KAZANORGSINTEZ GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2012

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Kazanorgsintez" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

ZAO PricewaterhouseCoopers Audit
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Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO „PricewaterhouseCoopers Audit"

25 March 2013
Moscow, Russian Federation

E.V. Filippova, General Director (licence no. 01-000195), ZAO PricewaterhouseCoopers Audit

Audited entity: Open Joint Stock Company "Kazanorgsintez"

State registration certificate №400 issued by Ministry of Finance of Tatarstan Republic on 31 August 1993

Certificate of the inclusion in the United State Register of Legal Entities regarded the legal entities registered before 1 July 2002 No. 1021603267674 issued by the Inspectorate of the Federal Ttax authorities for the Moscow district of Kazan City on July 24, 2002

420051, Kazan, Belomorskaya str., Bld 101

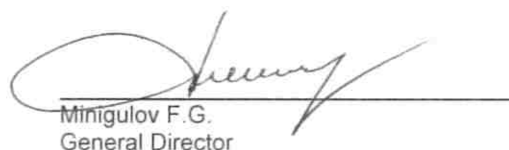
Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

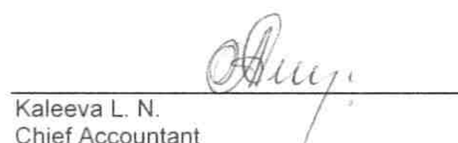
Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

	Note	2012	2011
Sales	7	45,467	37,116
Cost of sales	8	(35,594)	(30,521)
Gross profit		**9,873**	**6,595**
Selling, general and administrative expenses	9	(3,697)	(2,613)
Other income/(expenses), net	10	56	(609)
Finance costs	11	(2,422)	(2,793)
Loss from investments		(9)	(1)
Finance income	12	98	6
Foreign exchange gain/(loss), net		154	(206)
Profit before income tax		**4,053**	**379**
Income tax charge	13	(785)	(196)
Profit for the year		**3,268**	**183**
Profit attributable to:			
Shareholders of the parent company		3,268	182
Non-controlling interest		-	1
Profit for the year		**3,268**	**183**
Other comprehensive income:			
Currency translation differences		-	(2)
Changes in other financial assets revaluation reserve	16	38	304
Income tax recorded in other comprehensive income		(8)	(60)
Other comprehensive income after income tax		**30**	**242**
Total comprehensive income for the year		**3,298**	**425**
Total comprehensive income attributable to:			
Shareholders of the parent company		3,298	426
Non-controlling interest		-	(1)
Total comprehensive income for the year		**3,298**	**425**
EARNINGS PER SHARE (RUB)			
Basic and diluted	30	1.82	0.09



Minigulov F.G.
General Director



Kaleeva L. N.
Chief Accountant

25 March 2013

	Note	31 December 2012	31 December 2011	31 December 2010
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	14	32,784	35,550	37,438
Intangible assets	15	872	1,002	1,136
Deferred tax assets	13	479	1,546	1,636
Other financial assets	16	384	361	53
Other non-current assets	17	123	210	131
Total non-current assets		**34,642**	**38,669**	**40,394**
CURRENT ASSETS:				
Inventories	18	4,895	4,928	4,220
Trade and other receivables	19	393	613	192
Income tax prepayments		-	5	5
Other prepaid and recoverable taxes	20	435	356	399
Other current assets	21	263	266	698
Cash and cash equivalents	22	1,618	901	907
Total current assets		**7,604**	**7,069**	**6,421**
Assets held for sale		-	-	146
TOTAL ASSETS		**42,246**	**45,738**	**46,961**
EQUITY AND LIABILITIES				
EQUITY AND RESERVES:				
Share capital	23	1,905	1,905	1,905
Treasury shares purchased	23	-	(123)	(99)
Additional paid-in capital	23	1,515	1,515	1,515
Currency translation differences		-	-	(1)
Other financial assets revaluation reserve		274	244	-
Retained earnings		9,536	6,461	6,646
Equity attributable to shareholders of the parent company		**13,230**	**10,002**	**9,966**
Non-controlling interest		-	-	9
Total Equity and reserves		**13,230**	**10,002**	**9,975**
NON-CURRENT LIABILITIES				
Long-term loans and borrowings	24	21,372	29,184	28,375
Deferred tax liabilities	13	2,366	2,640	2,475
Finance lease payables	25	19	51	135
Total non-current liabilities		**23,757**	**31,875**	**30,985**
CURRENT LIABILITIES:				
Short-term loans and borrowings	26	1,521	307	695
Trade payables	27	834	1,038	1,709
Other payables and accrued liabilities	28	612	806	1,501
Advances from customers		1,666	1,210	1,831
Other taxes payable	29	626	500	142
Total current liabilities		**5,259**	**3,861**	5,878
Liabilities attributable to assets held for sale		-	-	123
TOTAL EQUITY AND LIABILITIES		**42,246**	**45,738**	**46,961**

	Note	Equity attributable to parent company shareholders								
		Share capital	**Treasury shares**	**Additional paid-in capital**	**Cumulative currency translation differences**	**Other financial assets revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2011		**1,905**	**(99)**	**1,515**	**(1)**	**-**	**6,646**	**9,966**	**9**	**9,975**
Profit for the year ended 31 December 2011		-	-	-	-	-	182	**182**	1	**183**
Currency translation differences		-	-	-	(1)	-	-	**(1)**	(1)	**(2)**
Revaluation of other financial assets		-	-	-	-	244	-	**244**	-	**244**
Total comprehensive income for the year ended 31 December 2011		**-**	**-**	**-**	**(1)**	**244**	**182**	**425**	**-**	**425**
Dividends	31	-	-	-	-	-	(343)	**(343)**	-	**(343)**
Disposal of a subsidiary		-	-	-	2	-	-	**2**	(9)	**(7)**
Purchase of treasury shares	23	-	(126)	-	-	-	-	**(126)**	-	**(126)**
Reissuance of treasury shares	23	-	102	-	-	-	(24)	**78**	-	**78**
Balance at 31 December 2011		**1,905**	**(123)**	**1,515**	**-**	**244**	**6,461**	**10,002**	**-**	**10,002**
Profit for the year ended 31 December 2012		-	-	-	-	-	3,268	**3,268**	-	**3,268**
Revaluation of other financial assets		-	-	-	-	30	-	**30**	**-**	**30**
Total comprehensive income for the year ended 31 December 2012		**-**	**-**	**-**	**-**	**30**	**3,268**	**3,298**	**-**	**3,298**
Dividends	31	-	-	-	-	-	(131)	**(131)**	-	**(131)**
Reissuance of treasury shares	23	-	123	-	-	-	(62)	**61**	-	**61**
Balance at 31 December 2012		**1,905**	**-**	**1,515**	**-**	**274**	**9,536**	**13,230**	**-**	**13,230**

	Note	2012	2011
OPERATING ACTIVITIES::			
Profit before income tax		**4,053**	**379**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	14, 15	3,916	3,462
Finance income	12	(98)	(6)
Change in bad debt allowance	10	(2)	12
Change in provision for inventory impairment	10	(66)	104
Change in provision for impairment of property, plant and equipment	10	(4)	(8)
Change in provision for employee benefits	28	225	(142)
Loss from investments		9	1
Gain on disposal of property, plant and equipment	10	(14)	(11)
Grant funding from shareholders		(130)	-
Recovery of unclaimed dividends		-	(7)
Finance costs	11	2,422	2,793
Foreign exchange (gain)/loss, net		(154)	206
Operating cash flow before working capital changes		**10,157**	**6,783**
Decrease/(increase) in trade and other receivables		225	(2)
(Increase)/decrease in other taxes recoverable and prepaid, other than income tax		(75)	43
Decrease/(increase) in inventories		99	(812)
Decrease/(increase) in other non-current assets		87	(79)
Decrease in trade payables		(120)	(557)
Increase/(decrease) in advances from customers		455	(621)
(Decrease)/increase in other current liabilities		(266)	378
Increase in other taxes payable		127	361
Net cash from operating activities		**10,689**	**5,494**
Income tax paid	13	-	(1)
Interest paid		(2,414)	(3,006)
Cash flows from operating activities		**8,275**	**2,487**
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,179)	(1,299)
Proceeds from disposal of property, plant and equipment		39	1
Acquisition of intangible assets		(22)	(9)
Disposal of interests in subsidiaries		-	4
Proceeds from disposal of other financial assets		2	-
Interest received	12	98	6
Dividends received		1	-
Cash used in investing activities		**(1,061)**	**(1,297)**
FINANCING ACTIVITIES:			
Repayment of short-term borrowings		-	(853)
Proceeds from long-term borrowings		-	7,173
Repayment of long-term borrowings		(6 408)	(6,858)
Dividends paid		(131)	(457)
Grant funding from shareholders		130	-
Purchase of treasury shares		-	(126)
Proceeds from the reissuance of treasury shares		62	77
Repayment of finance lease payables		(114)	(167)
Cash used in financing activities		**(6,461)**	**(1,211)**
Net increase (decrease) in cash and cash equivalents		**753**	**(21)**
Cash and cash equivalents at the beginning of the year		**901**	**907**
Effect of exchange rate changes on cash held in foreign currencies		(36)	15
Cash and cash equivalents at the end of the year		**1,618**	**901**

The accompanying notes on pages 5-38 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

Details of the Company’s subsidiaries are in Note 35.

2. OPERATING ENVIRONMENT OF THE GROUP

The Russian economy displays certain characteristics of an emerging market.

Exchange rates of major foreign currencies as at 31 December 2012 were RUB 30.3727 = USD 1.00 (RUB 32.1961 as at 31 December 2011), RUB 40.2286 = EUR 1.00 (RUB 41,6714 as at 31 December 2011).

Russian tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions based on the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the economy and consequently what effect, if any, they could have on future financial position of the Group. Management believes it is taking all measures necessary to support sustainability and development of the Group’s business in the current business and economic environment.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Group from 1 January 2012:

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment did not result in any additional or revised disclosure in these consolidated financial statements.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 “Income taxes”, which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted:

IFRS 9, Financial Instruments, Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to: (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures.

Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) , aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

4 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IAS 27, Separate Financial Statements (revised in May 2011; effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group's management expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

4 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements. ***Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013).*** The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. This standard does not have any impact on the Group's consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation

The Group operates in accordance with the laws, accounting and reporting regulations of the Russian Federation. Accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, as modified by:

- Fair valuation of assets, liabilities and contingent liabilities of subsidiaries acquired at the acquisition date, in accordance with IFRS 3 Business Combinations;
- Mark-to-market valuation of financial instruments, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

Subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities (SPEs)) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits.

SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

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

Non-controlling interest is the part of net results and equity of a subsidiary attributable to the interest which is not owned by the Company either directly or indirectly. Non-controlling interest forms a separate component of the Group's equity.

Business combinations

The Group uses the purchase method to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

If acquired at bargain price, when the fair value of net assets exceeds the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date, any excess ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Purchases and sales of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries or associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable net of discounts and VAT.

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the revenue can be reliably estimated;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is recognised on a time-proportion basis using the effective interest method.

Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. 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. Assets held under finance leases are depreciated over their useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, depending on maturity, are included in other long-term liabilities or trade and other payables.

Leases where the lessor retains substantially all the risks and rewards incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results of operations and financial position of each entity are presented in the Russian Roubles (“RUB”). RUB has been selected as the presentation currency for the consolidated financial statements of the Group.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates of the Central Bank of the Russian Federation (“CBRF”) effective at the date of the transactions. Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBRF at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as foreign exchange gain/loss.

All resulting exchange differences are treated as a separate component of equity and recognised as provision for exchange difference in the consolidated statement of changes in equity and the consolidated statement of comprehensive income. When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for use or sale (a qualifying asset) are added to the cost of this asset, until such time as the asset is substantially ready for its intended use or sale, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Employee benefits

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. Vacation allowances paid in the reporting period but attributable to future vacations are recorded in the consolidated statement of financial position within deferred expenses and are written off as expenses in the reporting period an employee actually takes vacation.

The Group is legally obliged to make defined contributions to the Russian Federation State Pension Fund. The Group's only liability is to make certain contributions in the period when the payments were made. These contributions are expensed when incurred.

In the Russian Federation, all payments to off-budget funds, inclusive of contributions to the Russian State Pension Fund, are paid as insurance contributions calculated by the application of an regressive rate to the annual gross remuneration of each employee, where the regressive rate is determined based on the current legislation.

Income tax

Income taxes have been provided for in the consolidated financial statements under Russian law enacted or substantively enacted at the reporting date. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are offset if there is a legal right for the offset of the current tax assets and liabilities, and 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 assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Property, plant and equipment

A significant portion of the Group's property, plant and equipment was valued by an independent firm of professionally qualified appraisers, as at 1 January 2001 upon first-time adoption of IFRS. The basis of the valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value. At the same time, property, plant and equipment of a specialised nature were valued on the depreciated replacement cost basis. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accumulated depreciation, including both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset.

Items acquired after 1 January 2001 are recorded at cost less accumulated depreciation and impairment provision of any. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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

	Useful life, years
Buildings	20-80 years
Machinery and equipment	5-30 years
Other	3-10 years

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

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income in line "other expenses, net".

Construction in progress

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

Intangible assets

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

The Group has purchased various licenses for the use of technologies used in the production of Bisphenol-A, polycarbonate and high density polyethylene. The cost of acquiring these licenses are initially recorded as advances paid for licenses. The terms of the licenses are 10 years from the commencement of commercial production as defined in the respective agreements. Upon commencement of commercial production, these licenses are reclassified to intangible assets and amortised on a straight line basis over the term of the license.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

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

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

Inventories

Inventories are recorded at the lower of cost and net realisable value. When inventory is released to production or disposed of otherwise it is valued on the weighted average basis. Cost of finished goods and semi-finished products comprises raw material, direct labour, other direct costs and those variable costs but excludes borrowing costs and other costs directly not related to production. Inventories and materials are valued using weighed average method less impairment provision. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Work in progress is valued at the net unit cost of production allocated to the estimated stage of completion.

Inventories are recorded in the consolidated statement of financial position within current assets (line “inventories”) if they are consumed the next reporting period or non-current assets (line “other non-current assets”) if they are consumed not earlier than after one operating cycle.

Value added tax

Value-added taxes (“VAT”) related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. Input VAT on goods and services is offset against output VAT subject to certain limitations.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year in line item “other operating income/(expenses), net”.

Impairment of assets

Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of comprehensive income within profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of comprehensive income within profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

Financial assets are recognised when the Group has become a party to the contractual arrangement of the instrument and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets of the Group are classified into the following specified categories:

- available-for-sale financial assets;
- held to maturity;
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method – applied to financial assets

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts to the carrying amount of the asset through the expected life of the financial asset.

Income is recognised on an effective interest basis for debt securities other than those financial assets designated as at fair value through consolidated profit or loss.

Financial assets available for sale

Available-for-sale financial assets mainly include investments in listed and unlisted shares.

Listed securities held by the Group that are traded in an active market are measured at fair value. Gains and losses arising from changes in fair value of these investments are recognised in equity in the investments valuation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses, which are recognised directly within profit or loss in the consolidated statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of comprehensive income for the period in profit and loss. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Group's right to receive the dividends is established.

Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment provision. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, impairment losses are recognised through making a provision in the amount to make assets carrying amount reach the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset includes the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

With the exception of available-for-sale financial assets, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. The carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year. When a decline in fair value of an available-for-sale equity investment has been recognised in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised as a component of other comprehensive income in equity is transferred to the consolidated statement of comprehensive income in profit and loss even though the investment has not been disposed of. Impairment losses previously recognised in the consolidated statement of comprehensive income through profit and loss are not reversed through profit and loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Treasury shares

Where the Company or its subsidiaries purchase the Company’s equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company’s owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity owners.

Dividends

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends (continued)

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the Russian 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.

Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the events after the reporting period note.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company adjusted by dividends attributable to preference shareholders, by the weighted average number of ordinary shares outstanding during the reporting year.

Segment reporting

The Group reports its business activities as one reportable segment as the majority of the Group’s business operations are located in the Russian Federation and relate primarily to the production and marketing of organic and inorganic chemical products (mainly polyethylene) and derivatives thereof. Such an approach is consistent with the internal reporting provided to the Group’s chief operating decision maker (the Company's Executive Board).

Financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Subsequently, the financial liabilities are carried at amortised cost using effective interest method.

Effective interest method – applied to financial liabilities

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash outflows to the carrying amount of liabilities through the expected life of the financial liability.

Amortised cost of financial assets and liabilities

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition (including expenses attributable to third-party collateral) and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions for liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as provision is the best estimate of payments required to settle obligations at the reporting date accounting for obligation related risks and uncertainty. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

In 2011, the Group recognised the additional accrual related to expenses for cross-subsidising of heat energy tariffs (Note 10) of RUB 206 million. A decision to deliver partial subsidising of reduced heat tariffs for citizens covering hot water heat produced for 2011 in the amount of RUB 206 million by the Company was based on the 2011 decision by the Tatarstan government.

The changes in the consolidated statements of comprehensive income, financial position and cash flows impacted the disclosures in Notes 10, 13, 28, 30, 32 and 34, but did not have any significant impact on other items of the consolidated statement of financial position and disclosures in the relevant notes. The effect of the recognised additional accrual for expenses for cross-subsidising of heat energy tariffs on the data presentation was as follows as at 31 December 2011:

	As originally presented at 31 December 2011	Changes	As changed at 31 December 2011
Other payables and accrued liabilities	600	206	806
Profit before income tax	585	(206)	379
Earnings per share	0.20	(0.11)	0.09
Increase in other current liabilities	172	206	378

In 2012 the Group made a reclassification in the 2011 consolidated statement of comprehensive income that has no effect on the consolidated statement of financial position. The following reclassifications were made to the comparative figures in the consolidated statement of comprehensive income to ensure comparability of data for the reporting period:

- Expenses from the accrual of provision for the impairment of inventories of RUB 104 million were reclassified from cost of sales to other income/expenses, net, as such presentation reflects the nature of the expenses more appropriately;
- Income from sales of additional other products of RUB 402 million were included into sales, and the related expenses of RUB 315 million were disclosed in cost of sales. Income and expenses from business subdivisions of RUB 208 million were disclosed in other income/(expenses), net, as such presentation reflects the nature of the expenses more appropriately. In the previous years, these income and expenses were presented in losses from other sales.

The effect of all reclassifications described above on consolidated statement of comprehensive income for presentation purposes was as follows on amounts at 31 December 2011:

	As originally presented (the 2011 data)	Reclassification	As reclassified at 31 December 2011
Sales	36,714	402	37,116
Cost of sales	(30,310)	(211)	(30,521)
Losses from other sales	(121)	121	-
Other income/(expenses), net	(91)	(518)	(609)

The effect of reclassifications for presentation purposes of the consolidated statement of financial position was as follows:

	As originally presented at 31 December 2010	Reclassification	As reclassified at 31 December 2010
Deferred tax assets	-	1,636	1,636
Deferred tax liabilities	839	1,636	2,475

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in presentation (continued)

	As originally presented at 31 December 2011	Reclassification	As reclassified at 31 December 2011
Deferred tax assets	-	1,546	1,546
Deferred tax liabilities	1,094	1,546	2,640

6. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

Going concern

Management has prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's consolidated financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

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

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

Critical judgements in applying accounting policies

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

Taxation

Judgements are required in determining current 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.

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are obtaining refinance, sales volumes, sales prices and raw materials prices.

Environmental obligations.

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

6. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES (CONTINUED)

Key sources of estimation uncertainty

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

Useful lives of property, plant and equipment

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

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit. Management necessarily applies its judgement 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. Key assumptions in management's analysis relate to obtaining refinance, sales volumes, sales prices and raw materials prices. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances for doubtful debts

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management consideres on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

7. SALES

	2012	2011
By region:		
Domestic sales	35,861	28,975
Export sales	9,606	8,141
Total	**45,467**	**37,116**
By products:		
High density polyethylene	23,181	16,151
Low density polyethylene	10,240	9,682
Polycarbonate	5,136	4,881
By-products of Phenol, Acetone, Ethylene, Polycarbonate	3,032	2,604
Plastic goods	1,521	1,620
Organic products	1,417	1,284
Bisphenol-A	522	492
Other products	418	402
Total	**45,467**	**37,116**

8. COST OF SALES

	2012	2011
Raw materials	22,562	19,668
Energy and water	4,065	4,055
Depreciation of property, plant and equipment and amortisation of intangible assets	3,738	3,289
Labour costs	2,747	1,981
Auxiliary materials	1,492	1,295
Production services	506	549
Other	165	414
	35,275	**31,251**
(Increase)/decrease in work in progress and finished goods	319	(730)
Total	**35,594**	**30,521**

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Labour expenses	1,197	914
Taxes other than income tax	885	520
Transportation and storage	438	358
Land lease expenses	262	39
Material costs (energy, materials, etc.)	198	167
Services	180	153
Depreciation and amortisation of fixed assets	178	173
Insurance	39	60
Bank charges	38	34
Other selling, general and administrative expenses	282	195
Total	**3,697**	**2,613**

In 2012, the tax expense increased due to the abolition of property tax exemptions for investment projects.

10. OTHER (INCOME)/EXPENSES, NET

	2012	2011
Penalties on contracts	(1)	69
Allowance for impairment of doubtful debt	(2)	12
Maintenance of social infrastructure	288	305
Gain on disposal of property, plant and equipment	(14)	(10)
Income from disposal of materials	(69)	(28)
Reversal of provision for impairment of property, plant and equipment	(4)	(8)
(Reversal)/accrual of provision for impairment of inventory	(66)	104
Social policy expenditures and charity	29	-
Income from leased property	(24)	(22)
Grant funding from shareholders	(130)	-
Expenses for cross-subsidising of heat energy tariffs	145	206
Other income	(208)	(19)
Total	**(56)**	**609**

Maintenance of social infrastructure comprises primarily operating costs of facilities such as hotel, dormitory and sports facilities.

11. FINANCE COSTS

	2012	2011
Interest expense and charges on loans and borrowings	2,413	2,999
Interest expense on obligations under finance leases	9	18
Less: amount included in the cost of qualifying assets	-	(224)
Total	**2,422**	**2,793**

12. FINANCE INCOME

	2012	2011
Interest income	95	6
Interest on loans issued	3	-
Total	**98**	**6**

13. INCOME TAX

The Group's income tax is as follows:

	2012	2011
Current income tax	-	1
Deferred tax charge	785	195
Total	**785**	**196**

The following presents a reconciliation of theoretical income tax calculated at the rate effective in the Russian Federation (20%) to the amount of actual income tax expense recorded in the consolidated statement of comprehensive income.

	2012	2011
Profit before income tax	4,053	379
Theoretical income tax expense at the statutory rate of 20%	811	76
Effect of non-deductible expenses and other permanent differences, net	(26)	120
Income tax expense	**785**	**196**

The net deferred income tax liability is detailed below:

	At 31 December 2012	At 31 December 2011	At 31 December 2010
Deferred tax assets	(479)	(1,546)	(1,636)
Deferred tax liabilities	2,366	2,640	2,475
Net deferred income tax liability	**1,887**	**1,094**	**839**

Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax liabilities. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

13. INCOME TAX (CONTINUED)

	31 December 2012	Credited/ charged to profit or loss	Charged to other comprehensive income	31 December 2011	Credited/ charged to profit or loss	Charged to other comprehensive income	31 December 2010
Property, plant and equipment and intangible assets	2,176	(276)	-	2,452	149	-	2,303
Inventories	85	(11)	-	96	33	-	63
Allowance for doubtful debts	2	3	-	(1)	(7)	-	6
Accrued liabilities	(71)	(45)	-	(26)	(11)	-	(15)
Tax loss carried forward	(373)	1,114	-	(1,487)	31	-	(1,518)
Revaluation of other financial assets	68	-	8	60	-	60	-
Net deferred income tax liability	**1,887**	**785**	**8**	**1,094**	**195**	**60**	**839**

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
At 1 January 2011	**15,082**	**30,189**	**2,437**	**10,125**	**57,833**
Additions	2	181	12	1,264	**1,459**
Disposals	-	(22)	(5)	(35)	**(62)**
Transfers from Construction in progress	1,512	6,872	293	(8,677)	**-**
Reclassifications	(56)	1	55	-	**-**
At 31 December 2011	**16,540**	**37,221**	**2,792**	**2,677**	**59,230**
Additions	137	182	247	571	**1,137**
Disposals	-	(145)	(74)	(144)	**(363)**
Transfers from Construction in progress	298	493	67	(858)	**-**
Reclassifications	(1)	1	-	-	**-**
At 31 December 2012	**16,974**	**37,752**	**3,032**	**2,246**	**60,004**
Accumulated depreciation and impairment					
At 1 January 2011	**(5,466)**	**(13,523)**	**(1,326)**	**(80)**	**(20,395)**
Charge for the year	(403)	(2,661)	(255)	-	**(3,319)**
Write-off upon disposal	-	21	5	-	**26**
Reclassifications	27	3	(30)	-	**-**
Reversal of impairment provision	-	-	-	8	**8**
At 31 December 2011	**(5,842)**	**(16,160)**	**(1,606)**	**(72)**	**(23,680)**
Charge for the year	(442)	(3,029)	(293)	-	**(3,764)**
Write-off upon disposal	-	125	50	-	**175**
Reclassifications	1	(1)	-	-	**-**
Effect of reclassification of provision to inventories	-	-	-	45	**45**
Reversal of impairment provision	-	-	-	4	**4**
At 31 December 2012	**(6,283)**	**(19,065)**	**(1,849)**	**(23)**	**(27,220)**
Net carrying value					
At 31 December 2011	**10,698**	**21,061**	**1,186**	**2,605**	**35,550**
At 31 December 2012	**10,691**	**18,687**	**1,183**	**2,223**	**32,784**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's plant sites presently occupy approximately 502.5 hectares of land for which the Group holds the title.

At 31 December 2012 property, plant and equipment and construction in progress with the carrying value of RUB 27,533 million (2011: RUB 31,131 million) were pledged to secure certain long-term loans granted to the Group (refer to Note 24).

In 2012, interest was not capitalised in property, plant and equipment. During the year ended 31 December 2011, interest of RUB 224 million has been capitalised in property, plant and equipment (refer to Note 11). The average interest capitalisation rate for 2011 was 9.96%.

At 31 December 2012, property, plant and equipment include assets held under a number of finance lease agreements (refer to Note 25). At the end of the lease term the Group takes automatic ownership of these assets. The carrying value of such assets was RUB 546 million: RUB 546 million of equipment (2011: RUB 578 million: RUB 483 million of equipment, and RUB 94 million of construction in progress).

At 31 December 2012, property, plant and equipment include assets, which are fully depreciated but still in use, of historical cost of RUB 10,168 million (at 31 December 2011: RUB 9,635 million).

Intangible assets primarily comprised costs incurred in connection with the acquisition of licensed technologies for Bisphenol A, Polycarbonates and High Density Polyethylene. Costs of license technologies are amortised over ten years under the license agreements.

15. INTANGIBLE ASSETS

	Software	Licences, franchises and other intangible assets	Total
Cost			
At 1 January 2011	**128**	**1,373**	**1,501**
Additions	9	-	**9**
At 31 December 2011	**137**	**1,373**	**1,510**
Additions	22	-	**22**
At 31 December 2012	**159**	**1,373**	**1,532**
Accumulated amortisation and impairment			
At 1 January 2011	**(112)**	**(253)**	**(365)**
Charge for the year	(6)	(137)	**(143)**
At 31 December 2011	**(118)**	**(390)**	**(508)**
Charge for the year	(15)	(137)	**(152)**
At 31 December 2012	**(133)**	**(527)**	**(660)**
Net carrying value			
At 31 December 2011	**19**	**983**	**1,002**
At 31 December 2012	**26**	**846**	**872**

16. OTHER FINANCIAL ASSETS

	31 December 2012		31 December 2011	
	% of ownership	**Amount**	**% of ownership**	**Amount**
OJSC Tatneftekhiminvestholding	7%	381	7%	343
National non-state pension fund	-	-	2%	10
OJSC Kazanskaya yarmarka	2%	2	2%	3
LLC TAIF-Invest	3%	1	3%	1
LLC Elmer	-	-	19%	4
Total		**384**		**361**

Available-for-sale investments are carried at fair value. The amount of revaluation of RUB 38 million and the relevant tax is recorded in other comprehensive income.

In September, the Group sold its share of investments in LLC Elmer for its fair value of RUB 4 million.

The Group does not hold any collateral as security.

17. OTHER NON-CURRENT ASSETS

	31 December 2012	31 December 2011
Catalysts	123	210
Total	**123**	**210**

Other non-current assets comprise catalysts used in production whose operating period exceeds 12 months.

18. INVENTORIES

	31 December 2012	31 December 2011
Inventory and supplies	3,601	3,328
Finished products	610	929
Work in progress and semi-finished products	697	697
Other inventory	71	79
Less: inventory impairment provision for impairment of stocks of materials, inventories and finished products	(84)	(105)
Total	**4,895**	**4,928**

Movements in the provision for impairment of inventories, stocks of materials, and finished products is detailed below:

	2012	2011
Balance of provision at beginning of the year	**105**	**1**
Recognised in the statement of comprehensive income in profit or loss	(66)	104
Provision for the materials reclassified from CIP (note 14)	45	-
Balance of provision at end of the year	**84**	**105**

19. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Trade receivables	306	513
Other receivables	150	168
Less: allowance for doubtful debts	(63)	(68)
Total	**393**	**613**

The majority of sales of products are contracted at prepayment basis. The system of after delivery payment for products is used to promote new types of product to the markets. The average credit period on subsequent payment is 15 days. In case of delay, interest is charged at 3% (2% for export contracts) per month on the outstanding balance. The Group has analysed its doubtful receivables. Doubtful receivables are receivables which are overdue or highly probable that they will not be received within the contractual terms. Based on results of this analysis, and in the cases where the Group has no collateral and no counter liabilities, the Group identified specific accounts and provided fully for the receivables that are past due under contractual terms and conditions based on the assessment of payment probability.

Before accepting any new customer, the Group uses an internal procedure to assess the potential customer's credit quality and defines credit limits by customer. Credit sales are made only to customers, which have a long-term relationship with the Group and a good credit history. All new customers have to pass approving procedure, which includes: security check, check of set up documents, tax registration, feasibility analysis and credit history.

As at 31 December 2012, the Group has no past due but not impaired receivables (2011: RUB nil).

The Group does not hold any collateral as security.

Movements in the Group provision for impairment of these receivables are as follows:

	2012	2011
Balance at beginning of the reporting year	**68**	**68**
Impairment losses recognised on receivables	7	6
Amounts written off as uncollectible	(8)	(5)
Amounts recovered during the year	(4)	(1)
Balance at end of the reporting year	**63**	**68**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date commercial credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes that there is no need to make any allowance for doubtful receivables.

20. OTHER PREPAID AND RECOVERABLE TAXES

	31 December 2012	31 December 2011
Value added tax	434	356
Insurance contributions	1	-
Total	**435**	**356**

21. OTHER CURRENT ASSETS

	31 December 2012	31 December 2011
Advances issued	290	305
Less: allowance for doubtful debts	(27)	(39)
Total	**263**	**266**

During the year ended 31 December 2012, the gain on reversal of provision for advances issued of RUB 5 million (2011: impairment loss of RUB 7 million) was recognised in the statement of comprehensive income.

22. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Current accounts:		
- in Roubles	92	233
- in foreign currency	1,190	156
Deposits	335	510
Cash on hand	-	1
Other cash and cash equivalents	1	1
Total	**1,618**	**901**

23. SHARE CAPITAL AND ADDITIONAL PAID IN CAPITAL

	31 December 2012 '000 shares	31 December 2011 '000 shares
Authorised number of shares		
Ordinary shares at par value of RUB 1 each	26,785,114	26,785,114
Preferred shares at par value of RUB 1 each	119,596	119,596
Total authorised shares	**26,904,710**	**26,904,710**
Issued and fully paid number of shares	**'000 shares**	**'000 shares**
Ordinary shares at par value of RUB 1 each	1,785,114	1,785,114
Preferred shares at par value of RUB 1 each	119,596	119,596
Total issued and fully paid shares	**1,904,710**	**1,904,710**
Treasury shares purchased	**'000 shares**	**'000 shares**
At the beginning of the year	23,513	21,945
Re-acquired by the Group	-	23,997
Re-issued from treasure shares	(23,513)	(22,429)
At the end of the year	**-**	**23,513**

The Group had no treasury shares reducing issued and fully paid share capital as at 31 December 2012 (2011: RUB 123 million).

23. SHARE CAPITAL AND ADDITIONAL PAID IN CAPITAL (CONTINUED)

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

In accordance with Russian law, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. Under Russian Accounting Rules the net profit for 2012 is RUB 3,285 million (2011 net profit was: RUB 437 million). Based on the 2011 results, the parent company decided to pay dividends (Note 31).

Group's ownership structure was as follows:

	% of ownership	
	31 December 2012	**31 December 2011**
LLC Telecom-Management	51.5%	51.4%
OJSC Svyazinvestneftehim	26,6%	26,6%
Other legal entities and individuals	21.9%	22.0%
Total	**100.0%**	**100.0%**

Ordinary shareholders are entitled to one vote per share. Preferred shares are non-voting. All ordinary 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 the amount equal to 25% of their par value subject to authorisation by Company's Board of Directors. Preferred shareholders have a preferred right to recover the par value of preferred shares in liquidation.

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

The ultimate controlling party and ultimate parent is OJSC TAIF ("TAIF"), which controls LLC Telecom-Management.

24. LONG-TERM LOANS AND BORROWINGS

	31 December 2012	**31 December 2011**
Loans and borrowings with fixed interest rate		
RUB denominated loans and borrowings	19,292	25,566
USD denominated loans and borrowings	379	519
EUR denominated loans and borrowings	92	96
Non-convertible bonds (loan participation notes) with fixed rate	3,130	3,310
Total long-term loans and borrowings	**22,893**	**29,491**
Less: Current portion repayable within one year and shown under short-term loans and borrowings (refer to Note 26)	(1,521)	(307)
Net long-term loans and borrowings	**21,372**	**29,184**

Loan Participation Notes amounting to USD 101 million with interest rate of 10% and due for repayment on 19 March 2015 were issued by Kazanorgsintez S.A., a special purpose entity, on a limited recourse basis for the sole purpose of funding a loan to the Company. The Group guaranteed the repayment of bonds in full and absolutely. Interest payments on the notes are due semi-annually in March and September of each year.

24. LONG-TERM LOANS AND BORROWINGS (CONTINUED)

Weighted average interest rates for long-term loans and borrowings were as follows:

	31 December 2012	31 December 2011
Fixed interest rate		
RUB denominated loans and borrowings	8,4%	8,4%
USD denominated loans and borrowings	6%	5,8%
EUR denominated loans and borrowings	6%	6%
Non-convertible bonds	10%	10%

As at 31 December 2012, long-term borrowings totalling RUB 19,292 million (2011: RUB 25,566 million) are secured by the pledge of equipment and transport means with the carrying value of RUB 16,121 million, real estate assets under mortgage agreement with the carrying value of RUB 9,177 million and construction in progress with carrying value of RUB 2,235 million (2011: equipment amounting to RUB 19,135 million, real estate amounting to RUB 9,761 million and construction in progress with the carrying value of RUB 2,235 million).

As at 31 December 2012, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2012 are as follows:

	Less than one year	Between one and five years	Over five years	Total
Loans and borrowings with fixed interest rate:				
RUB denominated loans and borrowings	2,584	20,078	2,014	**24,676**
USD denominated loans and borrowings	387	-	-	**387**
EUR denominated loans and borrowings	93	-	-	**93**
Non-convertible bonds	395	3,414	-	**3,809**
Total	**3,459**	**23,492**	**2,014**	**28,965**

As at 31 December 2011, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2011 are as follows:

	Less than one year	Between one and five years	Over five years	Total
Loans and borrowings with fixed interest rate:				
RUB denominated loans and borrowings	2,240	25,354	6,295	**33,889**
USD denominated loans and borrowings	170	386	-	**556**
EUR denominated loans and borrowings	6	96	-	**102**
Non-convertible bonds	418	3,936	-	**4,354**
Total	**2,834**	**29,772**	**6,295**	**38,901**

The carrying value of loans and borrowings approximates fair values.

25. FINANCE LEASE PAYABLES

	31 December 2012	31 December 2011
Minimum finance lease payments		
Due within one year	59	114
Due later than one year and not later than five years	21	51
Total future finance lease payments	**80**	**165**
Less: future finance charges	(4)	(8)
Present value of minimum finance lease payments	**76**	**157**
Less: Current portion of finance lease payables (Note 28)	(57)	(106)
Non-current finance lease payables	**19**	**51**

The Group has no right to sell or sub-lease the assets under the lease arrangements until transfer of ownership.

26. SHORT-TERM LOANS AND BORROWINGS

	31 December 2012	31 December 2011
Current portion of long-term borrowings repayable within one year (Note 24)	1,521	307
Total short-term loans and borrowings	**1,521**	**307**

As at 31 December 2012, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2012 are as follows: They are presented as follows:

	Less than 3 months	Between 3 months and 1 year	Total
Loans and borrowings with fixed interest rate:			
RUB denominated loans and borrowings	421	2,163	**2,584**
USD denominated loans and borrowings	195	192	**387**
EUR denominated loans and borrowings	93	-	**93**
Non-convertible bonds	164	231	**395**
Total	**873**	**2,586**	**3,459**

As at 31 December 2011, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2011 are as follows: They are presented as follows:

	Less than 3 months	Between 3 months and 1 year	Total
Loans and borrowings with fixed interest rate:			
RUB denominated loans and borrowings	606	1,634	**2,240**
USD denominated loans and borrowings	35	135	**170**
EUR denominated loans and borrowings	1	5	**6**
Non-convertible bonds	174	244	**418**
Total	**816**	**2,018**	**2,834**

27. TRADE PAYABLES

At 31 December 2012 the majority of trade accounts payable was primarily denominated in RUB and included payables on purchases of raw materials, energy, maintenance services, spare parts and consumables. The fair value of trade accounts payable approximates their carrying amounts.

The table below shows liabilities at 31 December 2012 by their remaining contractual maturity. The amounts disclosed below are contractual undiscounted cash flows, including gross contract commitments. Foreign currency payments are translated into reporting currency using the spot exchange rate at the reporting date:

	31 December 2012	31 December 2011
Within 90 days	834	931
90 to 180 days	-	26
180 to 365 days	-	81
Total	**834**	**1,038**

28. OTHER PAYABLES AND ACCRUED LIABILITIES

	31 December 2012	31 December 2011	31 December 2010
Dividends payable	8	8	769
Accrued employee benefit costs	163	137	109
Provisions for short-term employee benefits	363	138	280
Land plot lease obligations	-	195	195
Current portion of finance lease payables (Note 25)	57	106	129
Deferred income	1	2	2
Other payables and accrued liabilities	20	220	17
Total	**612**	**806**	**1,501**

29. OTHER TAXES PAYABLE

	31 December 2012	31 December 2011
VAT	326	207
Property tax	147	153
Insurance contributions	62	58
Land tax	60	55
Personal income tax	29	25
Other taxes	2	2
Total	**626**	**500**

30. EARNINGS PER SHARE

Basic earnings per share:

	2012	2011
Number of ordinary shares outstanding (thousands)	1,785,114	1,785,114
Adjusted for weighted average number of ordinary treasury shares (thousands)	(362)	(176)
Weighted average number of ordinary shares in issue (thousands)	1,784,752	1,784,938
Profit for the year attributable to the Group's equity holders (million roubles)	3,268	182
Less: after-tax amount of preferred dividends (million roubles)	(28)	(28)
Basic and diluted earnings per share (RUB)	**1.82**	**0.09**

The Group does not have shares with diluting effect.

31. DIVIDENDS

	2012	2011
Dividends declared for the year ended 31 December 2010:		
- ordinary shares (RUB 0.1752 per share)	-	313
- preferred shares (RUB 0.25 per share)	-	30
Dividends declared for the year ended 31 December 2011:		
- ordinary shares (RUB 0.06 per share)	107	-
- preferred shares (RUB 0.25 per share)	24	-
Total	**131**	**343**

Dividends declared for 2011 were paid out in full within the 2012 reporting year.

32. RELATED PARTY TRANSACTIONS

Related parties of the Group include two shareholders (OJSC Svyazinvestneftekhim and LLC Telecom-Management), entities under common control or significant influence and key management personnel according to IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the nature of the relationship, not merely the legal form.

Transactions with shareholders and other related parties are in the ordinary course of business with terms and conditions similar to transactions with third parties.

Presented below is information regarding transactions and balances with shareholders and other related parties not disclosed in other notes to the consolidated financial statements

	Trade and other receivables	Trade and other payables	Borrowings	Cash
At 31 December 2012				
- controlling shareholder and ultimate parent	-	-	-	-
- other related parties*	76	168	-	-
Total	**76**	**168**	**-**	**-**
At 31 December 2011				
- controlling shareholder and ultimate parent	1	-	-	-
- other related parties*	58	638	183	78
Total	**59**	**638**	**183**	**78**

	Sales of goods and services	Purchase of goods and services	Purchase of property, plant and equip-ment	Dividends declared	Financial assis-tance	Repayment of interest on bor-rowings	Accrued interests	Proceeds from reissuance of treasury shares
For 12 months 2012								
- controlling shareholder and ultimate parent	-	3	86	63	-	-	-	-
- significantly influencing shareholder	-	-	-	28	130	-	-	-
- other related parties*	1,335	10,086	304	-	-	5	5	61
Total	**1,335**	**10,089**	**390**	**91**	**130**	**5**	**5**	**61**

	Sales of goods and services	Purchase of goods and services	Purchase of property, plant and equipment	Dividends declared	Proceeds from borrowings	Repayment of borrowings	Repayment of interests on borrowings	Accrued interests	Proceeds from reissuance of treasury shares
For 12 months 2011									
- controlling shareholder and ultimate parent	-	1	34	173	441	7,244	343	524	-
- significantly influencing shareholder	-	-	-	81	214	214	4	4	-
- other related parties*	1,142	10,708	161	-	173	-	3	4	77
Total	**1,142**	**10,709**	**195**	**254**	**828**	**7,458**	**350**	**532**	**77**

* other related parties include entities under common control, entities under control of significantly influencing shareholder, entities under common control of one and the same entity/individual (key management personnel).

Key management compensation for the year ended 31 December 2012 amounted to RUB 97 million (2011: RUR 52 million) and included salaries, bonuses and termination benefits to employees of the Group and related social security contributions.

32. RELATED PARTY TRANSACTIONS (CONTINUED)

Other rights and obligations connected with related parties are as follows:

	Contractual commitments to supply goods	Contractual commitments to supply services
At 31 December 2012		
- other related parties (incl. entities under common control)	-	3
Total	**-**	**3**
At 31 December 2011		
- other related parties (incl. entities under common control)	1,415	6
Total	**1,415**	**6**

33. 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 any ongoing legal proceedings will not have a material impact on the Group's consolidated financial position or consolidated operating results.

Tax contingencies in the Russian Federation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

As Russian tax legislation does not provide clear interpretation and definitive guidance in certain areas. The management believes that the tax positions and interpretations that it has taken are sustained and comply with the current regulations. However, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated at the moment; however, it may be significant to the consolidated financial position and/or the overall operations of the Group.

Amendments to the Russian Tax Code in terms of transfer pricing legislation are effective from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to 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 included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar (homogenous) transactions by the same taxpayer within a short period of time, and barter transactions.

The transfer pricing legislation has many rules that may be interpreted ambiguously making it difficult to interpret and use them. Tax liabilities arising from transactions between the Group companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules and tools, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the consolidated financial position and/or the overall operations of the Group.

33. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Investment commitments

The Board of Directors of the Company has approved budgeted capital expenditures for 2013 in the amount of RUB 1,746 million, including VAT (2012: RUB 1,174 million, including VAT). Contractual capital expenditure commitments as at 31 December 2012 are RUB 186 million including VAT (31 December 2011: RUB 32 million). The Group expects to fund capital commitments from its own cash resources and borrowings.

Operating lease commitments

The Group has land and real estate items under lease. The term of relative lease agreements is from eleven months to five years with an option to renew the lease after its expiration. The Group is not subject to any limitations when entering into such agreements.

Future minimum lease expenses under operating lease agreements as at 31 December 2012 make RUB 255 million within one year and RUB 11 million from two to five years (as at 31 December 2011: RUB 223 million within one year).

Russian Federation risk

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

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

Environmental matters

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

Russian insurance environment

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

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

34. FINANCIAL RISK MANAGEMENT

Key financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group’s financial performance in these markets.

Risk management is carried out by a treasury department under policies approved by the board of directors. The Treasury Department identifies, evaluates and hedges financial risks in close co-operation with the Company’s operating units.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group considers total capital under management to be equity as shown in the consolidated statement of financial position.

Consistent with others in the industry, the Group monitors capital on the basis of the debt to EBITDA ratio.

Key categories of financial instruments

The following table sets out the carrying amount of the Group's financial instruments per categories at the following dates:

	31 December 2012	31 December 2011
Financial assets		
Loans and receivables		
Cash and cash equivalents	1,618	901
Trade and other receivables	393	613
Financial assets available for sale		
Other financial assets	384	361
Total	**2,395**	**1,875**
Financial liabilities carried at amortised cost		
Finance lease liabilities	76	157
Long-term loans and borrowings	21,372	29,184
Short-term loans and borrowings	1,521	307
Trade payables	834	1,038
Other payables and accrued liabilities	28	423
Total	**23,831**	**31,109**

Fair Value of Financial Instruments

The fair value of loans and borrowings with maturity of less than one year approximates their carrying amounts.

Fair value of long-term loans and borrowings is determined as follows:

- The fair value of instruments with floating interest rate equals their carrying amount;
- The estimated fair value of financial instruments with fixed interest rate is based on discounting estimated future cash flows approach calculated using current market rates available to the Group for new financial instruments bearing the the similar credit risk and maturity.

The fair value of long-term loans and borrowings with carrying amount of RUB 21,372 million (as at 31 December 2011: RUB 29,184 million) calculated applying the rate of 7.96% (2011: 8.17%) is RUB 20,336 million (31 December 2011 – RUB 27,823 million).

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair Value of Financial Instruments (continued)

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	2012			2011		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
Financial assets						
Financial assets available for sale	-	381	3	-	343	18
Total financial assets carried at fair value	**-**	**381**	**3**	**-**	**343**	**18**

Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash and marketable financial instruments, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the economic environment, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The liquidity risk is the risk that the Group won't be able to repay its maturing liabilities. The Group manages its liquidity risk through a combination of short-term and long-term financing and self generated funds.

At 31 December 2012 to finance its needs for liquidity, the Group had no limits for credit funds (at 31 December 2011: RUB 3 billion).

The summaries of the maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 on contractual payments are presented in Notes 24, 25, 26 and 27.

Foreign currency risk management

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 performs certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	31 December 2012	31 December 2011
Assets		
Trade and other receivables	4	153
Cash and cash equivalents	1,190	156
Total assets	**1,194**	**309**
Liabilities		
Loans and borrowings	3,601	3,925
Finance lease liabilities	76	157
Trade and other payables	14	147
Total liabilities	**3,691**	**4,229**
Total net position	**(2,497)**	**(3,920)**

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk management (continued)

Foreign exchange sensitivity analysis

The Group is mainly exposed to USD and EUR exchange rates.

The following table details the Group's sensitivity to a 5% increase and decrease in RUB against US dollar and 5% against euro. The above estimates are based on the development of exchange rates during 2012 and beginning of 2013. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a relevant change in foreign currency rates. Positive numbers below indicate an increase in profit and equity where RUB strengthens against the relevant currency. For a similar weakening of RUB against the relevant currency, there would be an equal and opposite impact on the profit (after tax), and the balances below would be negative.

	USD impact		EUR impact	
	2012	2011	2012	2011
Increase in profit after tax	101	145	1	11

This is mainly attributable to the exposure to USD and EUR borrowings outstanding as of the year end.

The Group's sensitivity to foreign exchange exposure has changed insignificantly during the current period mainly due to the stable exchange rate of Russian Rouble against USD and euro.

Interest rate risk management

As at 31 December 2012 the Group is independent on interest rate risk as the Group had no funds at floating interest rates.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. New customers are dealt only on 100% prepayment terms. The Group uses available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

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

Credit risk is managed at the Group level. For wholesale customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The following ratings have been assigned to Groups' financial assets:

Rating A – history of business relations of more than one year, no creditworthiness difficulties;

Rating B – history of business relations of more than one year, potential creditworthiness difficulties are anticipated and

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Rating C – others, creditworthiness difficulties are possible.

	Rating A	Rating B	Rating C
As of 31 December 2012			
Cash and cash equivalents	1,618	-	-
Trade and other receivables	393	-	-
As at 31 December 2011			
Cash and cash equivalents	901	-	-
Trade and other receivables	612	1	-

Management does not expect any losses from non-performance by these counterparties, other than those amounts already provided for.

The maximum exposure to credit risk comprises the carrying amount of trade and other receivables totalling RUB 393 million (2011: RUB 613 million) and cash and cash equivalents totalling RUB 1,618 million (2011: RUB 901 million).

35. INVESTMENTS IN SUBSIDIARIES

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

		% of ownership	
	Nature of business	31 December 2012	31 December 2011
Subsidiaries			
Incorporated in the Russian Federation			
LLC DK Khimikov	Entertainment	100	100
Special purpose entity			
Incorporated in Luxemburg			
Kazanorgsintez S.A.	Financing	-	-

36. EVENTS AFTER THE REPORTING PERIOD

By the issue of these consolidated financial statements, the Group has settled its loan liabilities of RUB 510 million.

Credit agreement with Avers bank is extended up to June 2014.