NIZHNEKAMSKNEFTEKHIM GROUP
INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

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Independent Auditor's Report

To the Shareholders and Board of Directors of PAO "Nizhnekamskneftekhim"

We have audited the accompanying consolidated financial statements of PAO "Nizhnekamskneftekhim" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2014, 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.

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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 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

25 March 2015
Moscow, Russian Federation

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

Audited entity: PAO Nizhnekamskneftekhim

State registration certificate № 399, issued by State Registration Bureau of Republic of Tatarstan on 3 July 2001

Certificate of inclusion in the Unified State Register of Legal Entities issued on November 5, 2002 under registration № 1021602502316

423574, Russian Federation, Republic of Tatarstan, Nizhnekamsk

Independent auditor: ZAO PricewaterhouseCoopers Audit

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

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

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

Consolidated Statement of Comprehensive Income

	Note	2014	2013
Revenue	8	137,007	126,043
Cost of sales	9	(109,941)	(99,191)
Gross profit		**27,066**	**26,852**
Selling, general and administrative expenses	10	(13,295)	(14,581)
Other operating expenses, net	11	(1,303)	(3,145)
Operating profit		**12,468**	**9,126**
Finance costs	12	(375)	(172)
Finance income	13	252	291
Foreign exchange loss		(457)	(171)
Share of post tax net results in associates	16	156	140
Profit before income tax		**12,044**	**9,214**
Income tax	14	(2,610)	(2,946)
Profit for the year		**9,434**	**6,268**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
(Decrease)/increase in fair value of available-for-sale investments	17	(419)	46
Increase/(decrease) in income tax	14	83	(8)
Items that will not be reclassified to profit or loss:			
Currency translation reserve		300	59
Gain on remeasurement of post-employment benefit obligations	29	274	86
Total comprehensive income for the year		**9,672**	**6,451**
Profit is attributable to:			
Shareholders of the parent company		9,486	6,250
Non-controlling interest		(52)	18
Profit for the year		**9,434**	**6,268**
Total comprehensive income is attributable to:			
Shareholders of the parent company		9,595	6,424
Non-controlling interest		77	27
Total comprehensive income		**9,672**	**6,451**
Earings per share (in Russian roubles), basic and diluted	25	**5.18**	**3.41**

The accompanying notes on pages 5-47 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment and intangible assets	15	55,030	52,526
Investments in associates	16	635	495
Investments in securities and other financial assets	17	1,805	2,107
Deferred tax assets	14	616	696
Other non-current assets	18	708	833
Goodwill	19	83	83
Total non-current assets		**58,877**	**56,740**
Current assets			
Inventories	20	14,673	14,400
Trade and other receivables	21	6,129	4,998
Income tax prepayments		37	468
Taxes prepayments and VAT recoverable	22	2,603	3,306
Other current assets	23	862	950
Cash and cash equivalents	24	7,193	3,051
Total current assets		**31,497**	**27,173**
Total assets		**90,374**	**83,913**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	25	6,332	6,332
Currency translation reserve		236	65
Revaluation reserve		(230)	106
Retained earnings		61,400	53,470
Total equity attributable to shareholders of the parent company		**67,738**	**59,973**
Non-controlling interest		**846**	**769**
Total equity		**68,584**	**60,742**
Non-current liabilities			
Non-current loans and borrowings	26	1,679	1,358
Deferred tax liabilities	14	2,118	2,002
Other non-current liabilities	28	1,160	1,365
Total non-current liabilities		**4,957**	**4,725**
Current liabilities			
Current loans and borrowings	27	5,318	5,237
Trade and other payables	31	6,010	9,565
Advances received and accrued liabilities	32	4,183	2,695
Income tax payable		337	5
Taxes payable, other than income tax	33	968	803
Dividends payable		17	17
Deferred income		-	124
Total current liabilities		**16,833**	**18,446**
Total liabilities		**21,790**	**23,171**
Total equity and liabilities		**90,374**	**83,913**

A.Sh. Bikmurzin
General Director

I.R. Yakhin
Chief Accountant

25 March 2015

Consolidated Statements of Cash Flows

OPERATING ACTIVITIES	Note	2014	2013
Profit before income tax		**12,044**	**9,214**
Adjustments for:			
Depreciation charge	**9, 10**	3,719	4,083
Finance costs/(income), net	**12, 13**	123	(119)
Income from investments, net	**11, 16**	(159)	(143)
Loss/(gain) on disposal of non-current assets		795	(169)
Foreign exchange loss, net		457	171
Increase in allowance for doubtful debts	**21**	218	26
Decrease in allowance for inventory impairment	**20**	(2)	(3)
Increase/(decrease) in provision for impairment of other assets		37	(17)
Operating profit before working capital changes		**17,232**	**13,043**
Decrease/(increase) in inventories	**20**	128	(1,522)
Increase in trade and other receivables	**21**	(276)	(1,023)
Decrease/(increase) in prepaid and recoverable taxes other than prepaid income tax	**22**	703	(9)
Decrease/ (increase) in other assets		195	(51)
(Decrease)/increase in trade and other payables and other liabilities	**28, 31**	(3,516)	4,323
Increase/(decrease) in advances received and accruals	**32**	1,217	(252)
Increase/(decrease) in taxes payable other than income tax	**33**	165	(53)
Working capital changes		**(1,384)**	**1,413**
Interest paid		(146)	(83)
Income taxes paid		(1,566)	(2,305)
Cash from operating activities		**14,136**	**12,068**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(6,884)	(7,936)
Acquisition of subsidiaries	**31**	(412)	(778)
Purchase of other financial assets		(29)	(12)
Interest received		252	281
Purchase of other non-current assets		(176)	(206)
Proceeds from sale of financial assets		2	93
Proceeds from sale of property, plant and equipment		289	80
Interest capitalised		(308)	(219)
Dividends received		16	8
Cash used in investing activities		**(7,250)**	**(8,689)**
FINANCING ACTIVITIES			
Proceeds from non-current borrowings		2,359	82
Proceeds from current borrowings		5,765	4,630
Repayment of non-current borrowings		(4,509)	(3,292)
Repayment of non-current borrowings		(5,332)	(1,598)
Repayment of finance lease payables		(87)	(164)
Dividends paid		(1,830)	(5,125)
Acquisition of non-controlling interest		-	(70)
Proceeds from government grants		100	100
Cash used in financing activities		**(3,534)**	**(5,437)**
Net increase/(decrease) in cash and cash equivalents before the effects of exchange rate changes		3,352	(2,058)
Effect of exchange rate changes on cash and cash equivalents		790	28
Cash and cash equivalents at the beginning of the year		3,051	5,081
Cash and cash equivalents at the end of the year		**7,193**	**3,051**

The accompanying notes on pages 5-47 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Treasury shares	Retained earnings	Currency translation reserve	Revaluation reserve	Total equity attributable to shareholders of the parent company	Non-controlling interest	Total
Balance at 31 December 2012	6,332		52,277	15	68	58,692	706	59,398
Profit for the year	-	-	6,250	-	-	6,250	18	6,268
Other comprehensive income:	-	-	-	-	-	-	-	-
Change in fair value of available for sale investments	-	-	-	-	38	38	-	38
Currency translation reserve	-	-	-	50	-	50	9	59
Remeasurement of post-employment benefit obligations	-	-	86	-	-	86	-	86
Total comprehensive income	-	-	6,336	50	38	6,424	27	6,451
Dividends	-	-	(5,094)	-	-	(5,094)	(35)	(5,129)
Acquisition of additional interest	-	-	(49)	-	-	(49)	(327)	(376)
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	338	338
Change in non-controlling interest due to increase in share capital	-	-	-	-	-	-	60	60
Balance at 31 December 2013	6,332		53,470	65	106	59,973	769	60,742
Balance at 31 December 2013	6,332	-	53,470	65	106	59,973	769	60,742
Profit for the year	-	-	9,486	-	-	9,486	(52)	9,434
Other comprehensive income:	-	-	-	-	-	-	-	-
Change in fair value of available for sale investments	-	-	-	-	(336)	(336)	-	(336)
Currency translation reserve	-	-	-	171	-	171	129	300
Remeasurement of post-employment benefit obligations	-	-	274	-	-	274	-	274
Total comprehensive income	-	-	9,760	171	(336)	9,595	77	9,672
Dividends	-	-	(1,830)	-	-	(1,830)	-	(1,830)
Balance at 31 December 2014	6,332	-	61,400	236	(230)	67,738	846	68,584

The accompanying notes on pages 5-47 are an integral part of these consolidated financial statements.

Note 1. Nizhnekamskneftekhim Group and its operations

OAO Nizhnekamskneftekhim has changed the name of its legal form to comply with the Russian Civil Code amendments enacted from 1 September 2014 and to become the Public Joint-Stock Company Nizhnekamskneftekhim (the abbreviated firm name is PAO Nizhnekamskneftekhim, hereinafter, the "Company"). The decision on inclusion of the new name in the Company's Charter was taken by the Company's Extraordinary General Shareholders' Meeting on 29 October 2014. The Company's Charter with the new name therein was registered with the authorised government bodies of the Russian Federation on 13 November 2014.

The Company was incorporated as a result of privatisation of the Production Association (PO) Nizhnekamskneftekhim on 18 August 1993 pursuant to approval by the State Property Management Committee of the Republic of Tatarstan, a republic within the Russian Federation. All assets and liabilities previously operated by the former PO Nizhnekamskneftekhim were distributed between entities, including the Company in accordance with the privatisation law of the Republic of Tatarstan.

PAO Nizhnekamsneftekhim's registered address is: 423574, Nizhnekamsk, the Republic of Tatarstan, Russian Federation. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the production and sale of petrochemicals within the Republic of Tatarstan. The Group employed an average of 23,277 and 23,799 employees during the years ended 31 December 2014 and 2013, respectively.

The Group is controlled by OAO TAIF through OOO Telecom-Management. The main shareholders, who owned 5% plus in the Company as of 31 December 2014, are OAO Svyazinvestneftekhim and OOO Telecom-Management.

The Company has its primary (top) share listing on the MICEX stock exchange. In addition the Company's American Depositary Receipts are traded on the Munich stock exchange.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and customs frameworks continue to develop and are subject varying interpretations.

The political and economic turmoil has had and may continue to have a negative impact on the Russian economy, including the weakening of the Russian Rouble, higher interest rates, reduced liquidity and making it harder to raise international funding. In 2014, volatility of USD and EUR exchange rates determined by CBRF was high (between RUB 32.6587 and RUB 67.7851 per USD 1.00, between RUB 45.0559 and RUB 84.589 per EUR 1.00). The CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. during 2014. These events, including current and potential future international sanctions against Russian companies and officials and the related uncertainty and volatility of the financial markets, may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management's current expectations.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBRF exchange rate fluctuated between RR 56.2376 per USD and RR 69.664 per USD; RR 64.0504 per EUR and RR 78.79 per EUR

- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade. Moody's Investors Service and Fitch Ratings still have Russia as investment grade. However, all these rating agencies indicated a negative outlook.

- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 14% p.a.

Exchange rates of major foreign currencies as at 31 December 2014 were RUB 56.2584 = USD 1.00 (RUB 32.7292 as at 31 December 2013), RUB 68.3427 = EUR 1.00 (RUB 44,9699 as at 31 December 2013).

Note 3. Adoption of new or revised standards and interpretations

The following revised standards and interpretations became effective for the Group from 1 January 2014:

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 standard clarified that a qualifying right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy. The amended standard did not have any material 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 is 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 or not. In addition, it is necessary to disclose information on financial or any other support provided for the subsidiary excluded from consolidated financial statements, irrespective of whether such support has already been is only intended to be provided. The amended standard did not have any material impact on the Group's consolidated financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or intangible assets with indefinite useful lives, and there has been no impairment. The amended standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have any material impact on the Group's consolidated financial statements.

Note 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 2014 or later, and which the Group has not early adopted.

IFRS 9, "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Note 4. New accounting pronouncements (continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- 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 at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the employee contributions are formalised in the terms and conditions of the plan, aligned with the services and are independent of the number of years of service. The amendment is not expected to have any material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition". The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) presentation of a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ("the management entity"), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for annual periods beginning on or after 1 January 2016). The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Note 4. New accounting pronouncements (continued)

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists those that prepare the statements to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the annual periods beginning on or after 1 January 2016). In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for annual periods beginning after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, in the amount which the company will rightfully expect to receive. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Agriculture: Amendments to IAS 16 and IAS 41 "Agreculture: Bearer Plants" (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is not expected to have any impact on the Group's consolidated financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves contributed assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Note 4. New accounting pronouncements (continued)

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity does not need to provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

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

Note 5. Changes in comparative information

The opening statement of financial position has not been presented in these financial statements because the change in presentation has a very limited impact and affects only the two line items within equity described above. Management considered materiality and concluded that it is sufficient to present information about the reclassification only in this note and that the omission of the additional opening statement of financial position is not material. The following reclassifications were made to the comparative figures in the consolidated statement of financial position and notes there to to ensure comparability with the data for the reporting period.

Long-term receivable balances previously recorded within "Investments in securities and other financial assets" in the consolidated statement of financial position were reclassified to other non-current assets in the consolidated statement of financial position. The effect of reclassifications for presentation purposes of the consolidated statement of financial position was as follows:

	As originally presented at 31 December 2013	**Reclassification**	**Adjusted amount at 31 December 2013**
Investments in securities and other financial assets	2,150	(43)	2,107
Other non-current assets	790	43	833

	As originally presented at 31 December 2012	**Reclassification**	**Adjusted amount at 31 December 2012**
Investments in securities and other financial assets	2,095	(34)	2,061
Other non-current assets	639	34	673

Amounts of VAT on advances paid for capital investments (to be settled within 12 months) which were previously included in "Taxes prepayments and VAT recoverable" in the consolidated statement of financial position were reclassified to other current assets in the consolidated statement of financial position. The effect of reclassifications for presentation purposes of the consolidated statement of financial position was as follows:

	As originally presented at 31 December 2013	**Reclassification**	**Adjusted amount at 31 December 2013**
Taxes prepayments and VAT recoverable	3,558	(252)	3,306
Other current assets	698	252	950

Note 5. Changes in comparative information (continued)

	As originally presented at 31 December 2012	Reclassification	Adjusted amount at 31 December 2012
Taxes prepayments and VAT recoverable	3,445	(148)	3,297
Other current assets	862	148	1,010

Changes in the consolidated statement of financial position impacted the disclosures in Note 17, 18, 22, 23, but did not have any impact on other items of the consolidated statement of financial position and consolidated statement of comprehensive income and disclosures in the relevant notes.

Note 6. Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information preparation and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and judgements. Judgements that have the most significant effect on the amounts recognised in the Group's consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment provision for receivables. Management has determined the impairment provision for accounts receivable based on specific customer identification, customer payment trends and subsequent receipts and settlements. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that, therefore, the recorded value approximates their fair value (see Note 21).

Subsequent measurement of fair value of investments in securities and other financial assets. Management has determined the fair value of other financial assets, based on an assessment of future expected cash flows using the discount rate applicable to the borrower. The fair value of investments in securities was calculated using the equity method adjusted for an average market banking multiplier that reflects the market data on comparable companies. The Group's management considered it necessary to apply the banking multiplier to assess investments due to increasing risks in the securities market (see Note 17).

Assessment of provision for payments of benefits to employees upon retirement. Management has determined that certain lump sum payments to employees on retirement and fixed benefits paid to non-working retirees constitute a constructive obligation to the Group. Consequently, a provision in respect of post-employment benefits has been created and recognized in the consolidated statement of financial position. Management continues to review such programs and continues to assess whether they give rise to an obligation (See Note 29).

Deferred income tax asset recognition. Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable.

In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and applies estimates based on the last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

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. Management applies its judgement in estimating the timing and value of cash flows within the value in use calculation for those assets. Key assumptions in management's analysis relate to obtaining refinance, sales volumes, sales prices and raw materials prices.

Note 7. Summary of significant accounting policies

Statement of compliance with IFRSs

These consolidated financial statements 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";
- Fair valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Basis of consolidation

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the 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 combination

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.

Goodwill is measured by deducting fair value of the net assets of the acquiree from 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.

Note 7. Summary of significant accounting policies (continued)

Business combination (continued)

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.

Goodwill is carried at cost less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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 directly in the consolidated statement of changes in equity.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates.

Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately in the statement of comprehensive income.

Losses of associates are initially recognised in the consolidated financial statements as long as investments in associates are not written down to nil. Then losses are recorded in the consolidated financial statements to the extent it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 recycled to profit or loss.

Note 7. Summary of significant accounting policies (continued)

Disposals of subsidiaries or associates (continued)

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.

Revenue and income recognition

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

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 amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 and included in property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the inception of the lease, 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"). Russian rouble 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. As at each reporting date, the assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian Rouble are translated into Russian Roubles at the exchange rate effective as at each balance sheet date. All items included in the shareholders' equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian Roubles at average exchange rates of each reporting period.

Note 7. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

All resulting exchange differences are treated as a separate component of equity, and the accumulated amount is recognised as currency translation reserve in the consolidated statement of changes in equity, and movements in the reserve are recorded within other comprehensive income in 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.

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.

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.

Government grants

Government grants related to assets are credited to income over the periods and in the proportions in which depreciation on those assets is charged. Closing grants balances are recorded in the statement of financial position in line "other long-term liabilities" or "trade and other liabilities" depending on the planned period of writing off as gains.

Employee benefits

Short-term benefits to employees in respect of services rendered during a reporting period are recognised as an expense in that reporting period.

Pension and other post-employment benefits

The Group is legally obliged to make defined contributions to the Russian Federation State Pension Fund. Moreover, some entities of the Group have signed agreements with non-government pension funds on non-government pension schemes for which the Group has recognised the construction obligation.

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

Under a collective agreement between the Group's company and its employees, the Group has a number of long-term benefit liabilities: jubilee benefits, benefits paid to employees upon attainment of a certain past service period, lump sum benefits on retirement and regular fixed payments to non-working pensioners.

Liabilities on lump-sum benefits on retirement and fixed payments to non-working pensioners are treated by the Group as post-employment benefit liabilities. The Group classifies these obligations as defined benefit plans. There are no assets on these plans.

Jubilee benefits are classified and recorded by the Group as other long-term benefits.

Note 7. Summary of significant accounting policies (continued)

Pension and other post-employment benefits (continued)

The Group uses the Projected Unit Credit Method to determine the discounted value of its defined benefit obligations and the related current service cost, and where applicable, past service cost. When calculating post-employment and other long-term benefits, the Group uses such assumptions as expected salary growth, staff turnover, average life expectancy and discount rate equivalent to interest rates on top-quality government bonds with a currency and maturity similar to that of the defined benefit plan. Gains and losses from revaluation on pension plans are fully recognised in the consolidated statement of comprehensive income within other comprehensive income. Gains and losses from revaluation related to other long-term benefits are recognised in the consolidated statement of comprehensive income as a component of cost and selling, general and administrative expenses within labour expenses.

When evaluating its defined benefit liability, the Group recognises the past service cost in profit or loss immediately.

Income taxes

Income taxes have been provided for in the consolidated financial statements under Russian law enacted or substantively enacted at 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 costs.

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 consolidated 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, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised (enacted or substantively enacted at reporting date). 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.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every balance sheet date. 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 reporting date.

Property, plant and equipment

All property, plant and equipment are stated at cost, except for assets acquired prior to 1 January 2003 which have been adjusted for the impact of changes in the general purchasing power in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", less accumulated depreciation.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment are capitalised and the replaced part is retired.

Note 7. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is computed under the straight-line method over the estimated useful lives as follows:

Buildings, constructions and utilities	20-100 years
Machinery and equipment	5-30 years
Motor vehicles and other assets	2-30 years

The estimated useful life and depreciation 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.

For the purpose of disclosure land owned by the Group is included in buildings, constructions and utilities and is not depreciated. Land is not depreciated.

Gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income in line "Other operating expenses, net".

The Group maintains and constructs assets for social use by the local community. Social assets held by the Group at privatisation that have subsequently been transferred, or are planned to be transferred, to government authorities without consideration have not been recognised in the consolidated financial statements. The cost of social assets constructed subsequent to privatisation and those related to the maintenance, repair and minor renewal of such assets are expensed as incurred.

Construction in progress

Construction in progress comprises costs directly related to construction of property, plant and equipment. The cost of the construction in progress also includes finance expense incurred in the course of construction if financed through borrowings. Depreciation commences from the time the assets are ready for use.

Intangible assets

The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licenses, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Amortisation is computed under the straight-line method over the estimated useful lives as follows:

Licenses	2-15 years
Software	2-12 years

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. The 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 not directly 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 in 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

Output value added tax (VAT) related to sales is 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

Note 7. Summary of significant accounting policies (continued)

Value added tax (continued)

limitations. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice and acceptance of goods and services received. The tax authorities permit the settlement of VAT on a net basis. Output VAT is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Prepayments

Prepayments are carried in the consolidated financial statements of the Group 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 advances issued will not be received, the carrying value of the advances issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year on line "other operating expenses, net".

Impairment of assets except for goodwill and financial 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 (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit and loss.

Financial assets

Depending on their classification financial instruments are carried at fair value or amortised cost as described below. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price. Financial assets and liabilities that are not traded in an active market are measured at the fair value using market approach. Estimation of the fair value is based on confirmed publicly available information about market multipliers for net assets of similar companies.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Note 7. Summary of significant accounting policies (continued)

Financial assets (continued)

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 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.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

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

- financial assets at fair value through profit or loss;
- 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.

Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets at fair value through profit or loss

Financial assets are classified as measured at fair value through profit or loss where the financial asset is either held for trading or it is designated as such at its initial recognition.

A financial asset is classified as held for trade if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

Note 7. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the consolidated statement of comprehensive income within profit or loss. The net gain or loss recognised in the consolidated statement of comprehensive income incorporates any dividend or interest earned on the financial asset.

Financial assets available for sale

Available-for-sale financial assets mainly include quoted and unquoted shares in an active market.

The 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 other comprehensive income, the cumulative amount is recognised in the consolidated statement of financial position 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. 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 profit and loss.

Dividends on available-for-sale equity instruments are recognised in profit and loss 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 are recorded at fair value. If their fair value cannot be reliably measured they 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 initially recognised at fair value and subsequently carried at cost amortised at the effective interest rate net of 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 balance sheet date. An impairment loss is recognised 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 generated by the asset decreased.

For financial assets 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.

For certain categories of financial assets, 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 Company'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 reflects 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

Note 7. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

has been determined. Subsequent reversal of the amounts previously written off is credited to profit or loss for the year. When a decline in fair value of an available-for-sale investment has been recognised in other comprehensive income 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 profit and loss even though the investment has not been disposed of. Impairment losses previously recognised 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, bank 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 and treasury shares

Ordinary shares and non-redeemable preferred shares with discretionary dividends are both classified as equity. Where Group companies purchase the Company's equity share capital, the consideration paid including any attributable transaction costs is deducted from total shareholders' equity. Share capital is decreased by the nominal value of these treasury shares and the difference between the nominal value and purchase price is charged against retained earnings. Where such shares are subsequently sold, any consideration received is included in shareholders' equity. The gains (losses) arising from treasury share transactions are recognised as a movement in the consolidated statement of changes in equity, net of associated costs including taxation.

Share capital

Ordinary shares are recorded in line "Share Capital" within equity.

Dividends

Dividends payable and related taxation thereon are recognised in the period in which they have been declared and become legally payable. 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. Dividends are disclosed in Note "Events after the reporting date" when they are declared after the reporting date but before the date of approval of the consolidated financial statements.

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.

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.

Derecognition of financial liabilities

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

Note 7. Summary of significant accounting policies (continued)

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.

Note 8. Revenue

The following table summarises the Group's revenue by types:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Product sales	133,922	123,393
Processing fees	1,612	1,440
Transportation recharges and services	1,143	972
Other revenue	330	238
Total revenue	**137,007**	**126,043**

The following table summarises the Group's product sales by destination:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Russia	68,447	58,216
Europe	40,991	46,594
CIS	8,508	7,475
Asia	8,173	5,245
North America	4,652	3,764
Other	3,151	2,099
Total revenue	**133,922**	**123,393**

Note 9. Cost of sales

	For the year ended 31 December 2014	For the year ended 31 December 2013
Raw materials and consumables	74,874	68,248
Energy and fuel	17,905	16,339
Personnel costs	9,367	8,882
Depreciation	3,318	3,681
Purchased services	1,382	880
Repairs and maintenance	1,175	1,171
Increase/(decrease) in inventories of finished goods and work in progress	553	(1,154)
Rent expenses	119	451
Other expenses	1,248	693
Total cost of sales	**109,941**	**99,191**

Note 10. Selling, general and administrative expenses

	For the year ended 31 December 2014	For the year ended 31 December 2013
Personnel costs	3,719	3,751
Transportation expenses	3,549	3,609
Materials	2,277	4,176
Taxes other than income taxes	1,246	1,265
Insurance	519	483
Rent expenses	418	104
Depreciation	401	402
Energy and fuel	210	115
Repairs and maintenance	201	139
Consulting, audit and information services	73	83
Custom service fees	35	38
Other expenses	647	416
Total selling, general and administrative expenses	**13,295**	**14,581**

Note 11. Other operating expenses, net

	For the year ended 31 December 2014	For the year ended 31 December 2013
Loss/(gain) on disposal of property, plant and equipment and other assets	795	(169)
Maintenance of social infrastructure	495	743
Impairment of account receivables	218	26
Loss/(Income) from release of provision for impairment investments in securities	37	(19)
Expense/(income) from investments	34	(3)
Expenses for cross-subsidising of heat energy tariffs	-	2,806
Income from release of provision for impairment of inventory	(2)	(3)
Other income, net	(274)	(236)
Total other operating expenses, net	**1,303**	**3,145**

Note 12. Finance costs

	For the year ended 31 December 2014	For the year ended 31 December 2013
Borrowing costs	475	331
Discounting expense	131	4
Interest expense on benefits to employees	63	39
Finance lease interest expense	14	17
Less capitalised borrowing costs	(308)	(219)
Total finance costs	**375**	**172**

Note 13. Finance income

	For the year ended 31 December 2014	For the year ended 31 December 2013
Interest income on bank deposits	224	266
Interest income on loans issued	28	15
Discounting income	-	10
Total finance income	**252**	**291**

Note 14. Income tax expense

Income tax expense comprises the following:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Current income tax	2,352	2,164
Income tax for the previous periods	(21)	1
Deferred income tax	279	781
Total income tax expense	**2,610**	**2,946**

The reconciliation of theoretical tax charge calculated with a tax rate of 20% in accordance with tax legislation of Russian Federation with the actual tax expense in consolidated statement of comprehensive income is presented below. As ZAO Polymatiz operates in a free-trade zone "Alabuga", the theoretical tax charge is calculated with a 15,5% tax rate.

	For the year ended 31 December 2014	For the year ended 31 December 2013
Profit before income tax	**12,044**	**9,214**
Theoretical tax charge	2,407	1,832
Income tax for the previous periods	(21)	1
Tax effect of non-deductible expenses for cross-subsidizing of heat energy tariffs	-	561
Tax effect of items which are not deductible or assessable for taxation purposes	224	552
Total income tax expense	**2,610**	**2,946**

	At 31 December 2014	At 31 December 2013
Deferred tax assets	616	696
Deferred tax liabilities	(2,118)	(2,002)
Net deferred tax liabilities	**(1,502)**	**(1,306)**

Note 14. Income tax expense (continued)

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (ZAO Polymatiz – 15.5%) (2013: 20%, ZAO Polymatiz – 15.5%).

	At 31 December 2014	Charged/ (credited) to profit or loss	Charged/ (credited) to other comprehensive income	At 31 December 2013	Business combinations	Charged/ (credited) to profit or loss	Credited to other comprehensive income	At 31 December 2012
Property, plant and equipment	(1,424)	(90)	-	(1,334)	(38)	(566)	-	(730)
Non-current investments	(55)	(10)	83	(128)	-	(89)	(8)	(31)
Other non-current assets	15	20	-	(5)	-	(22)	-	17
Inventory	(242)	(45)	-	(197)	(2)	(41)	-	(154)
Accounts receivable and prepayments	144	80	-	64	1	67	-	(4)
Other current assets	104	(9)	-	113	67	8	-	38
Loans and borrowings	(6)	9	-	(15)	(1)	4	-	(18)
Accounts payable	(3)	(129)	-	126	-	(9)	-	135
Other non-current liabilities	4	(64)	-	68	-	(103)	-	171
Deferred income	(42)	(43)	-	1	-	(32)	-	33
Other, net	3	2	-	1	-	2	-	(1)
Deferred tax liabilities, net	**(1,502)**	**(279)**	**83**	**(1,306)**	**27**	**(781)**	**(8)**	**(544)**

Intercompany dividends received from the majority of subsidiaries of the Group are taxable at a 0% rate in accordance with applicable tax legislation. Therefore, the Group does not recognise deferred tax liabilities on retained earnings of such subsidiaries, which could be distributed to the Company in the future.

Note 15. Property, plant and equipment and intangible assets

	Buildings, land facilities and infrastructure	Machinery and equipment	Construction in progress	Intangible assets	Other	Total
Carrying amount at 1 January 2013	**20,465**	**12,478**	**11,651**	**670**	**2,278**	**47,542**
Balance at 1 January 2013	50,815	51,998	11,825	879	4,813	120,330
Additions	281	967	5,732	143	1,001	8,124
Additions from assets under construction	6,076	2,917	(8,995)	-	2	-
Additions on acquisition of subsidiaries	600	675	1	-	34	1,310
Effect of reclassification to inventory	-	-	(142)	-	-	(142)
Reclassification	(115)	(10)	-	-	(13)	(138)
Disposals	(141)	(285)	(102)	(127)	(18)	(673)
Cost balance at 31 December 2013	**57,516**	**56,262**	**8,319**	**895**	**5,819**	**128,811**
Accumulated depreciation and impairment at 1 January 2013	(30,350)	(39,520)	(174)	(209)	(2,535)	(72,788)
Depreciation for the period	(1,239)	(2,525)	-	(78)	(241)	(4,083)
Reclassification	115	10	-	-	13	138
Write-off of accumulated impairment	89	4	-	-	6	99
Write-off upon disposal	92	252	-	-	5	349
Accumulated depreciation and impairment at 31 December 2013	**(31,293)**	**(41,779)**	**(174)**	**(287)**	**(2,752)**	**(76,285)**
Carrying amount at 31 December 2013	**26,223**	**14,483**	**8,145**	**608**	**3,067**	**52,526**
Balance at 1 January 2014	57,516	56,262	8,319	895	5,819	128,811
Additions	67	493	6,086	134	758	7,538
Reclassification between PPE categories	(104)	167	-	-	(63)	-
Additions from assets under construction	1,332	1,474	(2,821)	12	3	-
Effect of reclassification to inventory	-	-	(418)	-	-	(418)
Disposals	(707)	(768)	-	(126)	(104)	(1,705)
Cost balance at 31 December 2014	**58,104**	**57,628**	**11,166**	**915**	**6,413**	**134,226**
Accumulated depreciation at 1 January 2014	(31,293)	(41,779)	(174)	(287)	(2,752)	(76,285)
Depreciation for the period	(1,059)	(2,269)	-	(95)	(296)	(3,719)
Reclassification between PPE categories	31	(31)	-	-	-	-
Depreciation write-off on disposal	108	643	-	-	57	808
Accumulated depreciation at 31 December 2014	**(32,213)**	**(43,436)**	**(174)**	**(382)**	**(2,991)**	**(79,196)**
Carrying amount at 31 December 2014	**25,891**	**14,192**	**10,992**	**533**	**3,422**	**55,030**

Included in the Other category are vehicles and machinery where the Group is a lessee under a finance lease. At 31 December 2014 carrying amount of land included in Buildings, land, facilities and infrastructure group is to RUB 569 million (at 31 December 2013: RUB 724 million).

Included in the original cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RUB 39,030 million and RUB 38,659 million at 31 December 2014 and 2013, respectively.

Included in additions is capitalised interest of RUB 308 million for the 12 months ended 31 December 2014 (for the 12 month ended 31 December 2013 – RUB 219 million). The effective capitalisation rate for the 12 months ended 31 December 2014 was 7.43% (for the 12 month ended 31 December 2013 – 4.23%).

Loan security under some loan agreements entered by the Group for the year ended 31 December 2014 are property, plant and equipment in the amount of RUB 635 million (for the year ended 31 December 2013 – RUB 1,451 million).

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be to increase it by RUB 413 million or decrease it by RUB 338 million (2013: increase by RUB 454 million or decrease by RUB 371 million).

Note 16. Investments in associates

	For the year ended 31 December 2014	For the year ended 31 December 2013
Balance at the beginning of the year	**495**	**316**
Dividends	(16)	(8)
Share of Group in associates' profit	156	187
Balance at the end of the year	**635**	**495**

The Group has investments in the following associates that are accounted for under the equity method:

Associate	Activities of associate	Carrying amount At 31 December 2014	Carrying amount At 31 December 2013	Ownership, % At 31 December 2014	Ownership, % At 31 December 2013
OOO Elastokam	Production of polyurethane	405	246	50.00%	50.00%
OOO Gazenergoneftekhim	Production and sales of petrochemicals	128	125	49.00%	49.00%
OAO Yamal-Povolzhye	Transportation of gas and derivative products via pipelines	6	12	33.40%	33.40%
OAO L.Ya. Karpov Plant	Production of chemicals	96	96	32.81%	32.81%
OOO Yughimterminal	Chemicals transhipment	-	16	25.00%	25.00%
OOO Tatneft-NKNK-Oil	Production of synthetic oils	-	-	26.00%	26.00%
Total		**635**	**495**	-	-

All associates are incorporated within the Russian Federation.

As the Group does not exercise control and is not able to influence the decisions made by OOO Elastokam, this investment is recognised within investments in associates.

Summaries of the Group's share of associates' revenue, profit for period assets and liabilities for the 12 months ended 31 December 2014 and the 12 months ended 31 December 2013 are as follows:

	At 31 December 2014	At 31 December 2013
Total assets	2,702	2,882
Total liabilities	(1,321)	(1,745)
Net assets	1,381	1,137
The Group's share in net assets	**635**	**495**

	For the year ended 31 December 2014	For the year ended 31 December 2013
Revenue	4,749	3,711
Profit for the year	341	290
The Group's share of profit for the year	**156**	**140**

The carrying value of the Group's investment in associate OOO Tatneft-NKNK-Oil is nil. The unrecognised share of loss of this associate is RUB 18 million for 2014 (2013: RUB 17 million). Cumulatively, the unrecognised share of losses of this associate is RUB 434 million (2013: RUB 414 million).

Note 17. Non-current investments in securities and other financial assets

	Level of fair value hierarchy	At 31 December 2014	At 31 December 2013
Available-for-sale investments at fair value			
Equity securities	1,3	1,411	1,843
Financial assets at amortised cost			
Loans issued	2	394	264
Investments in securities and other financial assets		**1,805**	**2,107**

Equity securities

Non-current available-for-sale investments consisted of shares of the following companies:

	% of ownership				
	At 31 December 2014	At 31 December 2013	Level of fair value hierarchy	At 31 December 2014	At 31 December 2013
OAO AK BARS Bank	2.48%	2.48%	3	672	937
OAO Tatneftekhiminvest-holding	6.98%	6.98%	3	387	387
OAO AIKB Tatfondbank	1.35%	1.35%	3	138	198
OAO KB IntekhBank	6.25%	6.25%	3	104	147
OAO AKB Spurt	5.05%	5.05%	3	78	110
Other	-	-	1,3	32	64
Total	-	-	-	**1,411**	**1,843**

The table below discloses sensitivity to valuation inputs for financial assets, if change of assumptions would change fair value significantly.

At the end of year	Fair value	Assumption	Changes	Sensitivity of fair value measurements
Available-for-sale financial investments				
- equity securities				
At 31 December 2014	1,411	market valuation of comparable companies	±10%	± 141
At 31 December 2013	1,843			± 184
Financial assets at amortised cost				
- loans issued				
At 31 December 2014	394	discount rate	±5%	± 92
At 31 December 2013	264			± 67

The movements in the carrying value of available-for-sale and held-for-sale investments are as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Carrying amount at the beginning of year	**1,843**	**1,779**
Revaluation of investments reported in other comprehensive income	(419)	46
Acquisitions	5	-
Reclassification to investments	-	18
Impairment of investments	(18)	-
Carrying amount at the end of year	**1,411**	**1,843**

Note 17. Non-current investments in securities and other financial assets (continued)

There were no changes in valuation technique for recurring fair value measurements during 12 months ended 31 December 2014.

Loans issued

As at 31 December 2014 the loans issued at amortised cost are presented net of impairment provision for the loan issued to OOO Tatneft-NKNK-Oil in the amount of RUB 405 million (RUB 386 million as of 31 December 2013).

Movement of provision for impairment of loans issued is presented in the table below:

	At 31 December 2014	At 31 December 2013
Balance at the beginning of year	386	405
Release of impairment provision	-	(19)
Increase in impairment provision	19	
Closing balance	405	386

All the above financial assets are denominated in Russian Roubles.

The maximum exposure to credit risk at the reporting date is the fair value of each class of assets mentioned above. The Group does not hold any collateral against assets as security.

Note 18. Other non-current assets

	At 31 December 2014	At 31 December 2013
Catalysts	620	734
Long-term accounts receivable	23	43
Other non-current assets	65	56
Total other non-current assets	**708**	**833**

Note 19. Goodwill

	For the year ended 31 December 2014	For the year ended 31 December 2013
Carrying amount at the beginning of year	83	-
Acquisition of subsidiary	-	83
Carrying amount at the end of year	83	83

RUB 83 million of goodwill was recognised at the date of acquiring control over ZAO Polymatiz in April 2013. The recoverable amount was determined based on value-in-use calculations. The calculations used cash flow projections based on actual results and business plan figures for a ten-year period. This term was considered reasonable in terms of the expansion and upgrade of the acquired business.

As of 31 December 2014, the Group tested goodwill for potential impairment. The calculations used actual results of operations for 2014 and business plan figures for 2015-2020 (in 2013 – actual results of operations for 2013 and business plan figures for 2014-2024).

Below is information about the key assumptions used to determine the recoverable value for goodwill impairment test for the years ended 31 December 2014 and 31 December 2013:

Key assumptions	For the year ended 31 December of 2014	For the year ended 31 December of 2013
Sales growth rate	3.0%	5.0%
Pre-tax discount rate	12.4%	11.2%

The pre-tax discount rate assumption was primarily based on inflation. The weighted average growth rates used in the 2014 calculations are consistent with mid-term inflation rates. The Company's management believes that discount rates used in calculations are reasonable and reflect specific risks relating to the relevant cash generating units. There is no impairment of goodwill as at 31 December 2014 (as at 31 December 2013: no impairment). Management believes that no reasonably potential changes in key assumptions would cause the cash generated units to be impaired.

Note 20. Inventories

	At 31 December 2014	At 31 December 2013
Inventory and supplies	8,580	7,756
Work in progress	2,496	2,365
Finished goods	1,912	2,639
Goods dispatched	1,694	1,651
Provision for impairment of inventories and supplies	(9)	(11)
Total	**14,673**	**14,400**

As at 31 December 2014, the carrying amount of inventories pledged as a security for obligations was RUB 24 million (as at 31 December 2013 – RUB 59 million).

Note 21. Trade and other receivables

	At 31 December 2014	At 31 December 2013
Trade receivables from domestic sales	3,496	2,964
Trade receivables from export sales (mainly denominated in USD and Euro)	2,699	2,066
Other receivables	348	164
Impairment provision	(414)	(196)
Total trade and other receivables	**6,129**	**4,998**

As of 31 December 2014, a provision for impairment of RUB 414 million (31 December 2013 – RUB 196 million) has been made against receivables from domestic trade.

During the year ended 31 December 2014 the net increase of provision by RUB 218 million (the net increase of 19 RUB million for the year ended 31 December 2013) was recognized in the statement of comprehensive income within profit and loss as other operating expense, net.

Movements in impairment provision for trade and other receivables are shown below:

	At 31 December 2014	At 31 December 2013
Balance at the beginning of the year	**196**	**177**
Increase in impairment provision	224	30
Reversal of impairment loss on receivables	(6)	(8)
Written off as uncollectible	-	(3)
Balance at the end of the year	**414**	**196**

As of 31 December 2014, trade and other receivables of RUB 1,032 million (at 31 December 2013 – RUB 451 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	At 31 December 2014	At 31 December 2013
Less than 3 months	686	447
3 to 6 months	160	4
Past due more than 6 months	186	-
Total	**1 032**	**451**

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	At 31 December 2014	At 31 December 2013
Russian Roubles	3,389	2,883
Euro	1,269	1,131
US Dollars	1,471	984
Total	**6,129**	**4,998**

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above. The Group does not hold any collateral for receivables as security.

Note 22. Taxes prepayments and VAT recoverable

	At 31 December 2014	At 31 December 2013
Value added tax recoverable	2,335	3,124
Excise tax recoverable	264	176
Other	4	6
Total	**2,603**	**3,306**

Note 23. Other current assets

	At 31 December 2014	At 31 December 2013
Advances to suppliers	868	957
Impairment provision	(6)	(7)
Total other current assets	**862**	**950**

Note 24. Cash and cash equivalents

	At 31 December 2014	At 31 December 2013
Current accounts		
- in RUB	2,881	2,441
- in foreign currency	1,305	139
Deposits		
- in foreign currency	2,956	-
- in RUB	50	470
Other cash and cash equivalents	1	1
Total cash and cash equivalents	**7,193**	**3,051**

Note 25. Shareholders' equity and earnings per share

As of 31 December 2014 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary registered shares (31 December 2013 – 1,611,256,000 ordinary registered shares) and non-voting preferred share capital of 218,983,750 registered shares (31 December 2013 – 218,983,750 registered shares) at the nominal value of 1 Russian Rouble per share.

At 31 December 2014 the Company has authorised share capital comprised of 27,400,000,000 ordinary registered shares (at 31 December 2013: 27,400,000,000 shares) and 218,983,750 declared preferred registered shares (at 31 December 2013: 218,983,750 shares) with par value of RUB 1 each.

The following dividends were declared and paid by the Company:

	At 31 December 2014	At 31 December 2013
Dividends declared during the year for 2012, RUB million, including:		
- ordinary shares	-	4,479
- preferred shares	-	609
Dividends declared during the year for 2013, RUB million, including:		
- ordinary shares	1,611	-
- preferred shares	219	-
Dividends per share declared during the year for 2012, RUB, including:		
- per ordinary share	-	2.78
- per preferred share	-	2.78
Dividends per share declared during the year for 2013, RUB, including:		
- per ordinary share	1	-
- per preferred share	1	-

Note 25. Shareholders' equity and earnings per share (continued)

Earnings per share

	For the year ended 31 December 2014	For the year ended 31 December 2013
Profit attributable to the shareholders of the parent company	9,486	6,250
Weighted average number of participating shares	1,830,239,750	1,830,237,640
Earnings per participating share (net and diluted earnings per share)(Russian Roubles per share)	**5.18**	**3.41**

The Golden Share

The Government of the Tatarstan Republic has a special right (the right of Golden Share) to veto certain decisions which can be vetoed in accordance with the legislation and the Charter of PAO Nizhnekamskneftekhim. These decisions relate to the following: amendments and addenda to the Company's charter or adoption of a new edition; reorganisation of the Company; liquidation of the Company, creation of the liquidation commission and approval of the interim and final liquidation balance sheets; changes in share capital; entering into significant transactions and transactions with related parties in accordance with the Law of the Russian Federation "On Joint Stock Companies".

Rights attributable to preferred shares

Preferred shareholders have the right to participate with voting rights in General Shareholders' Meetings at which issues relating to the amendment of their rights or to the Company's liquidation or reorganisation are discussed.

Preferred shareholders have the right to receive annual dividends of at least RUB 0.06 per share, and this amount can be accumulated for a period of up to three years and paid when funds are available to do so and authorised by the Company's Board of Directors. Since the dividend on each preferred share cannot be less than that on each ordinary share, for the purposes of the earnings per share calculation preferred shares are considered to be participating shares.

In the event that no decision is taken in the General Shareholders' Meeting regarding payment of dividends on preferred shares, or if a decision is made to pay less than the minimum amount shown above, preferred shareholders acquire voting rights equivalent to those of the holders of ordinary shares until such time as the minimum dividends are paid.

On liquidation, preferred shareholders have the right to receive a distribution of the nominal amount of their shares, after the settlement of all external liabilities in accordance with the relevant legislation, before any amounts are paid to ordinary shareholders.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. The Russian legislation identifies net profit as the basis for distribution. For 2014, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUB 9,269 million (for the year ended 31 December 2013 – RUB 6,089 million). However, legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

Note 26. Non-current loans and borrowings

	At 31 December 2014	At 31 December 2013
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	1,274	1,461
Loans and borrowings in Russian Roubles	1,147	2,511
Loans and borrowings with floating interest rate:		
Loans and borrowings in Euro	2,416	723
Loans and borrowings in US Dollars	-	581
Less: current portion repayable within one year and recognised within current borrowings	(3,158)	(3,918)
Total non-current borrowings	**1,679**	**1,358**

Note 26. Non-current loans and borrowings (continued)

Scheduled undiscounted maturity of borrowings is as follows:

	At 31 December 2014	At 31 December 2013
One to five years	1,774	1,410
Total	**1,774**	**1,410**

To calculate weighted average effective interest rates and undiscounted future cash flows of loans and borrowings with floating interest rate the following EURIBOR, LIBOR rates are used as of the reporting date:

	At 31 December 2014	At 31 December 2013
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	6.19%	6.19%
Loans and borrowings in Russian Roubles	11.92%	8.05%
Loans and borrowings with floating interest rate		
Loans and borrowings in US Dollars	-	2.35%
Loans and borrowings in Euro	2.31%	0.71%

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

- The fair value of instruments with a floating interest rate is normally equal to their carrying value.
- The estimated fair value of instruments with a fixed rate is based on the method of discounted cash flows, discounted at current market interest rates for new instruments with similar credit risk and maturity.

At 31 December 2014 the fair value of non-current loans and borrowings with a carrying value of RUB 1,679 million (31 December 2013 – RUB 1,358 million), determined based on procedure described above, is estimated at RUB 1,584 million (31 December 2013 – RUB 1,319 million).

A number of loan agreements require the Group to maintain certain minimum financial ratios, and majority of those are related to EBIDTA. Management believes that calculation of EBIDTA should exclude the impact of foreign exchange gains and losses. The Group complied with the financial covenants under its non-current loan agreements.

Note 27. Current loans and borrowings

	At 31 December 2014	At 31 December 2013
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	953	-
Loans and borrowings in Russian Roubles	532	225
Loans and borrowings with floating interest rate		
Loans and borrowings in US Dollars	-	577
Loans and borrowings in Euro	675	517
Amount repayable within one year and recognised within current borrowings	3,158	3,918
Total current loans and borrowings	**5,318**	**5,237**

Scheduled maturity of borrowings is as follows:

	At 31 December 2014	At 31 December 2013
Within three months	995	621
From three months to one year	4,592	4,895
Total	**5,587**	**5,516**

Note 27. Current loans and borrowings (continued)

To calculate weighted average interest rates and future cash flows for loans and borrowings with floating interest rate the following EURIBOR, LIBOR rates as of the reporting date are used:

	At 31 December 2014	At 31 December 2013
Loans and borrowings with fixed interest rate:		
Loans and borrowings in Russian Roubles	9.61%	10.14%
Loans and borrowings in US Dollars	4.77%	-
Loans and borrowings with floating interest rate		
Loans and borrowings in US Dollars	-	2.07%
Loans and borrowings in Euro	1.79%	1.99%

The fair value of current loans and borrowings within one-year maturity approximates their carrying amount.

The Group has undrawn committed credit facilities in the amount of RUB 7,290 million as of 31 December 2014 (at 31 December 2013 – RUB 5,530 million).

A number of loan agreements require the Group to maintain certain minimum financial ratios, and majority of those are related to EBIDTA. Management believes that calculation of EBIDTA should exclude the impact of foreign exchange gains and losses.

Note 28. Other non-current liabilities

	At 31 December 2014	At 31 December 2013
Post-employment benefit obligations (Note 29)	808	879
Long-term payables	206	248
Government grants (deferred income)	75	118
Non-current finance lease liabilities (see Note 30)	39	76
Other non-current liabilities on benefits to employees (see Note 29)	26	38
Other	6	6
Total other non-current liabilities	**1,160**	**1,365**

Long-term payables are denominated in Russian Rubles. The analysis of payables by aging is provided below:

	At 31 December 2014	At 31 December 2013
More than a year	206	248

Note 29. Non-current liabilities on benefits to employees

The Group's pension and other post-employment obligations and actuarial assumptions used in their determination are described below.

The amount is recognised in the consolidated financial statements:

Post-employment benefit obligations	For the year ended 31 December 2014	For the year ended 31 December 2013
Obligations as at the beginning of the year	879	658
Expenses charged to profit or loss, including		
*Current service cost**	303	344
Net interest expenses	61	36
Benefits paid	(161)	(73)
Income charged to other comprehensive income, including:		
*Actuarial income***	(274)	(86)
Obligations at the end of the year	**808**	**879**

Note 29. Non-current liabilities on benefits to employees (continued)

*Including RUB 282 million of the accumulated current service costs at initial recognition of post-employment benefits payable to employees through the non-government pension fund in 2014 (RUB 299 million at initial recognition of post-employment benefits paid to retirees in 2013).

**Actuarial income was due to changes in assumptions related to financial results. Changes in assumptions related to demographic results did not have any significant impact on actuarial income.

Other long-term liabilities on benefits to employees	For the year ended 31 December 2014	For the year ended 31 December 2013
Obligations as at the beginning of the year	38	38
Current service cost	4	7
Net interest expenses	2	3
Benefits paid	(11)	(8)
Actuarial income	(7)	(2)
Obligations at the end of the year	**26**	**38**

Non-current liabilities for benefits to employees are reported in the consolidated financial statements at discounted value.

All actuarial income arose from experience adjustments and as a result of changes in actuarial assumptions.

Total actuarial income recognised in the statement of comprehensive income in 2014 is RUB 281 million (in 2013 – RUB 88 million).

The Group expects payments of RUB 215 million in 2015.

Key actuarial assumptions are as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Discount rate	13.01%	7.43%
Tariff/ salary growth rates	7.09%	6.50%

Due to the existing post-employment benefit obligations, the Group is exposed to various risks. The most significant risks are described below:

1) Interest rate risk. Lower yield of state bonds will result in higher post-employment benefit obligations.

2) Inflation risk. As a part of the Group's pension liabilities is adjusted based on the consumer price index, the pension plan is exposed to the inflation risk. Higher inflation will result in higher post-employment benefit obligations.

Sensitivity analysis of the post-employment benefit obligation by significant actuarial assumptions is set out in the table below. The table includes estimated increase in the post-employment benefit obligation with 1% increase in the actuarial assumption, in absolute terms, with other assumptions unchanged:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Discount rate – 1% lower	27	56
Tariff/salary growth rate - 1% higher	28	56

The average term of the post-employment benefit obligation was 8 to 10 years at 31 December 2014.

The Group determined demographical assumptions based on statistics for 5 prior years.

For the year ended 31 December 2014, the Group made contributions to the Russian Federation State Pension Plan of RUB 2,194 million (for the year ended 31 December 2013 - RUB 2,098 million). These contributions are included in labour expenses within cost and selling, general and administrative expenses.

Note 30. Financial lease liabilities

Minimum lease payments for finance lease:

	At 31 December 2014	At 31 December 2013
Up to 1 year	52	82
1 to 5 years	41	83
Total finance lease payments	**93**	**165**
Future finance lease payments	(9)	(21)
Present value of finance lease liabilities	**84**	**144**
Less amounts payable within 12 months	(45)	(68)
Non-current finance lease payments	39	76

During the 12 months ended 31 December 2014, lease payments were made in accordance with approved payment schedules and denominated in Russian Roubles. Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default. The assets had a net book value of RUB 207 million and RUB 282 million as of 31 December 2014 and 31 December 2013, respectively.

Note 31. Trade and other payables

	At 31 December 2014	At 31 December 2013
Trade payables	5,159	8,522
Accounts payable for acquisition of property, plant and equipment	563	314
Other payables	243	661
Current finance lease payments (see Note 30)	45	68
Total payables	**6,010**	**9,565**

As of 31 December 2013 other payables include payables associated with acquisition of a subsidiary, ZAO Polimatiz amounting to RUB 412 mln., which were fully settled in the reporting period.

Payables are mainly denominated in Russian Roubles. The analysis of payables by ageing is provided below:

	At 31 December 2014	At 31 December 2013
Within three months	5,928	9,473
Due from three months to one year	82	92
Total payables	**6,010**	**9,565**

Note 32. Advances received and accrued liabilities

	At 31 December 2014	At 31 December 2013
Advances received	2,572	1,411
Reserve for unused vacations	825	745
Payables to employees	786	539
Total advances received and accrued liabilities	**4,183**	**2,695**

Note 33. Taxes payable, other than income tax

	At 31 December 2014	At 31 December 2013
SIC	285	206
VAT	200	194
Property tax	179	185
Personal income tax	127	91
Excise tax	89	-
Land tax	74	109
Other taxes	14	18
Taxes payable, other than income tax	**968**	**803**

Note 34. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group has the following transactions and balances with related parties:

Related party	Revenue	Purchases of materials and services	Other income/ (expenses)	Purchase of PPE and other non-current assets	Increase in loans issue-dallowance
For 12 months ended 31 December 2014					
PAO Nizhnekamskneftekhim	**8,839**	**36,295**	**28**	**21**	**19**
Parent company	-	43	-	-	-
Associates	480	261	(19)	-	19
Other related parties*	8,359	35,991	47	21	-
Subsidiaries	**461**	**166**	**34**	-	-
Parent company	-	-	-	-	-
Associates	-	-	33	-	-
Other related parties*	461	166	1	-	-
Total	**9,300**	**36,461**	**62**	**21**	**19**
For 12 months ended 31 December 2013					
PAO Nizhnekamskneftekhim	**8,026**	**32,551**	-	**40**	-
Parent company	-	46	-	-	-
Associates	418	283	(22)	-	-
Other related parties*	7,608	32,222	22	40	-
Subsidiaries	**46**	**163**	**67**	**7**	-
Parent company	-	-	-	-	-
Associates	3	1	33	-	-
Other related parties*	43	162	34	7	-
Total	**8,072**	**32,714**	**67**	**47**	-

*Other related parties include fellow subsidiaries that belong to the controlling shareholders' group and companies that belong to the group of shareholders that exercise significant influence.

Balances with the related parties of NKNK Group are presented below:

	Trade and other receivables	Bad debt provision	Trade and other payables
At 31 December 2014			
PAO Nizhnekamskneftekhim	**312**	**(172)**	**1,027**
Parent company	-	-	4
Associates	215	(172)	19
Other related parties*	97	-	1,004
Subsidiaries	**36**	-	**5**
Parent company	-	-	-
Associates	23	-	-
Other related parties*	13	-	5
Total	**348**	**(172)**	**1,032**
At 31 December 2013			
PAO Nizhnekamskneftekhim	**710**	**(172)**	**3,391**
Parent company	3	-	4
Associates	241	(172)	21
Other related parties*	466	-	3,366
Subsidiaries	**38**	-	**5**
Parent company	-	-	-
Associates	8	-	-
Other related parties*	30	-	5
Total	**748**	**(172)**	**3,396**

*Other related parties include fellow subsidiaries that belong to the controlling shareholders' group and companies that belong to the group of shareholders that exercise significant influence.

Note 34. Related party transactions (continued)

As at 31 December 2014, the loan issued to the associate OOO Tatneft-NKNK-Oil amounted to RUB 405 million (RUB 386 million as of 31 December 2013). This loan is fully provided for.

Directors' compensation

Compensation paid to directors and senior management for their services in full time or part time executive management positions comprises a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to the Russian statutory financial statements. Total directors' and senior management compensation of the above nature, included within personnel costs in selling, general and administrative expenses, amounted to RUB 219 million for the year ended 31 December 2014 (for the year ended 31 December 2013 – RUB 272 million).

Note 35. Segment information

Management has determined the operating segments based on the management reports, which are primarily derived from statutory records and regularly reconciled them to IFRS consolidated financial statements. The Company's General Director, who is the chief operating decision-maker, is responsible for allocating resources and assessing performance of the operating segments using the financial information. The following criteria have been used by management for determining the operating segments and assigning the Group subsidiaries to particular segment:

- Business activities of companies;
- Product nature.

The first operating segment "Product and sales of petrochemicals" contains the results of the parent company PAO Nizhnekamskneftekhim and income from associates (see Note 16). This segment derives its revenue primarily from the manufacture and sale of petrochemical products.

The second operating segment "Petrochemicals trading" includes results of OY Nizhex Scandinavia Ltd (a subsidiary of the Company). This subsidiary is primarily engaged in trading of petrochemical products. OY Nizhex Scandinavia Ltd purchases petrochemical products from the parent company and from third parties and resells the products to foreign customers.

Other principal subsidiaries (see Note 36) that did not fall under the above listed operating segments are included in "All other segments":

The reportable operating segments derive their revenue primarily from the production and sale of petrochemicals and the other products and services.

Management assesses the performance of operating segments based on certain measures, which are presented to the chief operating decision maker. These include internal financial information on the Group operating reportable segments presented in accordance with Russian Statutory Accounting regulations (RSA) and in accordance with IFRS as adopted by EU (for OY Nizhex Scandinavia Ltd only). This information comprises measures such as total revenue, gross profit, operating profit and net profit. It is reconciled where applicable to the amounts reported in the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

Note 35. Segment information (continued)

The Group's consolidated financial performance by operating segments for the year ended 31 December 2014:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue				
External sales	127,779	6,052	3,158	136,989
Inter-segmental sales	5,114	-	4,460	9,574
Total revenue	132,893	6,052	7,618	146,563
Result				
Gross profit	23,082	145	1,119	24,346
Salesprofit	13,278	20	7	13,305
Foreign exchange gains/(losses), net	(443)	(14)	-	(457)
Interest income	255	-	-	255
Interest expense	(352)	(21)	(41)	(414)
Dividend income	38	-	-	38
Income tax charge	(2,439)	-	(26)	(2,465)
Net profit/(loss)	9,269	3	(71)	9,201
Other information				
Depreciation	**(4,313)**	**-**	**(322)**	**(4,635)**

The Group's consolidated financial performance by operating segments for the year ended 31 December 2013:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue				
External sales	115,554	8,175	2,347	126,076
Inter-segmental sales	4,272	-	4,448	8,720
Total revenue	119,826	8,175	6,906	134,907
Result				
Gross profit	21,677	58	842	22,577
Sales profit	12,446	(46)	(86)	12,314
Foreign exchange gains/(losses), net	(184)	13	-	(171)
Interest income	279	53	2	334
Interest expense	(218)	(60)	(47)	(325)
Dividend income	74	-	-	74
Income tax charge	(2,479)	-	(37)	(2,516)
Net profit	6,089	(53)	(17)	6,019
Other information				
Depreciation	**(4,199)**	**-**	**(312)**	**(4,511)**

Reportable segment revenues for the year ended 31 December 2014 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue	132,893	6,052	7,618	146,563
Intercompany transactions	(5,114)	-	(4,460)	(9,574)
Other adjustments	(30)	-	48	18
Revenue, IFRS	127,749	6,052	3,206	137,007

Reportable segment revenues for the year ended 31 December 2013 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue	119,826	8,175	6,906	134,907
Intercompany transactions	(4,272)	-	(4,559)	(8,831)
Other adjustments	(124)	-	91	(33)
Revenue, IFRS	115,430	8,175	2,438	126,043

Note 35. Segment information (continued)

Reportable segment capital expenditure for the year ended 31 December 2014 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure, segments	10,472	-	343	10,815
Reclassification of advances paid for assets under construction	886	-	(31)	855
Interest capitalised	308	-	-	308
Other adjustments	(927)	-	115	(812)
Capital expenditure, IFRS	**10,739**	**-**	**427**	**11,166**

Other adjustments are related to timing differences in the dates of recognition of certain assets in RSA and IFRS (see Notes 14).

Reportable segment capital expenditure for the year ended 31 December 2013 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure, segments	7,406	-	180	7,586
Reclassification of advances paid for assets under construction	1,209	-	21	1,230
Interest capitalised	219	-	-	219
Other adjustments	(824)	-	106	(718)
Capital expenditure, IFRS	**8,010**	**-**	**307**	**8,317**

Reportable segment operating profit for the year ended 31 December 2014 is reconciled to the Group's consolidated operating profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Sales profit	13,278	20	7	13,305
Reclassification of other (income)/ expenses	(341)	-	(894)	(1,235)
Differences in IFRS and RSA depreciation	846	-	70	916
Differences in RSA and IFRS provisions	(182)	-	(1)	(183)
Other adjustments	(710)	2	373	(335)
Operating profit, IFRS	**12,891**	**22**	**(445)**	**12,468**

Reportable segment operating profit for the year ended 31 December 2013 is reconciled to the Group's consolidated operating profit as follows.

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Sales profit	12,446	(46)	(86)	12,314
Reclassification of other (income)/ expenses	(3,744)	(47)	621	(3,170)
Differences in IFRS and RSA depreciation	393	-	33	426
Differences in RSA and IFRS provisions	(232)	-	1	(231)
Other adjustments	(213)	-	-	(213)
Operating profit, IFRS	**8,650**	**(93)**	**569**	**9,126**

Reclassification of other income and expenses represents reconciliation between expenses reported as "Other expenses" in RSA financial statements and IFRS consolidated operating profit.

Note 35. Segment information (continued)

Reportable segment net profit for the year ended 31 December 2014 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit	9,269	3	(71)	9,201
Reversal of RSA deferred tax	128	-	(11)	117
Differences in IFRS and RSA depreciation	846	-	70	916
Differences in RSA and IFRS provisions	(182)	-	(1)	(183)
Other adjustments	(63)	(16)	(486)	(565)
Net profit, IFRS	**9,998**	**(13)**	**(499)**	**9,486**

Reportable segment net profit for the year ended 31 December 2013 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit	6,089	(53)	(17)	6,019
Reversal of RSA deferred tax	361	-	32	393
Differences in IFRS and RSA depreciation	394	-	34	428
Differences in RSA and IFRS provisions	(232)	-	1	(231)
Other adjustments	(359)	-	-	(359)
Net profit, IFRS	**6,253**	**(53)**	**50**	**6,250**

Other adjustments represent elimination of intercompany dividends.

Revenue by major customers is presented below based on accounting records used to prepare the IFRS consolidated financial statements:

Revenue by major customer (for the year ended 31 December 2014)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
The largest 24 customers with sales turnover of more than RUB 1,000 million each	93,957	-	-	93,957
Other customers (with turnover less than RUB 1,000 million each)	33,792	6,052	3,206	43,050
Revenue, IFRS	**127,749**	**6,052**	**3,206**	**137,007**

Revenue by major customer (for the year ended 31 December 2013)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
The largest 19 customers with sales turnover of more than RUB 1,000 million each	82,631	-	-	82,631
Other customers (with turnover less than RUB 1,000 million each)	32,799	8,175	2,438	43,412
Revenue, IFRS	**115,430**	**8,175**	**2,438**	**126,043**

Note 35. Segment information (continued)

Revenue by major products is presented below based on accounting records used to prepare the IFRS financial statements:

Revenue by major product (for the year ended 31 December 2014)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Rubbers sales	51,741	563	24	52,328
Plastics sales	42,993	2,315	85	45,393
Olefin products and derivatives sales	23,966	2,482	478	26,926
Other products sales	9,049	692	2,619	12,360
Revenue, IFRS	**127,749**	**6,052**	**3,206**	**137,007**

Revenue by major product (for the year ended 31 December 2013)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Rubbers sales	53,026	703	33	53,762
Plastics sales	34,618	1,971	70	36,659
Olefin products and derivatives sales	21,002	3,747	627	25,376
Other products sales	6,784	1,754	1,708	10,246
Revenue, IFRS	**115,430**	**8,175**	**2,438**	**126,043**

Note 36. Principal subsidiaries

Subsidiary	Business activity	Percentage of voting interest held At 31 December 2014	At 31 December 2013
OOO Trest TSNKhRS	General equipment repairs and construction	100.0%	100.0%
OOO RMZ-NKNK	Repairs and maintenance	100.0%	100.0%
OOO Transport Express	Transportation services	100.0%	100.0%
OOO Neftekhimagroprom	Agricultural	100.0%	100.0%
OOO Nizhnekamskneftekhim–Service	Wholesale and retail trade	100.0%	100.0%
OOO UOP Neftehim	Food supplies and catering	100.0%	100.0%
ZAO Polymatiz	Production of non-woven textile materials	100.0%	100.0%
OOO UETP-NKNK	Transportation of gas and derivative products via pipelines	100.0%	100.0%
OOO SCC Neftekhimik	Ice arena	-	91.9%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56.3%	56.3%
OAO SOV-NKNK	Water purification	51.9%	51.9%
OOO Kataliz-Prom	Petrochemicals production	50.1%	50.1%
OOO Motor Transport Service - NKNK	Road freight transport activity	100.0%	100.0%
OOO Neftekhimik Hockey Club	Other sports activities	92.0%	100.0%

As of 31 December 2014 and 31 December 2013 the percentage of the Group's ownership interest in its subsidiaries is equal to the percentage of its voting interest.

In March 2014, the Board of Directors approved reorganisation of OOO Neftekhimik Hockey Club through the merger with OOO Neftekhimik Sports and Cultural Centre. A relevant entry was made in the Unified State Register of Legal Entities on 19 May 2014.

All the consolidated subsidiaries included in the consolidated financial statements of the Group are incorporated in the Russian Federation, except for Oy Nizhex Scandinavia Ltd (Nizhex), which is incorporated in Finland.

None of the aforementioned changes in the Group's structure has a significant effect on the Group's consolidated financial statements.

Note 37. Fair value of financial instruments

Fair value is the amount at which a financial instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Fair value measurements are analysed by level in the fair value hierarchy as follows: level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement.

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The Group does not use non-recurring fair value measurements.

Financial instruments carried at fair value. Securities available for sale and held for sale are recorded in the consolidated statement of financial position at their fair value and included in level 1 and level 3 of the fair value hierarchy (see Note 17).

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The carrying amount of trade receivables approximates their fair values and belongs to level 2 of the fair value hierarchy, and impaired receivables belong to level 3 of the fair value hierarchy (see Notes 17 and 21). Carrying amount of trade payables approximates their fair values and belongs to level 2 of fair value hierarchy (Note 31). The fair value of loans and borrowings received is included in level 2 (see Notes 26 and 27).

Note 38. Financial instruments and 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 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 consolidated financial performance.

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's overall strategy is to have no significant net exposure to currencies other than the Russian Rouble, Euro or the US DollarManagement has not set any limit on its exposure to foreign exchange risk but periodically reviews its exposure of foreign exchange movements. The Group's financial assets and liabilities denominated in US Dollars and Euro are listed in Notes 21, 24, 26 and 27. Management believes the Group's exposure to fluctuations in foreign exchange rates is limited to the aforementioned and to the proceeds from export sales.

The policy of the Group is to have its non-current borrowings denominated primarily in US Dollars and Euro, and to price its export sales in US Dollars and Euro. Through this structure the Group management believes that an element of natural hedging of US Dollar and Euro currency risk that arises from these transactions and consequently there is no need to formally hedge the US Dollar and Euro to mitigate this risk.

The Group's sensitivity to the US Dollar and Euro exchange rates is relatively high due to the current US Dollar and Euro denominated borrowings. The Group's policy is to repay US Dollar and Euro denominated borrowings using US Dollar and Euro revenues received from customers.

Note 38. Financial instruments and financial risk factors (continued)

Foreign currency risk (continued)

The carrying amount of monetary assets and liabilities denominated in foreign currency as of the reporting date as follows:

	At 31 December 2014	At 31 December 2013
Assets		
Trade and other receivables	**2,740**	**2,115**
- US Dollars	1,471	984
- Euro	1,269	1,131
Cash	**4,261**	**139**
- US Dollars	4,004	97
- Euro	257	42
Total assets	**7,001**	**2,254**
Liabilities		
Borrowings	**5,318**	**3,859**
- Euro	3,091	1,240
- US Dollars	2,227	2,619
Trade and other payables	**873**	**987**
- Euro	721	544
- US Dollars	152	443
Total liabilities	**6,191**	**4,846**
Total net position	**810**	**(2,592)**

As of 31 December 2014, had the US Dollar and Euro strengthened or weakened by 20% (at 31 December 2013 – 15%) against the Russian Rouble, with all other variables held constant, the consolidated profit (net of profit tax) as of the year-end would have been lower/higher by the following:

	USD impact		**EUR impact**	
	2014 20%	**2013** 15%	**2014** 20%	**2013** 15%
Increase/(decrease) in profit after tax	495	(238)	(366)	(74)

Interest rate risk

The Group obtains borrowings from, and deposits surplus funds with, banks at current market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing borrowings.

The Group's interest rate risk arises primarily from long-term borrowings (Note 26). Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing options and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed the impact on post-tax profit and loss of a 100 basis points for the year ended 31 December 2014 (100 basis points for the year ended 31 December 2013) point shift would be:

	At 31 December 2014	At 31 December 2013
Euribor	10	10
Libor	14	9

Note 38. Financial instruments and financial risk factors (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables, cash and cash equivalents and loans issued. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

The Group is not economically dependent on a limited number of customers because of the existence of a liquid market for the Group's products.

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 the Groups' financial assets:

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

Rating B – over one year history of business relations, potential creditworthiness difficulties are anticipated;

Rating C – others organizations, creditworthiness difficulties are possible.

The maximum exposure to credit risk comprises the following carrying amounts:

	Rating «A»	Rating «B»
31 December 2014		
Cash and cash equivalents	7,193	-
Trade and other receivables	5,833	319
Loans issued	394	-
Total	**13,420**	**319**
31 December 2013		
Cash and cash equivalents	3,051	-
Trade and other receivables	5,041	-
Loans issued	264	-
Total	**8,356**	**-**

The credit quality of the cash in banks and on hand with which the Group has account balances is analysed on the basis of the national ratings assigned by Fitch, Expert RA:

Rating	Rating agency	At 31 December 2014	At 31 December 2013
AAA	Fitch Ratings	5,463	1,634
A+(rus)	Fitch Ratings	89	111
A+	Expert RA	1,633	1,279
Other	Other	8	27
Total		**7,193**	**3,051**

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

Note 31 analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the notes are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

The ability to ensure compliance with borrowing covenants is critical to the Group managing its liquidity risks. A significant breach of a covenant can have an impact on the ability of the Group to repay its obligations in a structured manner.

Note 39. Contingent liabilities, commitments and other risks

Tax contingencies

Taxation

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 by 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 non-compliant 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.The management currently believes that the tax positions and interpretations may be confirmed, 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 financial position and/or the overall operations of the Group.

The Russian transfer pricing legislation is significantly aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). Under the legislation the tax authorities have the right to impose additional tax obligations in respect of controlled transactions if respective transaction prices differ from corresponding market prices. Management has implemented internal controls to ensure compliance with the new transfer pricing legislation.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, along with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures controlled by Russian tax residents (controlling parties) Starting from 2015, CFC income will be subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. Management of the Group believes that in all material aspects it complies with the applicable legislation.

Litigation

During the year the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. There are no current legal proceedings or other claims outstanding, which could have a material effect on the consolidated result of operations or consolidated financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements.

Key categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings (Notes 26, 27), finance leases (Note 30), and trade and other payables (Notes 28, 31). The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables (Note 21), investments in securities and other financial assets (Note 17) and cash and cash equivalents (Note 24).

Note 39. Contingent liabilities, commitments and other risks (continued)

Key categories of financial instruments (continued)

	At 31 December 2014	At 31 December 2013
Financial assets		
Financial assets at amortised cost		
Cash and cash equivalents	7,193	3,051
Trade and other receivables	6,152	5,041
Loans issued	394	264
Total assets carried at amortised cost	**13,739**	**8,356**
Financial assets at fair value		
Equity securities	1,411	1,843
Total financial assets	**15,150**	**10,199**
Financial liabilities at amortised cost		
Borrowings	6,997	6,595
Trade and other payables	6,171	9,745
Financial lease liabilities	84	144
Dividends payable	17	17
Total financial liabilities	**13,269**	**16,501**

Environmental matters

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

Investment commitments

The Board has approved the 2015 Capital Expenditure Budget of RUB 9,553 million (in 2014 - RUB 6,623 million), including RUB 3,831 million of future contractual commitments for 2015 (2014 – RUB 5,127 million). As of 31 December 2014 the total contractual commitments amount to RUB 4,443 million (31 December 2013: RUB 6,459 million). The Group is planning to finance its investment commitments using the Group's own funds and borrowings.

Operating lease commitments

The rent agreements for land are renegotiated annually. The amount of rent payments for land is expected to be RUB 360 million in 2015 (in 2014 - RUB 342 million).

Social commitments

The Group significantly contributes to the maintenance of local infrastructure and the welfare of its employees within the Republic of Tatarstan. This includes contributions towards the construction, development and maintenance of housing and other social needs. Such funding is periodically determined by the Board of Directors and expensed as incurred.

Guarantees to third parties

The Group hasn't entered in number of agreements under which the Group is guarantor to third parties in case of default of the principal debtors.

Letters of credit

The Group has unsecured uncovered letters of credit as of 31 December 2014 for RUB 589 million (RUB 1,501 million – as of 31 December 2013).

Note 39. Contingent liabilities, commitments and other risks (continued)

Other risks

Operations and legislative matters

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by legislative, fiscal and regulatory developments, including those related to environmental protection. Due to the capital intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings are not predictable.

As of 31 December 2014 the Groupinsured significant part of the Group's assets as well as insured employees of the Group from physical risks and on-the-job accidents.

Note 40. Capital 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 the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group entities are in strict compliance with the capital requirements established by the legislation of the Russian Federation:

- The charter capital cannot be lower than 1,000 minimum (monthly) wages as of the open joint stock company's registration date;
- If at the end of the second year (from the joint stock company's incorporation) or each of the following financial years the statutory net assets of the entity become less than its charter capital, such entity must decrease its charter capital to the value of its net assets or increase its net assets up to the charter capital amount;
- If the statutory net assets of the entity are less than the minimum permissible charter capital level, than such entity is subject to liquidation.

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 monitors capital on the basis of its gearing ratio and indebtness ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. The indebtness ratio is calculated as net debt divided by total equity.

In 2014, the Group's strategy, which was unchanged from 2013, was to maintain the indebtness ratio not greater than 75% and a gearing ratio – not greater than 45%.

The gearing ratio and the indebtness ratio as of 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	31 December 2013
Total borrowings (Notes 26, 27)	6,997	6,595
Cash and cash equivalents (Note 24)	(7,193)	(3,051)
Net debt/(excess of cash and cash equivalents over total borrowings)	**(196)**	**3,544**
Share capital	68,584	60,742
Total equity	**68,388**	**64,286**
Indebtedness ratio	-	**6%**
Gearing ratio	-	**6%**

Note 41. Events after the reporting date

The Board of Directors of 19 March 2015 proposed paying dividends of RUB 2,782 million, based on the share price of RUB 1.52. This decision should be approved at the Annual General Shareholders' Meeting 22 April 2015

Director of closed joint stock company
“PricewaterhouseCoopers Audit”
E.V.Filippova
25 March 2015

52 (fifty two) pages are numbered, bound and sealed.