	228,787
OJSC “Tatneftekhiminvestholding”	7%	7%	38,537	38,537
National non-state pension fund	7%	7%	10,557	10,557
Spurt bank,	1%	6%	8,733	63,883
Other			5,513	5,758
Less investment valuation reserve			(75)	(3,313)
Total			292,052	344,209

6. INTANGIBLE ASSETS

	Software RUR ‘000	Other RUR ‘000	Total RUR ‘000
Cost			
At 1 January 2003	108,502	2,417	110,919
Acquired on acquisition of subsidiary	-	1,095	1,095
At 31 December 2003	108,502	3,512	112,014
At 31 December 2004	108,502	3,512	112,014
Amortization			
At 1 January 2003	(43,368)	-	(43,368)
Charge for the year	(8,346)	(909)	(9,255)
At 31 December 2003	(51,714)	(909)	(52,623)
Charge for the year	(8,346)	(964)	(9,310)
At 31 December 2004	(60,060)	(1,873)	(61,933)
Carrying amount			
At 31 December 2003	56,788	2,603	59,391
At 31 December 2004	48,442	1,639	50,081

Software primarily comprises of costs incurred in connection with acquisition and implementation of management information system SAP R/3 and is amortized over a period of thirteen years.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

7. INVESTMENTS IN ASSOCIATES

<u>Principal activity</u>	<u>Country of incorporation and operation</u>	<u>% of ownership interest</u>	<u>Principal activity</u>
LLC “Taif-Invest”	Russian Federation	40.3	Investing
CJSC “Ankorit”	Russian Federation	39.0	Industrial

During 2004 the Group disposed of its 25 % interest in OJSC “Ekohimpromservice”. No profit or loss was recognized on the disposal of this investment.

	<u>2004 RUR ‘000</u>	<u>2003 RUR ‘000</u>
Cost of investments	5,019	5,019
Share of post acquisition profits	20,635	21,261
Total	25,654	26,280

8. OTHER NON-CURRENT ASSETS

Other non-current assets comprise of prepaid amounts for licenses for bisphenol and polycarbonate plastic production acquired during 2004 year (refer to note 31).

9. INVENTORIES

Stores and materials	885,274	793,173
Work in progress and semi-finished products	222,964	180,378
Finished goods	314,338	240,236
Less: valuation allowance	(13,021)	(41,419)
Total	1,409,555	1,172,368

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.

At 31 December 2004 the Group’s future custom payments were secured by a guarantee issued by AKB AK Bars, collateralized by finished goods with a carrying value of RUR 18,343 thousand.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u> <u>RUR ‘000</u>	<u>2003</u> <u>RUR ‘000</u>
10. TRADE AND OTHER ACCOUNTS RECEIVABLE		
Trade receivables	394,177	735,078
Advances paid	359,068	174,152
Other receivables	138,864	65,904
Less: Valuation allowance	<u>(83,837)</u>	<u>(163,243)</u>
Total	<u>808,272</u>	<u>811,891</u>
11. CASH AND CASH EQUIVALENTS		
Petty cash	636	4,214
Cash in banks, in RUR	64,865	46,297
Cash in banks, in RUR – related parties	24	12,696
Cash in banks, in hard currency	75,284	4,227
Cash in banks, in hard currency – related parties	4	20,817
Restricted cash	5,508	-
Short-term deposits in related party banks	-	130,000
Other cash equivalents	<u>508</u>	<u>215</u>
Total	<u>146,829</u>	<u>218,466</u>

During 2003 cash deposits were held with a related party commercial bank. The Group earned interest on these deposits at a rate of 4.5-13.0% per annum.

Restricted cash represents letter of credit held in ABN AMRO bank.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 ‘000 shares	2003 ‘000 shares
12. SHARE CAPITAL		
<i>Authorized</i>		
Ordinary share at par value of RUR 1 each	2,505,114	2,505,114
Preferred convertible shares at par value of RUR 1 each	119,596	119,596
	2,624,710	2,624,710
<i>Ordinary shares – Issued and fully paid at par value of RUR 1 each</i>		
At the beginning of the year	1,785,114	17,851
Capitalized issue of par value of RUR 1 each in April 2003	-	1,767,263
At the end of the year	1,785,114	1,785,114
<i>Preferred shares – Issued and fully paid at par value of RUR 1 each</i>		
At the beginning of the year	119,596	1,196
Capitalized issue of par value of RUR 1 each in April 2003	-	118,400
At the end of the year	119,596	119,596
Total issued share capital	1,904,710	1,904,710
By way of a capitalization issue out of retained earnings in April 2003 the Company increased its issued share capital by 1,885,663 comprising 1,767,263 thousand ordinary share of RUR 1 each and 118,400 thousand preferred shares of RUR 1 each. The capitalization was made on the basis of 99 shares for each existing share held.		
<i>Treasury shares</i>		
At the beginning of the year	-	506
Acquired by the Group	23,627	445
Equity compensation to management	-	(875)
Disposals to third parties	-	(76)
At the end of the year	23,627	-
Treasury shares recorded as a deduction from issued and fully paid share capital at 31 December 2004 comprised RUR 100,077 thousand (2003: nil).		
Ownership distribution was as follows:		
	2004 % of ownership	2003 % of ownership
LLC “Syntez-Management”	45.6	-
OJSC “Svyazinvestneftkhim”	26.6	26.6
LLC “Vulkan”	-	14.5
OJSC “TAIF”	1.3	22.3
Other legal entities and individuals	26.5	36.6
Total	100.0	100.0

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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 Group's charter, liquidation or reorganization of the Group or any of its subsidiaries or branches and investments in other legal entities. The term of the "Golden Share" 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.

During 2004 the shares of LLC “Vulkan” and OJSC “TAIF” were transferred to LLC “Syntez-Management”. These entities along with LLC Taif-Invest, in which the Group holds 40.3% interest (refer to note 7) are part of the TAIF Group.

13. SHAREHOLDERS' EQUITY

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

	2004	2003
	RUR '000	RUR '000
Group equity per RAS	7,834,628	6,298,150
Increase/(decrease) due to effect of:		
Property, plant and equipment valuation	2,690,619	2,630,988
Investments valuation	94,927	91,539
Inventory valuation	(13,021)	3,413
Allowance for doubtful accounts	(10,835)	(129,171)
Additional deferred income tax liability	(634,021)	(752,841)
Other accrued (expense)/income, net	(16,438)	71,123
Other	19,661	(19,367)
Group equity per IFRS	9,965,520	8,193,834

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

Group earnings per RAS	1,869,788	889,165
Increase/(decrease) due to effect of:		
Additional depreciation expense	(262,719)	(275,822)
Consolidation of subsidiaries	12,226	13,726
Change in deferred income tax provision	118,820	(79,181)
Bad debt provision recovery / (expense)	118,336	(3,834)
Change in provision for fines and penalties	11,729	37,557
Changes in inventory valuation reserves	19,052	10,443
Fixed assets disposals and write-down, net	(18,351)	(87,336)
Changes in investments valuation reserve	1,711	59,153
Other	76,929	43,477
Group earnings per IFRS	1,947,521	607,348

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u> <u>RUR '000</u>	<u>2003</u> <u>RUR '000</u>
14. INCOME TAX		
Income tax calculated on taxable income as defined under RAS differs significantly from IFRS. The Group's provision for income tax is as follows:		
Current income tax charge	(661,989)	(337,078)
Adjustment in respect of current income tax of previous periods	-	(13,365)
Deferred income tax release/(charge)	94,438	(123,148)
Total	<u>(567,551)</u>	<u>(473,591)</u>
The following presents a reconciliation of theoretical income tax calculated at the rate effective in the Russian Federation to the amount of actual income tax expense recorded in the income statement as follows:		
Income before income taxes	2,502,846	1,083,299
Statutory income tax rate	24%	24%
Theoretical income tax expense at statutory rate	(600,683)	(259,992)
Effect of non-deductible expenses and permanent differences, net	33,132	(213,599)
Income tax expense	<u>(567,551)</u>	<u>(473,591)</u>
Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax liability:		
Valuation of non-monetary assets, primarily property, plant and equipment	(740,899)	(867,032)
Allowance for doubtful accounts	2,600	31,001
Accrued expenses	(3,636)	212
Provisions	18	795
Other	3,618	2,287
Deferred tax liability, net	<u>(738,299)</u>	<u>(832,737)</u>
15. FINANCE LEASES OBLIGATIONS		
Minimum lease payments		
Due within one year	107,473	63,115
Due later than 1 year and not later than 5 years	181,430	174,482
Total future lease payments	288,903	237,597
Less: future finance charges	(34,599)	(53,455)
Present value of minimum lease payments	254,304	184,142
Less: amount due for settlement within 12 months (refer to note 18)	(88,350)	(44,475)
Long-term finance lease obligations	<u>165,954</u>	<u>139,667</u>

At 31 December 2004 and 2003 the lease obligations are denominated in USD and secured by leased

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

production equipment with a carrying value of RUR 317,536 thousand and RUR 186,661 thousand, respectively – (refer to note 4).

	<u>2004</u> <u>RUR ‘000</u>	<u>2003</u> <u>RUR ‘000</u>
16. TRADE ACCOUNTS PAYABLE		
Trade payables to third parties	523,329	466,697
Trade payables to related parties	-	4,624
Total	<u>523,329</u>	<u>471,321</u>
17. SHORT-TERM BORROWINGS		
ABN Amro, EURO	272,198	-
LLC “Mislid”, RUR	45,455	-
LLC “Vois”, RUR	45,182	-
LLC “Pamir”, RUR	45,182	-
ABN Amro, USD	41,623	-
CIB Bank Rt., EURO	30,342	-
LLC “Vaytel”, RUR	9,637	-
Spurt bank – related party, RUR	-	27,540
Financebank – related party, RUR	-	24,000
OJSC “Nikoil”, RUR	-	6,939
LLC “KITB Kazansky”, RUR	-	6,500
Other, RUR	5,417	4,396
Total	<u>495,036</u>	<u>69,375</u>

The interest rates on these borrowings vary as follows:

- EURO-denominated borrowings for 2004: from LIBOR plus 1.25% to 10.0% per annum;
- USD-denominated borrowings for 2004: LIBOR plus 3.25% per annum;
- RUR-denominated borrowings for 2004: all short-term borrowings are interest free (2003: from 0.0% to 15.0% per annum).

At 31 December 2004 short-term loans granted by ABN Amro are collateralized by property, plant and equipment with an estimated value of RUR 1,225,063 thousand (refer to note 4).

The Group pledged its holding in LLC “KITB Kazansky with a book value of RUR 145,455 thousand as security for non-interest bearing loans from LLC “Mislid”, LLC “Vois”, LLC “Pamir”, LLC “Vaytel”.

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u> <u>RUR '000</u>	<u>2003</u> <u>RUR '000</u>
18. OTHER PAYABLES AND ACCRUED LIABILITIES		
Current portion of finance lease obligations (refer to note 15)	88,350	44,475
Wages	59,465	60,580
Dividends payable	2,170	1,011
Deferred income	180	443
Other payables and accruals	14,035	7,611
Total	<u>164,200</u>	<u>114,120</u>
19. PROVISIONS		
Provision for tax claims	16,438	28,167
Provision for litigation claims	-	3,556
Total	<u>16,438</u>	<u>31,723</u>
20. SALES		
By geographic region:		
Domestic sales	8,513,503	6,545,326
Export sales	3,392,148	2,389,257
Total	<u>11,905,651</u>	<u>8,934,583</u>
By activity:		
High density polyethylene plant	4,571,186	2,893,102
Low density polyethylene plant	2,968,524	2,542,074
Organic products plant	1,741,267	1,429,092
Ethylene plant	1,728,172	1,265,179
Plastic goods plant	896,502	805,136
Total	<u>11,905,651</u>	<u>8,934,583</u>
21. COST OF SALES		
Raw materials	(4,144,530)	(3,704,761)
Energy and water	(1,628,034)	(1,321,302)
Salary of production staff	(884,644)	(691,507)
Depreciation and amortization	(588,542)	(559,378)
Maintenance and repairs	(381,475)	(312,398)
Total	<u>(7,627,225)</u>	<u>(6,589,346)</u>

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u> <u>RUR '000</u>	<u>2003</u> <u>RUR '000</u>
22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
General and administrative expenses	(649,985)	(585,032)
Selling expenses	(401,178)	(374,351)
Taxes	(154,286)	(60,343)
Bank charges	(63,609)	(19,472)
Payment to defined contribution plan	(31,400)	(12,000)
Research and development costs	(24,871)	(8,966)
Loss on disposal of property, plant and equipment	(18,351)	(17,091)
Equity compensation bonus	-	(90,326)
Other	(74,349)	(114,327)
Total	<u>(1,418,029)</u>	<u>(1,281,908)</u>
<p>Bank charges for 2003 consist of RUR 19,472 thousand paid to Kazansky bank (related party).</p>		
23. FINANCE INCOME, NET		
Interest income	32,442	4,930
Income from investments	10,549	10,415
Change in investment provision	3,238	59,153
Other (expense)/income	(1,527)	3,438
Total finance income	<u>44,702</u>	<u>77,936</u>
Finance charges payable under finance leases	(14,699)	(13,549)
Interest expense	(8,176)	(18,970)
Other expense	(1,150)	-
Total finance cost	<u>(24,025)</u>	<u>(32,519)</u>
Total	<u>20,677</u>	<u>45,417</u>
24. NON-OPERATING EXPENSES, NET		
Maintenance of social infrastructure	(132,643)	(73,928)
Rent of land	(109,801)	(84,678)
Gain on disposal of subsidiaries	-	4,217
Gain on disposal of associates	-	1,291
Other (expenses)/income, net	(43,335)	33,034
Total	<u>(285,779)</u>	<u>(120,064)</u>

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

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

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Expenses for rent of land represent 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.

Other (expenses) / income include mostly non-operating (losses) / income of other non-core entities of the Group.

25. EMPLOYEE BENEFITS

The following employee benefits were included in arriving at net profit before tax and minority interest:

	<u>2004</u> <u>RUR '000</u>	<u>2003</u> <u>RUR '000</u>
Wages and salaries	(815,853)	(597,936)
Pension expenses	(228,439)	(167,422)
Other benefits and compensations	(73,996)	(82,963)
Equity compensation bonus	-	(90,326)
Payment to defined contribution plan	(31,400)	(12,000)
Total	<u>(1,149,688)</u>	<u>(950,647)</u>

The Group participates in a defined contribution plan under which the Group makes certain payments to a non-state pension fund for its employees. Contributions made by the Group to the defined contribution plan are charged to expense when incurred and are recognized in other operating expenses in the income statement.

In 2003 the Group granted 875 thousand of its common shares of RUR 90,326 thousand value to management as a part of bonus arrangement. This equity-settled share-based payment was recognized at the fair value of the equity instruments granted at grant date. Management estimated the fair value of the treasury shares granted using quoted market prices for these instruments at the measurement date.

26. EARNINGS PER SHARE

The calculation of basic earnings per share is based on net profit for the year of RUR 1,947,521 thousand (2003: RUR 607,348 thousand) divided by weighted average number of ordinary shares of 1,785,114 thousand (2003: 1,785,114 thousand), excluding convertible preferred shares.

The calculation of fully diluted earnings per share is based on net profit for the year ended of RUR 1,947,521 thousand (2003: RUR 607,348 thousand) divided by a weighted average number of ordinary and the effect of convertible preferred shares of 1,904,710 thousand (2003: 1,904,710 thousand)

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

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There have been no other transactions involving ordinary shares or potential ordinary shares subsequent to the reporting date of these financial statements.

	<u>2004</u> <u>RUR '000</u>	<u>2003</u> <u>RUR '000</u>
27. DIVIDENDS PAID AND PROPOSED		
Dividends declared and paid in respect of the year ended 31 December 2003:		
– ordinary shares (RUR 0.25 per share)	445,859	-
– preferred shares (RUR 0.25 per share)	29,899	-
Dividends declared and paid in respect of the year ended 31 December 2002:		
– ordinary shares (RUR 2.95 per share)	-	52,661
– preferred shares (RUR 25.00 per share)	-	29,899
Total	<u>475,758</u>	<u>82,560</u>

Accumulated profits legally distributable by the Group 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 that make up the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

OPEN JOINT STOCK COMPANY "KAZANORGSINTEZ" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u> <u>RUR '000</u>	<u>2003</u> <u>RUR '000</u>
28. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS		
OPERATING ACTIVITIES:		
Profit before tax and minority interest	2,502,846	1,083,299
Adjustments for:		
Depreciation	588,542	550,123
Amortization	9,310	9,255
Loss/(income) from interests in associate	626	(9,600)
Gain on disposal of associates	-	(1,291)
Gain on disposal of subsidiaries	-	(4,217)
Loss on disposal of equity investments	-	50,189
Loss on disposal of property, plant and equipment	18,351	17,091
Finance costs, net	(20,677)	(45,417)
Operating cash flow before movements in working capital	3,098,998	1,649,432
Decrease/(increase) in trade accounts receivable	3,619	(76,117)
Increase in VAT receivable	(235,746)	(16,944)
Increase in inventories	(237,187)	(96,833)
Increase in other current assets	(632,723)	(7,232)
Increase in short-term investments	(30,072)	-
Increase/(decrease) in trade accounts payable	52,008	(47,238)
Increase/(decrease) in advances received	58,059	(6,364)
Increase in other current liabilities	6,205	25,000
Decrease in provisions	(15,285)	(30,114)
Increase/(decrease) in taxes payable	57,342	(34,405)
Cash flow from operations	2,125,218	1,359,185

29. RELATED PARTIES

Related parties include shareholders, affiliates and entities under common ownership, over which the Group has the ability to exercise a significant influence.

Included in balance sheet and income statement are the following transactions and balances with related parties:

Sales of goods and services	657,462	324,946
Purchase of goods and services	293,098	260,847
Dividends received	10,540	10,411
Purchase of debentures and shares	52,620	782,968
Sales of debentures	-	782,968
Bank charges	1,418	19,472
Loans received	-	434,337
Loans paid	-	487,815
Repayment of loan granted	-	2,457
Accounts receivable balance	48,414	5,789
Accounts payable balance	1,517	5,556

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

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Sales prices on shipments of products/ rendering of services to related parties do not differ substantially from the sales prices on shipments/ rendering of services to other customers

30. SEGMENT REPORTING

The Group produces and sells chemical products. Management considers that the Group operates in one industry segment being the production and sales of chemical products. The Group has both domestic and export sales. However, management considers that risks related to domestic and export sales do not differ.

31. COMMITMENTS AND CONTINGENCIES

Litigation

The Group has been and continues to be the subject of 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 recently 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.

Local authorities have significant influence on the Group's operations. In 2004 the Group incurred RUR 109,801 thousand (2003: RUR 84,678 thousand) under a rent agreement with Tatarstan Republic Government in order to compensate the cancellation of certain local taxes (refer to note 24). 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

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

Russian Federation Risk

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues, however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. Furthermore, substantially all privatisations in the Russian Federation in the early 1990's were flawed in some manner, and even the most minor administrative flaw in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the state, local authorities and administration, the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Group's business, will depend upon the Government's ability to institute supervisory, judicial and other regulatory reforms.

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.

The total capital commitments for 2005 are estimated at RUR 9.8 billion, including RUR 4.5 billion of contracted commitments. The capital expenditures will be mostly financed through 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.

While the Group maintains insurance cover for damage related to explosion caused by the operating process, the Group does not have full coverage for its processing facilities, for business interruption, or for third party liabilities in respect of property of environmental damage arising from accidents on

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

the Group’s property or environmental damage arising from accidents on the Group’s property or relating to the Group’s operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material effect on the Group’s operations and financial position.

32. 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 2004:

	Within 1 year RUR ‘000	Later than 1 year and not later than 5 years RUR ‘000	Total RUR ‘000
2004			
Finance lease liabilities	88,350	138,278	226,628
Short term borrowings	497,932	-	497,932
Total	586,282	138,278	724,560
2003			
Finance lease liabilities	44,475	110,587	155,062
Short term borrowings	69,375	-	69,375
Total	113,850	110,587	244,437

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.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management’s valuation.

Other financial assets, trade accounts and other receivables, other current assets, cash and cash equivalents, bank overdrafts and trade accounts and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on short-term borrowings and capitalised finance leases are market related, with the majority of debt at floating rates. Consequently the carrying values of these financial instruments approximate their fair values.

The fair values of financial instruments are estimates and do not necessarily reflect the amount of cash that would have been realized had these instruments been liquidated at the date of valuation.

OPEN JOINT STOCK COMPANY “KAZANORGSINTEZ” AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

34. RISK MANAGEMENT

The Group’s financial instruments at 31 December 2004 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.

A significant portion of the Group’s monetary assets and liabilities are denominated in RUR. Interest rate risk and currency risk are not considered to be significant.

The Group manages its liquidity risk through combinations of share capital issues, short-term financing and self generated funds.

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 only supplier of gas. The government of Russian Federation primarily regulates the pricing for gas. The management of the Group is continuously engaged in ensuring a stable supply of gas.

35. INVESTMENTS IN SUBSIDIARIES

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

Subsidiaries	Nature of business	% held	
		2004	2003
<i>Incorporated in the Russian Federation</i>			
LLC “AgrosynteZ”	Agriculture	100.0	100.0
LLC “Keramika SynteZ”	Intermediary services	100.0	100.0
LLC “Tatkhimremont”	Repair & Maintenance	100.0	73.3
OJSC “Luch SynteZ”	Agriculture	97.7	97.7
OJSC “Spetsneftekhimmontazh”	Repair & Maintenance	91.0	91.0
OJSC “Shelangovsky plodovoyagodny sovkhoz”	Agriculture	89.5	89.5
LLC “Trade House OrgsynteZ”	Trading	70.0	70.0
CJSC “SynteZ Sandra”	Trading	-	55.0
<i>Incorporated in Hungary</i>			
LLC “Elmer”	Trading	50.0	50.0

All the shares are directly held by the Company.

On 3 December 2004 the Company acquired the remaining 26.7% of the issued share capital of LLC “Tatkhimremont” for cash consideration of RUR 3,462 thousand. As a result, LLC “Tatkhimremont” became a wholly owned subsidiary of the Group.

On 7 December 2004 the Group disposed of its 55 % holding in CJSC “SynteZ Sandra” for total proceeds of RUR 2,200 thousand. CJSC “SynteZ Sandra” specialized in trading activities and contributed a profit before tax of RUR 1,825 thousand from 1 January 2004 to the date of its disposal. Management ceased to consolidate this company from the date on which control ceased.

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ANNEX A – REPUBLIC OF TATARSTAN

Introduction and Constitution

Originally formed in 1920, the Republic of Tatarstan (the “Republic”) was known in Soviet times as the “Tatar Autonomous Soviet Socialist Republic”. In August 1990, Mintimer S. Shaimiev, who was at that time President of the Supreme Soviet of Tatarstan, signed the “Declaration of State Sovereignty”, which proclaimed that Tatarstan had primary jurisdiction and ownership over state enterprises located on its territory and that the Tatar Constitution and the Republic’s laws prevailed. In late 1991, the Soviet Union broke up and was succeeded by the Russian Federation. In February 1992, Tatarstan changed its name to the Republic of Tatarstan. In March 1992, a referendum declared the Republic of Tatarstan to be ‘a sovereign state and a subject of international law associated with the Russian Federation’.

Under the Constitution of the Russian Federation adopted on 12 December 1993 (the “Constitution”), the Republic has the status of a “subject” of the Russian Federation. There are currently 88 subdivisions within the Russian Federation. From 1 January 2007, the number of subdivisions will be reduced by two and from 1 July 2007, by another one.

On 12 June 1991, Mintimer S. Shaimiev was elected the first President of the Republic and the first Constitution of the Republic was adopted in November 1992. The Republic consequently entered into negotiations with the Russian Federation, which resulted, in February 1994, in the signing of the treaty on the “Segregation of Responsibilities and the Mutual Delegation of Powers between the State Bodies of the Russian Federation and the Republic of Tatarstan” (the “Russia-Tatarstan Treaty” or the “Treaty”). The Treaty recognised the Republic’s sovereignty and confirmed the Republic as part of the Russian Federation. In addition, it delineated those areas which were the specific areas of responsibility of the Russian Federation and those which were the responsibility of the Republic.

One of the most significant results of the Russia-Tatarstan Treaty was that the Republic claimed complete ownership and responsibility for all enterprises, natural resources and organisations located on its territory, except for “federal property”, which consisted mainly of military installations and federal monopolies located in the Republic (e.g. railroads and pipelines). It also resulted in the Republic being able to retain control over the privatisation process, rather than being required to comply with the privatisation laws of the Russian Federation.

As a result, the Republic received and retained significant ownership in the privatised enterprises located on its territory and received a golden share in certain enterprises which were viewed as strategically important or having the potential to be profitable. The Republic’s ownership of its land also enabled it to resolve the issue of land ownership in a more transparent fashion than in certain other regions of the Russian Federation and, as a result, companies may now own the land on which they are situated and foreign owned entities set up in the Republic are allowed to purchase land.

On 10 May 2002, the original constitution of the Republic was replaced with the current Constitution of the Republic which was adopted in compliance with the Federal Constitution. The Treaty is, as a practical matter, no longer effective.

The state authority in the Republic is exercised by the President of the Republic, the State Council of the Republic (the “State Council”), Cabinet of Ministers of the Republic and the courts (which are integrated into the federal judicial system) comprising a division of authority into legislative, executive and judicial functions. The State Council (the Republic’s parliament) performs legislative functions. The President, the Cabinet of Ministers of the Republic, ministries and state committees and other executive bodies of the Republic (together, the “Government”) constitute the executive authority of the Republic. The President, subject to the approval of the State Council, appoints the members of the Cabinet.

The State Council is the supreme representative and legislative body of the Republic directly elected by the electorate of the Republic in accordance with the Constitution and laws of the Republic. It is a single-house parliament consisting of 100 elected deputies of whom 20 work permanently at the State Council on a full-time basis. The most recent parliamentary elections were held on 14 March 2004. For the first time, those elections were conducted on the basis of single member constituencies and by party lists. Deputies are elected for a five year term. The next elections are scheduled for 2009.

In March 2005, the President of the Republic, Mr Mintimer S. Shaimiev, resigned prior to the expiry of his third presidential term and was nominated by the President of the Federation to govern the Republic for a further term of five years. The State Council appointed Mr Shaimiev the President of the Republic in March 2005 for a further term of five years.

Geography and Demographics

The Republic is situated in the highly industrialised Volga basin about 800 kilometres south east of Moscow on the confluence of the Volga and Kama rivers on the eastern part of the east European plains and covers an area of approximately 68,000 square kilometres.

The territory is rich in a number of natural resources, which are the mainstay of the local economy. Principal among these is oil, which has been produced commercially in the Republic since 1946. The Republic also has reserves of gas, petroleum bitumen, brown and black coal, combustible shale, copper ore, gypsum, phosphorites and aggregates.

The population of the Republic is approximately 3.8 million, of whom approximately 2.8 million or 74 per cent. comprise urban population. The population of the capital city of the Republic, Kazan, is 1.1 million, making it the seventh largest city in the Russian Federation. Kazan is recognised as one of the most ancient Russian cities.

Although there are as many as 70 different ethnic groups living in the Republic, the two largest groups are Tatars (52.9 per cent.) and Russians (39.5 per cent.). These proportions are based on 2002 census figures, the last time such a census was carried out. Other groups are Chuvash, Ukrainians, Udmurts, Mordva, Mari and others. The Tatar population is predominantly Muslim and speaks Tatar, which is a Turkic language and relates closely to modern Turkish. The Republic has both Tatar and Russian as its official languages and the Constitution guarantees the equality of these two languages. The vast majority of Tatars also speak Russian, and Russian is widely used for business and administrative purposes.

The Republic's Economy

The Republic has a long-term issuer rating of "Ba1" (outlook stable) by Moody's Investors Service, Inc., a long-term foreign currency rating of "BB" (outlook stable) by Fitch Ratings Ltd. and a foreign currency rating of "BB-" (outlook stable) by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc.

Industrial production

The Republic's key industries are fuel, machine building and metalworking, and the chemical and petrochemical industries. The industrial sector of the Republic is dominated by the 10 largest entities, which collectively employ approximately 50 per cent. of the industrial workers in the Republic, or over 11 per cent. of the working population. These entities are Tatneft (oil and gas), OJSC Kamaz (trucks and cars), OJSC Nizhnekamskshina (tyres and chemicals), OJSC Nizhnekamskneftekhim (petrochemicals and chemicals), the Company, Tatenergo (energy generation), Kazan Engine Building Plant (machine building), OJSC Kazan Helicopter Factory (civil and military helicopters of different types), KAPO (aircraft) and Zelenodol Plant named after A.M. Gorky (a state-owned shipbuilding enterprise).

Transport

The Republic's road, rail and river lines network is one of the most developed in the Russian Federation and provides easy access to a wide range of areas of the Russian Federation, including the Urals, Siberia, the Far East and the European part of the Russian Federation.

The Republic's road network includes 20,122 kilometres of roads, of which 18,564 are hard covered roads, and 1,038 form part of the federal road system. The Republic is served by major railway lines connected to Moscow, Nizhniy Novgorod, Kirov, Chelyabinsk and Ekaterinburg. The Republic's cities have air connections to numerous locations within the Russian Federation. The Republic's capital city of Kazan has international air connections to Turkey, Germany, Kazakhstan and Azerbaijan. There are four navigable rivers in the Republic: the Volga, the Kama, the Vyatka and the Belaya (which collectively comprise 933 kilometres of waterways). The Volga and Kama rivers form a united deep water traffic system in European Russia.

There are approximately 5,880 kilometres of pipelines in the Republic which facilitate the transportation of oil to a number of CIS and European countries and to other regions of the Russian Federation. In addition, the "Druzhba" or "Friendship oil pipeline" connecting with a number of Eastern European countries starts in the Republic.

Communications

The Republic's telecommunications sector comprises 217 telecommunications operators employing more than 24,000 people. The level of telephone coverage in villages in the Republic is 98.5 per cent., which is

high in comparison with other regions of the Russian Federation. There are digital transit automatic telephone exchanges operating in 41 cities, towns and district centres in the Republic. The payphone network in the Republic has also been updated.

Banking system

The Republic has a developed banking sector consisting of 27 financial institutions headquartered in the Republic which have 55 branches located in the Republic. These financial institutions also have 16 branches operating outside the Republic, of which five are in Moscow. In addition, there are 47 additional branches of banks with headquarters outside the Republic operating in the Republic (the majority of which are branches of Sberbank). The Russian Government-owned Vneshtorgbank (Bank for Foreign Trade), as well as private banks, Alfa Bank and Zenit Bank, also have established branch networks in the Republic.

Foreign Trade and Foreign Investment

The main contributors to export growth are the oil and gas and chemical and petrochemical industries. The main export items are crude oil, oil products, trucks, and certain types of manufacturing equipment and spare parts.

Major foreign trade partners of the Republic are Great Britain, Germany, Turkey, The Netherlands, Finland and Italy (among non-CIS countries), and Azerbaijan, Belarus, Kazakhstan and Ukraine (among CIS countries). Trade with Uzbekistan has also increased in recent years. The Republic's exports to these countries consist mostly of crude oil, petroleum products and petrochemical products.

The Company

In 2004, the Government of the Republic adopted a Programme of Development of Oil, Gas and Chemical Industries in the Republic of Tatarstan for the years 2004 to 2008 (the "Programme"). The Programme underlines the significance of OJSC Tatneft, OJSC Nizhnekamskneftekhim, OJSC Nizhnekamskshina and the Company for the economy of the Republic and indicates that the Company's Development Plan is a priority investment project for the Republic's chemical and petrochemical industries.

In 2006, the Cabinet of Ministers of the Republic adopted a regulation, and entered into agreement with the Company, providing for certain tax benefits in connection with the implementation of the Development Plan. In particular, the profit tax rate applicable to the Company has been reduced from 17.5 per cent. to 13.5 per cent. and the property tax rate has been reduced from 2.2 per cent. to 0.1 per cent. (in respect of purchased and newly constructed properties). Pursuant to the agreement, these tax benefits are effective until the fourth quarter of 2011.

In accordance with regulations of the Republican Energy Commission, since 1 January 2006 the Company has been designated the status of a "base customer" (together with OJSC Tatneft, OJSC Nizhnekamskneftekhim and OJSC KamAZ) and received certain electricity tariff benefits.

BORROWER

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