JOINT STOCK COMPANY DOROGOBUZH

International Financial Reporting Standards Condensed Consolidated Interim Financial Statements for six months, ending on June 30, 2007

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(Stated in '000 Russian Roubles, excluding data per share)

	Note	June 30, 2007	December 31, 2006
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,148,065	3,085,532
Goodwill	12	52,068	52,068
Investment available for sale	13	2,685,278	2,790,118
Long-term loans receivable	9	-	5,500
Total non-current assets		**5,885,411**	**5,933,218**
Current assets			
Inventory	10	783,923	827,134
Other current assets		46,627	50,529
Short-term loans receivable	9	207,500	247,500
Accounts receivable	8	789,726	978,558
Dividend receivable		50,674	41,816
Cash and cash equivalents	7	386,057	458,855
Total current assets		**2,264,507**	**2,604,392**
Total assets		**8,149,918**	**8,537,610**
EQUITY			
Share capital			
Charter capital	17	1,735,359	1,735,359
Share premium	17	93,794	93,794
Retained earnings		1,411,233	860,320
Share revaluation reserve		2,012,946	2,092,624
Total Equity		**5,253,332**	**4,782,097**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	16	149,734	1,343,617
Other long-term liabilities		44,805	44,805
Deferred tax liability	18	858,805	902,113
Total non-current liabilities		**1,053,344**	**2,290,535**
Current liabilities			
Accounts payable	14	229,599	411,083
Current profit tax payable		11,508	9,928
Other taxes payable	15	90,558	72,954
Short-term borrowings	16	1,232,823	600,000
Advances received		278,754	371,013
Total current liabilities		**1,843,242**	**1,464,978**
Total liabilities		**2,896,586**	**3,755,513**
Total liabilities and equity		**8,149,918**	**8,537,610**

Approved for issue and signed on behalf of the Board of Directors on August 20, 2007.

I.N.Antonov
President

N.I.Sluzhenikina
Chief Accountant

(Stated in '000 Russian Roubles, excluding data per share)

	Note	6 months of 2007	6 months of 2006
Revenue	5	3,589,178	2,872,143
Cost of sales		(2,033,558)	(1,834,991)
Gross profit		**1,555,620**	**1,037,152**
Transportation services		(200,777)	(142,398)
Sales, general and administrative expenses		(582,489)	(283,487)
Taxes other than profit tax		(12,104)	(16,863)
Loss on disposal of property, plant and equipment, net		14,952	(5,665)
Other operating expenses		(38,719)	(35,763)
Other revenues		52,596	46,893
Financial expenses		(59,540)	(63,264)
Profit before tax		**729,539**	**536,605**
Profit tax	18	(178,626)	(174,142)
Profit for six months of the year 2007		**550,913**	**362,463**
Weighted average number of common shares outstanding in the accounting period		721,182,860	721,182,860
Weighted average number of privileged shares outstanding in the accounting period		154,256,400	154,256,400
Earnings per common share, basic and diluted (in Russian Roubles per share)	19	**0.63**	**0.41**
Earnings per privileged share, basic and diluted (in Russian Roubles per share)	19	**0.63**	**0.45**

(Stated in '000 Russian Roubles, excluding data per share)

	Note	6 months of 2007	6 months of 2006
Cash flows from operation activities			
Profit before tax		729,539	536,605
Adjustments for:			
Depreciation of property, plant and equipment	11	117,881	91,113
Provision for/(reversal of) bad debts		20,422	(9,966)
(Reversal of)/increase in provision for partial write-down of inventory		2,614	2,126
Loss on disposal of property, plant and equipment		5,182	5,665
Financial expenses		59,540	58,755
Other income		(52,596)	(39,579)
Operating cash flow before working capital changes		**882,582**	**644,719**
(Increase) / decrease in trade receivables		159,552	81,763
Increase in inventories		40,597	(64,886)
(Decrease) / increase in payables		(157,681)	59,306
(Decrease) / increase in advances from customers		(92,260)	(212,575)
Decrease in other current assets		3,903	8,386
Increase in other current liabilities		19,185	(58,265)
Cash generated from operations		**855,878**	**458,448**
Profit taxes paid		(176,223)	(168,831)
Interest paid		(63,352)	(54,718)
Net cash generated from operating activities		**616,303**	**234,899**
Cash flow from investing activities			
Purchase of property, plant and equipment		(188,018)	(512,322)
Sale of property, plant and equipment		2,422	1,281
Loans provided, net	9	45,500	(15,000)
Interest received		11,402	318
Dividend received		653	42,331
Purchase of investments		-	(1,765)
Sale of investments		-	475
Net cash generated from/ (used in) investing activities		**(128,041)**	**(484,682)**
Cash flow from financing activities			
Dividend paid		-	(132,195)
Increase / (decrease) in short-term borrowings	16	632,823	331,818
Increase / (decrease) in long-term borrowings	16	(1,193,883)	(46,581)
Net cash used in financing activities		**(561,060)**	**153,042**
Net increase in cash and cash equivalents		**(72,798)**	**(96,741)**
Opening cash and cash equivalents balance		**458,855**	**347,032**
Closing cash and cash equivalents balance		**386,057**	**250,291**

(Stated in '000 Russian Roubles, excluding data per share)

	Charter Capital	Share Premium	Retained Earnings	Revaluation Reserve	Total Equity
Balance as of January 1, 2006	**1,735,359**	**93,794**	**623,942**	**1,910,257**	**4,363,352**
Revaluation of investments available for sale (Note 13)	-	-	-	239,956	239,956
Deferred tax recorded in equity (Note 18)	-	-	-	(57,589)	(57,589)
Net earnings recognized in equity	-	-	-	182,367	182,337
Profit for the year	-	-	382,619	-	382,619
Total recognized earnings for the year 2006	-	-	382,619	182,367	564,986
Dividends			(146,241)		(146,241)
Balance as of December 31, 2006	**1,735,359**	**93,794**	**860,320**	**2,092,624**	**4,782,097**
Balance as of January 1, 2007	**1,735,359**	**93,794**	**860,320**	**2,092,624**	**4,782,097**
Revaluation of investments available for sale (Note 13)	-	-	-	(104,840)	(104,840)
Deferred tax recorded in equity (Note 18)	-	-	-	25,162	25,162
Net earnings recognized in equity	-	-	-	(79,678)	(79,678)
Profit for the six months of the year 2007	-	-	550,913	-	550,913
Total recognized earnings for the six months of the year 2007	-	-	550,913	(79,678)	471,235
Dividends	-	-	-	-	-
Balance as of June 30, 2007	**1,735,359**	**93,794**	**1,411,233**	**2,012,946**	**5,253,332**

1 Dorogobuzh Group and its operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the period ended June 30, 2007 for Joint Stock Company Dorogobuzh (hereinafter referred to as Company or Dorogobuzh) and its subsidiaries (hereinafter jointly referred to as the Group or Dorogobuzh Group).

The Group's principal activities include the manufacture, distribution and sales of chemical fertilizers and related by-products. The Group's manufacturing facilities are primarily based in the Smolensk region of Russia. Dorogobuzh was incorporated as a joint stock company on July 27, 1994. On that date the majority of assets and liabilities previously managed by the state were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatization of state companies approved on July 1, 1992.

The Group's immediate major shareholders as of June 30, 2007 are JSC Acron (hereinafter referred to as Parent company), CJSC Nordic Rus Holding and CJSC Granit, holding 66.41%, 14.28% and 10.86% of voting share capital, respectively. The remaining 8.45% belong to shareholders each holding less than 5% of the Group's shares.

The Company's registered office is Verkhnedneprovsky Settl., Dorogobuzh District, 215753 Smolensk Region, Russian Federation. In the first six months of 2007 the Group had an average of 3,323 employees (3,784 employees in 12 months of the year 2006).

2 Basis of Financial Statements Preparation

This condensed interim financial information for six months ended June 30, 2007 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed financial report should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006.

3 Accounting Policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ending on December 31, 2006, as described in the consolidated financial statements for the year ending December 31, 2006.

4 New Accounting Pronouncements

Certain new standards and interpretations have been published that are not mandatory for the Group's accounting periods beginning on or after January 1, 2007 or later periods and which the entity has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

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

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11 to IFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

(Stated in '000 Russian Roubles, excluding data per share)

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

5 Segment Information

The Group has one reportable segment, which is manufacturing and sale of chemical fertilizers which have similar risks and rewards. The Group evaluates performance and makes investment and strategic decisions based upon review of profitability for the Group as a whole. Its secondary reporting format is determined to be the geographical segments: Russia and CIS countries, and other counties.

Sales are based on the geographical area in which the customer is located. There are no sales or other transactions between the segments. Production and all assets and liabilities of the Group are located in the Russian Federation.

Revenue	**6 months of 2007**	**6 months of 2006**
Overseas	946,149	688,933
Russia and CIS countries	2,643,029	2,183,210
	3,589,178	**2,872,143**

The Group sells to two international trading entities that account for the majority of its sales. In the six months of 2007, AgroNitrogen Logistics Ltd. and NPKhemical Trading Inc. purchased 12% and 7% of the Group's output. The sales to them are included in the overseas segment as risks and returns on them are similar to other overseas sales.

6 Balances and Transactions with Related Parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of June 30, 2007 and December 31, 2006 is detailed below. Transactions were entered into with related parties during the ordinary course of business on an arm's length basis.

i Related Party Balances:

Balance Sheet Caption	**Nature of Relations**	**June 30, 2007**	**December 31, 2006**
Trade receivables, gross	Parent Company	8,244	5,542
	Companies under common control	170,587	140,714
Provision for impairment of trade receivables	Companies under common control	(64,333)	(60,378)
Prepayments, gross	Companies under common control	52,673	42,811
Provision for impairment of prepayments	Companies under common control	-	(1,000)
Dividends receivable	Parent Company	50,372	41,816
Loans issued	Parent Company	150,000	150,000
	Companies under common control	57,500	103,000
Trade payables	Parent Company	10,416	13,904
	Companies under common control	6,138	5,618
Advances from customers	Companies under common control	2,397	44,319

(Stated in '000 Russian Roubles, excluding data per share)

ii Related Party Transactions:

Profit and Loss Item	Nature of relations	June 30, 2007	June 30, 2006
Revenue	Parent Company	22,815	21,952
	Companies under common control	1,131,144	838,383
Gains on interests in associates	Parent Company	50,372	42,101
Purchases	Parent Company	(38,343)	(19,595)
	Companies under common control	(7,432)	(10,419)
Transportation services	Companies under common control	(286,830)	(197,961)
Security services	Companies under common control	(32,181)	(33,620)
Accrued dividends	Parent Company	-	(69,049)

iii Loans issued to Related Parties

As of June 30, 2007 and December 31, 2006 short-term loans denominated in Russian Roubles totalled RUR 57,500 and RUR 97,500, respectively, at interest rate of 10.5%. The loans are unsecured.

In six months of 2007, the Group accrued interest revenue of RUR 5,017 thousand (against RUR 4,418 in six months of 2006).

As of December 31, 2006 long-term loan denominated in Russian Roubles totalled RUR 5,500. As of June 2007, the loan was repaid.

7 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	June 30, 2007	December 31, 2006
RUR denominated cash on hand and balances with banks	100,166	180,088
Foreign currency denominated balances with bank	285,891	278,767
	386,057	**458,855**

8 Accounts Receivable

	June 30, 2007	December 31, 2006
Trade accounts receivable (including from related parties - refer to Note 6)	296,484	445,594
Value-added tax recoverable	189,938	259,891
Notes receivable	18,151	31,962
Profit tax prepayments	49,405	13,637
Advances given	360,339	332,964
Other taxes receivable	3,524	2,203
Less impairment provision for trade and other receivables	(128,115)	(107,693)
	789,726	**978,558**

RUR 29,711 and RUR 247,509 of trade receivables are denominated in USD as of June 30, 2007 and December 31, 2006 respectively.

RUR 17,191 and RUR 11,829 of advances paid to suppliers are denominated in euro as of June 30, 2007 and December 31, 2006 respectively.

RUR 18,151 and RUR 23,811 of notes receivable are promissory notes issued by Sberbank as of June 30, 2007 and December 31, 2006 respectively.

(Stated in '000 Russian Roubles, excluding data per share)

9 Loans Receivable

	June 30, 2007	December 31, 2006
Short-term loans receivable		
Loans issued to related parties (refer to Note 6)	57,500	97,500
Loans issued to the parent company	150,000	150,000
	207,500	**247,500**
Long-term loans receivable		
Loans issued to related parties (refer to Note 6)	-	5,500
	-	**5,500**

Short-term loans denominated in RUR totaled RUR 207,500 and RUR 247,500 as of June 30, 2007 and December 31, 2006 respectively, at interest rates in the range of 8.5% to 10.5%. The loans are unsecured.

As of December 31, 2006 long-term loan denominated in RUR totaled RUR 5,500. As of June 30, 2007 the loan was repaid.

10 Inventories

	June 30, 2007	December 31, 2006
Raw materials and spare parts	656,567	675,177
Work in progress	28,864	28,117
Finished products	98,492	123,840
	783,923	**827,134**

Included in inventories are catalysts of RUR 149,080 (2006: RUR 216,552), which are used in the production process over more than one year. Raw materials are recorded net of depreciation provision of RUR 42,494 (2006: RUR 39,880). No inventories have been pledged as security for borrowings as of June 30, 2007 and December 31, 2006.

11 Property, Plant and Equipment

Property, plant and equipment and accumulated amortization comprise the following:

	Buildings and Other Facilities	Plant and Equipment	Other	Assets under Construction	Total
Initial Cost					
Balance as of January 1, 2006	5,679,277	4,227,978	63,267	179,592	**10,150,114**
Additions	-	-	-	797,239	**797,239**
Acquisitions through business combinations	292,442	60,743	-	405	**353,590**
Transfers	14,329	141,852	38,931	(195,112)	**-**
Disposals	(123,013)	(88,271)	(19,487)	-	**(230,771)**
Balance as of December 31, 2006	**5,863,035**	**4,342,302**	**82,711**	**782,124**	**11,070,172**
Accumulated Amortization					
Balance as of January 1, 2006	3,580,757	4,073,783	41,751	-	**7,696,291**
Amortization on acquisitions through business combinations	239,364	34,646	-	-	**274,010**
Depreciation charge	103,790	65,700	16,857	-	**186,348**
Disposals	(69,002)	(86,965)	(16,042)	-	**(172,009)**
Balance as of December 31, 2006	**3,854,909**	**4,087,164**	**42,567**	-	**7,984,640**
Net book value					
Balance as of January 1, 2006	**2,098,520**	**154,195**	**21,516**	**179,592**	**2,453,823**
Balance as of December 31, 2006	**2,008,126**	**255,138**	**40,144**	**782,124**	**3,085,532**

(Stated in '000 Russian Roubles, excluding data per share)

	Buildings and Other Facilities	Plant and Equipment	Other	Assets under Construction	Total
Initial Cost					
Balance as of January 1, 2007	5,863,035	4,342,302	82,711	782,124	**11,070,172**
Additions	-	-	-	178,493	**178,493**
Acquisitions through business combinations	-	-	-	-	**-**
Transfers	4,334	45,711	2,674	(52,719)	**-**
Disposals	(42,458)	(49,645)	(7,416)	-	**(99,519)**
Balance as of June 30, 2007	**5,824,911**	**4,338,368`**	**77,969**	**907,898**	**11,149,146**
Accumulated Amortization					
Balance as of January 1, 2007	3,854,909	4,087,164	42,567	-	**7,984,640**
Amortization on acquisitions through business combinations	-	-	-	-	**-**
Depreciation charge	64,622	37,189	8,966	-	**110,777**
Disposals	(39,186)	(49,224)	(5,926)	-	**(94,336)**
Balance as of June 30, 2007	**3,880,345**	**4,075,129**	**45,607**	-	**8,001,081**
Net book value					
Balance as of January 1, 2007	**2,008,126**	**255,138**	**40,144**	**782,124**	**3,085,532**
Balance as of June 30, 2007	**1,944,566**	**263,239**	**32,362**	**907,898**	**3,148,065**

As of June 30, 2007 and December 31, 2006 the gross carrying value of fully depreciated property, plant and equipment was RUR 3,193,148 and RUR 3,290,414 respectively.

In 2004 the Group adjusted the gross book values and accumulated depreciation of property, plant and equipment which were purchased and/or constructed over a long period of time (up to 8 years) for the inflation rate. The inflation was calculated in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*, for each respective part of cost of the property, plant and equipment items from the dates of their origination. The adjustment did not affect the net book values of property, plant and equipment.

12 Goodwill

In December 2006 the Group acquired 100% of the share capital of LLC Andrex from the third party for a cash consideration of RUR 131,683. Management believes that no separately identifiable intangible assets exist in acquired company, which could qualify for separate accounting in accordance with IFRS 3. The goodwill for RUR 52,068 is primarily attributable to the cost of new market entry and combined costs savings expected to arise due to unique geographical location of assets of the acquired company for the Group.

Goodwill Impairment Test. Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment. The management of the Group believes that there are no signs of goodwill impairment as of the end of the reporting period.

13 Available-for-Sale Investments

	June 30, 2007	December 31, 2006
Balance as of January 1	2,790,118	2,548,887
Additions	10,000	17,901
Fair value gain	(104,840)	239,955
Disposals	(10,000)	(16,625)
Closing balance	**2,685,278**	**2,790,118**

(Stated in '000 Russian Roubles, excluding data per share)

Investments previously classified as Investements at fair value through profit or loss were designated by the Group as available-for-sale investments in line with requirements of IAS 39 (revised) *The Fair Value Option* effective from January 1, 2006. Respective fair value gains (losses) were recognized directly in equity. These investments comprise principally equity securities, which are listed on the RTS but which are not actively traded and hence are not considered to be quoted in an active market in line with requirements of IAS 39. For these investments, fair value is estimated by using valuation techniques based on application guidance of IAS 39 (revised). Applied multipliers of enterprise value to sales and EBITDA were 1,30 and 4,96 respectively. Applied discounts for lack of control and lack of marketability were 15% and 35% respectively. For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on June 30.

The Group has investments in the following companies:

Name	Business	Country of Registration	June 30, 2007	December 31, 2006
JSC Acron	Fertilizer production	Russia	2,413,302	2,538,591
JSC Sberbank	Banking	Russia	247,662	227,213
Other			24,314	24,314
			2,685,278	**2,790,118**

14 Accounts Payable and Advances Received

	June 30, 2007	December 31, 2006
Trade accounts payable (refer to Note 6)	126,792	143,877
Payables to employees	90,078	111,426
Dividends payable	2,049	2,076
Deferred purchase consideration for acquisition of new subsidiaries	-	137,656
Accrued liabilities and other payables	10,680	16,048
	229,599	**411,083**

RUR 21,662 and RUR 136,055 of trade payables are denominated in foreign currency as of June 30, 2007 and December 31, 2006 respectively. It should be noted though, that in 2007 these payables were primarily denominated in euro, while in 2006 - in USD.

15 Other Taxes Payable

	June 30, 2007	December 31, 2006
Value-added tax payable	64,243	42,308
Payroll taxes	19,683	24,154
Property and other taxes	6,632	6,492
	90,558	**72,954**

16 Borrowings

Borrowings consist of the following:

	June 30, 2007	December 31, 2006
Bonds issued	882,823	882,823
Borrowings	499,734	1,060,794
	1,382,557	**1,943,617**

(Stated in '000 Russian Roubles, excluding data per share)

In June 2005 the Group issued 900 thousand non-convertible three year Russian Rouble denominated bonds (at par value 1,000 roubles each) totaling 900 thousand Russian Roubles with quarterly coupon payments of 9.9% per annum with an early redemption option subject to the approval of the Board of Directors. In June 2005 Board of Directors of JSC Dorogobuzh approved the decision to grant to the holders of the bonds an option to redeem the bonds during December 2006. Bonds for RUR 17,177 were redeemed and not further offered as of June 30, 2007. In present financial statements these bonds were classified as long-term. The bonds are guaranteed by parent company.

The Group's borrowings mature as follows:

	June 30, 2007	December 31, 2006
Borrowings due:		
- within 1 year	1,232,823	600,000
- between 1 and 5 years	149,734	1,343,617
	1,382,557	**1,943,617**

The Group's borrowings are denominated as follows:

	June 30, 2007	December 31, 2006
Borrowings denominated in		
- Russian Roubles	1,232,823	1,482,823
- US Dollars	149,734	460,794
	1,382,557	**1,943,617**

Interests rates effective as of the accounting date are summurized below:

	June 30, 2007		**December 31, 2006**	
Per cent per annum	Russian Roubles	US Dollars	Russian Roubles	US Dollars
Bonds	9.9%	-	9.9%	-
Loans	-	7.0 %	-	7.0 %

The details of the significant short-term loan balances are summarized below (amounts denominated in US Dollars are presented in US Dollars):

Short-term loans from Sberbank-Moscow denominated in Russian roubles totaled RR 350,000 as of June 30, 2007 (December 31, 2006: RUR 600,000) at interest rate of 7%. Under the terms of the agreement there are a number of covenants and restrictions, inclusive of restrictions on maintenance of certain export revenue flows, received in the account opened with Sberbank.

The details of the significant long-term loan balances are summarized below (amounts denominated in US Dollars are presented in US Dollars):

Long-term loan from Commerzbank denominated in foreign currency totaled USD 4,000,000 as of June 30, 2007 (December 31, 2006: USD Nil) at interest rate LIBOR+3.00%.

Long-term loan from Moscow International Bank denominated in USD totaled USD 1,800,000 as of June 30, 2007 (December 31, 2006 – USD 17,500,000) at interest rate LIBOR+2.75%. Under the terms of the agreement there were a number of covenants inclusive of cross-default provision, maintenance of the certain proceeds level and restriction on the assets encumbrances.

(Stated in '000 Russian Roubles, excluding data per share)

17 Shareholders' Equity

The following table reflects the total number of outstanding shares:

	Common Shares			Privileged Shares	
	Authorized paid shares	**Shareholder's equity**	**Share premium**	**Authorized paid shares**	**Shareholder's equity**
Balance as of December 31, 2006	721,182,860	1,379,569	93,794	154,256,400	355,790
Balance as of June 30, 2007	721,182,860	1,379,569	93,794	154,256,400	355,790
Balance as of June 30, 2007	**721,182,860**	**1,379,569**	**93,794**	**154,256,400**	**355,790**

The Company's shares are divided into two classes: A class privileged shares and common shares. Par value of shares of both classes is 0.25 Roubles per share. Company's Board of Directors is authorized to issue shares of both classes at its own discretion.

A-class privileged shares confer on their holders the right to participate in general shareholders' meeting without the voting right, as well as the right to receive annual dividends in the amount of at least 10% of the Company's net profit according to financial statements prepared in compliance with Russian accounting standards. In case of the Company's liquidation privileged shares shall have priority over common shares; however, privileged shares do not confer the voting right, excluding in relation to resolutions regarding the Company's reorganization and liquidation, revision of the amount of dividend payable on privileged shares, as well as the additional issue of privileged shares. Privileged shares do not confer on their holders the right to request the shares redemption or their conversion. The shareholders' equity is reflected as the total of initial contributions, adjusted for the inflation rate for the period from the privatization date until December 31, 2002.

Russian legislation identifies the basis of distribution as the net profit for the respective year. For six months of 2007, the current year net profit for the Company as reported in accordance with the Russian accounting standards was RUR 1193,959. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

18 Profit taxes

	Six Months of 2007	**Six Months of 2006**
Income tax expense – current	196,774	146,245
Deferred tax charge/(credit) – origination and reversal of temporary differences	(18,148)	27,897
Profit tax charge	**178,626**	**174,142**

Profit before taxation for financial reporting purposes is reconciled to tax expense/(credit) as follows:

	Six Months of 2007	**Six Months of 2006**
Profit before tax	729,539	536,605
Theoretical tax charge at statutory rate of 24%	175,089	128,785
Tax effect of items which are not deductible or assessable for taxation purposes:		
Profit not taxable	(12,245)	(10159)
Other non-deductible expenses	15,783	55,516
Profit tax charge	**178,626**	**174,142**

In the first half of year 2007 the rate of 24% applied to the taxable profit of the Group companies. Deferred tax assets/liabilities as of June 30, 2007 are calculated at the rate of 24%. Net effect of the changes in the balance of deferred taxes as of June 30, 2007 is reflected in the Profit and Loss Statement for six months ended June 30, 2007.

(Stated in '000 Russian Roubles, excluding data per share)

	December 31, 2005	Recognized in the profit and loss statement	Recognized in equity	December 31, 2006
Tax effect of taxable temporary differences				
Plant, property and equipment	331,922	(22,761)	-	309,161
Investments	594,786	6,836	57,589	659,211
Inventories	6,866	(2,471)	-	4,395
Other temporary differences	2,477	(360)	-	2,117
Tax effect of deductible temporary differences				
Accounts receivable	(44,381)	2,680	-	(41,701)
Accounts payable	(16,584)	(3,733)	-	(20,317)
Payroll payables	(14,198)	3,445	-	(10,753)
Total net deferred tax liabilities	**860,888**	**(16,364)**	**57,589**	**902,113**
Incl:				
Long-term deferred tax liabilities	**912,510**			**957,618**
Short-term deferred tax assets	**(51,622),**			**(55,505)**

	December 31, 2006	Recognized in the profit and loss statement	Recognized in equity	June 30, 2007
Tax effect of taxable temporary differences				
Plant, property and equipment	309,161	(10,911)		298,250
Investments	659,211	(6,142)	(25,161)	627,908
Inventories	4,395	(2,740)		1,655
Other temporary differences	2,117	(996)		1,121
Tax effect of deductible temporary differences				
Accounts receivable	(41,701)	(3,305)		(45,006)
Accounts payable	(20,317)	5,947		(14,370)
Payroll payables	(10,753)			(10,753)
Total net deferred tax liabilities	**902,113**	**(18,147)**	**(25,161)**	**858,805**
Incl:				
Long-term deferred tax liabilities	**957,618**			**915,405**
Short-term deferred tax assets	**(55,505)**			**(56,600)**

The main deferred tax liabilities reflected in the table above are expected to be realized in the period exceeding 12 months after the accounting date.

19 Earnings per share

Earnings per share are calculated by dividing net profit attributable to equity holders of the Company by the weighted average number of common and privileged shares outstanding during the accounting year, excluding weighted average number or common shares redeemed by the Company or its subsidiary and reported as treasury shares.

(Stated in '000 Russian Roubles, excluding data per share)

	Six Months of 2007	Six Months of 2006
Weighted average number of common shares outstanding	721,182,860	721,182,860
Weighted average number of privileged shares outstanding	154,256,400	154,256,400
Dividends on common shares	-	115,390
Dividends on privileged shares	-	30,851
Total dividends	**-**	**146,241**
Profit attibutable to common share holders	453,840	293,513
Profit attibutable to privileged share holders	97,074	68,950
Profti per year	**550,914**	**362,463**
Basic and diluted profit per common share (in Russian Roubles)	**0.63**	**0.41**
Basic and diluted profit per privileged share (in Russian Roubles)	**0.63**	**0.45**

20 Contingencies, Commitments and Operating Risks

i Contractural commitments and guarantees

As of June 30, 2007 and December 31, 2006 the Group has not issued any financial guarantees to any third parties in relation to borrowings received from the companies, not included into the Group.

ii Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently.

Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

The Group’s Management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency legislation and customs positions will be sustained. Accordingly, as of June 30, 2007 no provision for potential tax liabilities had been recorded (2006: no provision).

iii Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

iv Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims. No provisions for such losses have been made in these consolidated financial statements.

v Operating environment

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

21 Significant Non-Cash Transactions

Included in sales are non-cash transactions amounting to RUR 6,409 (2006: RUR 100,235) which were performed in the periods ending June 30, 2007 and December 31, 2006 respectively. Considerable decrease in non-cash transactions in the first half of the year 2007 is due to revised tax legislation, which provides for mandatory payment of VAT in cash regardless of the form of the transaction settlement. Non-cash transactions primarily represent cancellation of mutual balances with customers and suppliers within the operating cycle. Non-cash transactions were excluded from the consolidated cash flow statement.

22 Financial Risk Management

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit record. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

ii Market Risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

iii Foreign exchange risk

The Group exports 26% (2006: 36%) of its production overseas and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. Details on assets denominated in foreign currency are summarized in Notes 8 and 7, on liabilities denominated in foreign currency – in Notes 14 and 16.

The Group does not have formal hedge arrangements to mitigate foreign exchange risks of the Group’s operations.

iv Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short-term and long-term borrowings majority of which are at fixed interest rates. The Group has no significant interest-bearing assets.

23 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The best evidence of the fair value is quoted price of the financial instrument in the active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortized cost, which approximates current fair value.

Fair values for available-for-sale investments carried at fair value were determined by using valuation techniques based on application guidance of IAS 39 (revised) on the basis of financial data of the investees and application of other valuation methodologies. It is reasonably possible based on existing knowledge that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the available-for-sale investments (refer to Note 13).

Financial assets carried at amortized cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

Liabilities carried at amortized cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As of June 30, 2007 and December 31, 2006 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.