

OPEN JOINT STOCK COMPANY AZOT

INTERNATIONAL ACCOUNTING STANDARD NO. 34

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

30 JUNE 2007

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OPEN JOINT STOCK COMPANY AZOT

CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	<u>30 June 2007</u>	<u>31 December 2006</u>
ASSETS			
Non-current assets			
Property, plant and equipment	4	145,708	148,963
Catalytic agents		13,509	14,099
Letters of credit		5,738	6,278
Long-term available for sale financial assets	5	87	8,796
Other non-current assets		1,137	1,095
		<u>166,179</u>	<u>179,231</u>
Current assets			
Inventories	6	13,219	10,871
Accounts receivable, advances issued and prepayments	7	8,691	6,647
Taxes receivable	8	8,814	11,678
Bank deposits	9	9,332	52,206
Cash and cash equivalents	10	10,819	6,282
		<u>50,875</u>	<u>87,684</u>
Total assets		<u>217,054</u>	<u>266,915</u>
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	11	6,567	6,567
Financial assets revaluation reserve		-	3,748
Retained earnings		138,756	195,403
Translation reserve		14,025	10,982
		<u>159,348</u>	<u>216,700</u>
Non-current liabilities			
Deferred tax liabilities	19	14,689	16,387
Employees benefits obligations		3,438	3,413
Other non-current liabilities		2,215	1,022
		<u>20,342</u>	<u>20,822</u>
Current liabilities			
Short-term borrowings	12	5,868	5,642
Accounts payable and other liabilities	13	16,685	21,404
Dividends payable	11	12,214	-
Taxes payable		1,246	1,112
Income tax payable		1,351	1,235
		<u>37,364</u>	<u>29,393</u>
Total equity and liabilities		<u>217,054</u>	<u>266,915</u>

Approved for issue and signed on behalf of the Board of Directors on 10 December 2007.

General Director of the managing company
LLC MC "Uralchem", Osipov D.V.

Financial Director of the managing company
LLC MC "Uralchem", Vischanenko A.V.

The accompanying notes on pages 5 to 11 are an integral part of these consolidated interim condensed financial statements

OPEN JOINT STOCK COMPANY AZOT

CONSOLIDATED INTERIM CONDENSED INCOME STATEMENT (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	6 months ended 30 June 2007	6 months ended 30 June 2006
Mineral fertilizers sales	14	139,706	113,143
Other revenues		1,926	1,908
Cost of sales	15	(79,428)	(64,974)
Gross profit		62,204	50,077
Distribution expenses	16	(12,468)	(10,946)
General and administrative expenses	17	(7,629)	(6,171)
Gain on disposal of available-for-sale investments	18	4,893	-
Other operating income/ (expenses), net		351	(1,749)
Operating profit		47,351	31,211
Interest income		2,007	665
Interest expense		(348)	(985)
Foreign exchange (loss)/ gain, net		(198)	20
Profit before income tax		48,812	30,911
Income tax charge	19	(10,617)	(3,882)
Profit for the year attributable to shareholders of the Company		38,195	27,029
Weighted average number of ordinary shares in issue during the period		405,871	405,871
Earnings per ordinary share attributable to shareholders of the Company (in USD per share)		94.11	66.60

The accompanying notes on pages 5 to 11 are an integral part of these consolidated interim condensed financial statements

OPEN JOINT STOCK COMPANY AZOT

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

	6 months ended 30 June 2007	6 months ended 30 June 2006
Operating activities		
Profit before income tax	48,812	30,911
Adjustments for:		
Depreciation	8,928	8,936
Gain on disposal of available for sale investments	(4,893)	-
Interest expense	348	985
Interest income	(2,007)	(665)
Provision for unused vacation	88	198
Provision for obsolete and slow-moving inventory	129	-
Foreign exchange loss, net	187	1,046
Loss from disposal of property, plant and equipment, net	407	90
Dividend income	(467)	(79)
Other non-monetary (income)/ expenses	(60)	84
Operating cash flows before working capital changes	51,472	41,506
Decrease in tax receivables and prepayments	3,527	5,017
Increase in other taxes payable	111	344
Increase in accounts receivable, advances issued and prepayments	(1,923)	(4,667)
(Decrease)/ increase in accounts payable and accrued charges	(3,903)	63
Increase in inventory	(1,140)	(2,862)
Cash generated from operations	48,144	39,401
Interest received	2,310	670
Interest paid	(65)	(98)
Income tax paid	(11,534)	(8,968)
Net cash provided by operating activities	38,855	31,005
Investing activities		
Receipt of cash from bank deposits	75,331	7,695
Placement of cash on bank deposits	(32,837)	(13,028)
Proceeds from disposal of available-for-sale financial assets	8,684	-
Dividends received	467	79
Purchase of property, plant and equipment	(3,361)	(8,129)
Purchase of promissory note	-	(2,196)
Proceeds from disposal and redemption of promissory notes	-	2,340
Net cash provided by/ (used in) investing activities	48,284	(13,239)
Financing activities		
Proceeds from borrowings	1,508	3,200
Repayment of borrowings	(1,446)	(6,161)
Dividends paid	(82,881)	-
Net cash used in financing activities	(82,819)	(2,961)
Net increase in cash and cash equivalents	4,320	14,805
Cash and cash equivalents at the beginning of the year	6,282	3,994
Effect of translation to presentation currency for the period	217	560
Cash and cash equivalents at the end of the year	10,819	19,359

The accompanying notes on pages 5 to 11 are an integral part of these consolidated interim condensed financial statements

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CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

	Notes	<u>Attributable to shareholders of the Company</u>				<u>Total</u>
		<u>Share capital</u>	<u>Financial assets revaluation reserve</u>	<u>Retained earnings</u>	<u>Translation reserve</u>	
Balance at 1 January 2006		6,567	1,432	160,599	(5,414)	163,184
Increase in fair value of available-for-sale financial assets		-	707	-	-	707
Profit for the year		-	-	27,029	-	27,029
Foreign exchange difference from translation to presentation currency		-	-	-	10,816	10,816
Balance at 30 June 2006		6,567	2,139	187,628	5,402	201,736
Balance at 1 January 2007		6,567	3,748	195,403	10,982	216,700
Fair value of disposed available-for-sale financial assets	5	-	(3,748)	-	-	(3,748)
Profit for the year		-	-	38,195	-	38,195
Dividends accrued	11	-	-	(94,842)	-	(94,842)
Foreign exchange difference from translation to presentation currency		-	-	-	3,043	3,043
Balance at 30 June 2007		6,567	-	138,756	14,025	159,348

The accompanying notes on pages 5 to 11 are an integral part of these consolidated interim condensed financial statements

OPEN JOINT STOCK COMPANY AZOT

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

1. GENERAL INFORMATION

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards for the six months ended 30 June 2007 for Open Joint Stock Company Azot (“the Company” or “OJSC Azot”) and its subsidiaries (together referred to as “the Group”).

The Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 2 December 1992 as part of the Russian Federation’s privatization program. The Company is registered and located at Churtanskoye road, 75, 618401, Berezniki, Perm region, Russian Federation.

Principal activities of the Group are production and distribution of mineral fertilizers. Main products of the Group are nitrogen fertilizers, including: ammonia, ammonium nitrate, urea and other.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”. These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The management estimates and assumptions applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2006.

At 30 June 2007 the principal rate of exchange used for translating foreign currency balances was USD 1= RR 25.8162 (30 June 2006: USD 1= RR 27.0789).

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

4. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and structures	Machinery, equipment and transport	Other	Construc- tion in process	Total
Cost					
At 1 January 2006	25,995	123,065	1,710	966	151,736
Additions	146	1,357	1,201	740	3,444
Transfers	-	27	-	(27)	-
Disposals	(80)	(92)	(10)	(80)	(262)
Effect of translation to presentation currency	1,638	7,770	133	76	9,617
At 30 June 2006	27,699	132,127	3,034	1,675	164,535
At 1 January 2007	31,605	146,388	3,708	1,504	183,205
Acquisitions					-
Additions	203	1,421	250	2,547	4,420
Transfers	-	6	-	(6)	-
Disposals	(393)	(81)	(38)	-	(512)
Effect of translation to presentation currency	626	2,947	79	440	4,092
At 30 June 2007	32,041	150,681	3,998	4,485	191,205
Accumulated Depreciation					
At 1 January 2006	(1,957)	(12,520)	(207)	-	(14,684)
Charge for the year	(1,142)	(7,076)	(215)	-	(8,433)
Disposals	8	35	5	-	48
Effect of translation to presentation currency	(137)	(862)	(17)	-	(1,016)
At 30 June 2006	(3,228)	(20,423)	(434)	-	(24,085)
At 1 January 2007	(4,534)	(29,110)	(598)	-	(34,242)
Charge for the year	(1,404)	(9,113)	(259)	-	(10,777)
Disposals	56	33	33	-	122
Effect of translation to presentation currency	(143)	(423)	(35)	-	(600)
At 30 June 2007	(6,025)	(38,613)	(859)	-	(45,497)
Net Book Value					
At 30 June 2007	26,016	112,068	3,139	4,485	145,708
At 30 June 2006	24,471	111,704	2,600	1,675	140,450

At 30 June 2007 and 31 December 2006 the property, plant and equipment include assets held under finance lease with a carrying value of USD 574 thousand and USD 604 thousand, respectively.

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

5. LONG-TERM AVAILABLE FOR SALE FINANCIAL ASSETS

	<u>30 June 2007</u>	<u>31 December 2006</u>
Equity instruments accounted for at cost	87	3,894
Equity instruments accounted for at fair value (0,1% interest in OJSC Sberbank of Russia)	-	4,902
Total	<u>87</u>	<u>8,796</u>

6. INVENTORIES

	<u>30 June 2007</u>	<u>31 December 2006</u>
Spare parts and other supplies	4,575	3,791
Finished goods	4,189	3,233
Raw and auxiliary materials	2,797	3,711
Packing materials and implements	1,795	1,587
Work-in-progress	1,143	773
Other inventories	1,120	-
	<u>15,619</u>	<u>13,095</u>
Less: provision for obsolete and slow-moving inventories	(2,400)	(2,224)
Total	<u>13,219</u>	<u>10,871</u>

7. ACCOUNTS RECEIVABLE, ADVANCES ISSUED AND PREPAYMENTS

	<u>30 June 2007</u>	<u>31 December 2006</u>
Advances issued	5,072	4,093
Trade receivables	2,559	1,640
Prepayments	329	291
Other receivables	989	850
	<u>8,949</u>	<u>6,874</u>
Less: bad debt provision	(258)	(227)
Total	<u>8,691</u>	<u>6,647</u>

As of 30 June 2007 and 31 December 2006 accounts receivable in amount of USD 247 thousand and USD 946 thousand, respectively, were denominated in foreign currency, mainly in US dollars.

8. OTHER TAXES RECEIVABLE

Included in taxes receivable is VAT in amount of USD 8,567 thousand and 11,426 thousand as of 30 June 2007 and 31 December 2006, respectively.

9. BANK DEPOSITS

	<u>30 June 2007</u>	<u>31 December 2006</u>
RR denominated bank deposits at nominal rate of 7% p.a.	9,271	34,393
Interest receivable on RR denominated bank deposits	61	224
USD denominated bank deposits at nominal rate of 5-6 % p.a.	-	17,300
Interest receivable on USD denominated bank deposits	-	289
Total	<u>9,332</u>	<u>52,206</u>

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

10. CASH AND CASH EQUIVALENTS

	<u>30 June 2007</u>	<u>31 December 2006</u>
RR denominated cash in hand and bank balances	10,656	6,230
USD denominated bank balances	163	52
Total	<u>10,819</u>	<u>6,282</u>

11. EQUITY AND OTHER RESERVES

Share capital authorised, issued and paid in amounted to USD 6,567 thousand as of 30 June 2007 and 31 December 2006 and consisted of 405,871 ordinary shares, each with a par value of 1 rouble. Each ordinary share carries one vote.

In May 2007 the Company declared a dividend in total amount of USD 96,597 thousand (USD 238 per ordinary share).

12. SHORT-TERM BORROWINGS

	<u>30 June 2007</u>	<u>31 December 2006</u>
EURO denominated short-term bank borrowings at nominal rate 9% p.a.	5,498	5,642
RUR denominated short-term bank borrowings at nominal rate 10% p.a.	365	-
Other	5	-
Total	<u>5,868</u>	<u>5,642</u>

At 30 June 2007 and 31 December 2006 total borrowings include secured liabilities of USD 4,317 thousand and USD 5,642 thousand, respectively. Bank borrowings were secured by pledged catalytic agents with a carrying value of USD 8,346 thousand and USD 8,640 thousand at 30 June 2007 and 31 December 2006, respectively.

The carrying amounts of short-term borrowings approximate their fair value as of 30 June 2007 and 31 December 2006. Effective interest rates approximate nominal interest rates.

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<u>30 June 2007</u>	<u>31 December 2006</u>
Advances from customers	7,299	12,437
Trade payables	5,825	5,896
Provision for unused vacations	1,666	1,722
Current portion of finance lease liabilities	196	163
Liabilities for property, plant and equipment	84	201
Accrued liabilities and other creditors	1,615	985
Total	<u>16,685</u>	<u>21,404</u>

As of 30 June 2007 and 31 December 2006 advances from customers of USD 3,054 thousand and 6,521 thousand, respectively, are denominated in foreign currency, mainly in US dollars.

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

14. MINERAL FERTILIZERS SALES

	<u>Ammonium nitrate</u>	<u>Urea</u>	<u>Ammonia</u>	<u>Acids</u>	<u>Other</u>	<u>Total</u>
6 months ended 30 June 2007						
By destination						
Russia	42,841	1,954	1,448	6,163	7,051	59,457
CIS	12,647	-	5	49	527	13,228
Export	8,206	40,028	18,424	-	363	67,021
	<u>63,694</u>	<u>41,982</u>	<u>19,877</u>	<u>6,212</u>	<u>7,941</u>	<u>139,706</u>
6 months ended 30 June 2006						
By destination						
Russia	30,984	4,100	1,552	5,732	7,073	49,441
CIS	11,027	31	29	190	586	11,863
Export	13,444	26,700	11,213	-	482	51,839
	<u>55,455</u>	<u>30,831</u>	<u>12,794</u>	<u>5,922</u>	<u>8,141</u>	<u>113,143</u>

15. COST OF SALES

	<u>6 months ended 30 June 2007</u>	<u>6 months ended 30 June 2006</u>
Raw materials	48,426	37,230
Energy and utilities	11,225	8,431
Payroll and social taxes	8,677	7,821
Depreciation	8,017	8,214
Repair and maintenance	1,935	1,457
Taxes	912	1,197
Other expenses	236	624
Total	<u>79,428</u>	<u>64,974</u>

16. DISTRIBUTION EXPENSES

	<u>6 months ended 30 June 2007</u>	<u>6 months ended 30 June 2006</u>
Transportation expenses	7,469	6,357
Export commission	2,198	1,560
Payroll and social taxes	1,263	1,363
Repairs and maintenance	714	881
Customs expenses	343	341
Other	481	444
Total	<u>12,468</u>	<u>10,946</u>

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

17. GENERAL AND ADMINISTRATIVE EXPENSES

	6 months ended 30 June 2007	6 months ended 30 June 2006
Payroll and social taxes	4,298	3,700
Depreciation and amortization	675	502
Raw materials	366	296
Insurance	357	408
Taxes other than on income	218	197
Legal and consulting services	187	200
Credit organisations services	156	124
Other	1,372	744
Total	7,629	6,171

18. GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENTS

During the six months ended 30 June 2007 the Group sold its available-for-sale investments for the total amount of USD 8,684 thousand.

19. INCOME TAX

	6 months ended 30 June 2007	6 months ended 30 June 2006
Current tax expense	11,624	8,044
Deferred tax credit	(1,007)	(4,162)
Total	10,617	3,882

20. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

There were 405,871 weighted average shares outstanding for the six months ended 30 June 2007 and 2006, respectively.

21. RELATED PARTIES

During the six months ended 30 June 2007 and 2006 the Group entered into transactions with related parties, which are all entities under common control. Significant transactions with related parties or significant balances outstanding as at 30 June 2007 and 31 December 2006 are detailed below.

The outstanding balances with related parties were as follows:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Accounts receivable, advances issued and prepayments	333	1,219
Accounts payable and accrued charges	101	193
Finance lease liabilities	(196)	(257)
Deposits	-	17,010
Long-term accounts receivable	-	29

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NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AS OF 30 JUNE 2007

All amounts are in thousands of US Dollars unless otherwise stated

21. RELATED PARTIES (continued)

The income and expense items with related parties were as follows:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Mineral fertilizers sales	16,180	68,792
Raw materials purchased	93	-
Other revenues	58	1
Interest income	627	507
Interest expense	(59)	(92)

As of 30 June 2007 and 31 December 2006 the Company had outstanding guarantees issued for the related parties' liabilities for the amount of USD 1,549 thousand and USD 2,493 thousand, respectively.

As of 30 June 2007 and 31 December 2006 materials in the amount USD 654 thousand and USD 1,700 thousand, respectively have been pledged as guarantee for borrowings of related parties.

Management compensation. Compensation paid to the key management personnel for the six months ended 30 June 2007 and 2006 consisted primarily of salary payments and amounted to USD 420 thousand and USD 255 thousand, respectively.

22. EVENTS AFTER THE BALANCE SHEET DATE

Loans issued. In November 2007 the Group issued a short-term loan to a related party in the amount of USD 15,340 thousand.

Governance. Starting from 1 November 2007 the functions of the General director of the Company were transferred to LLC Managing Company "Uralchem".