NIZHNEKAMSKNEFTEKHIM GROUP
INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2012

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Independent Auditor's Report

To the Shareholders and Board of Directors of OAO "Nizhnekamskneftekhim":

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Independent Auditor's Report (Continued)

Opinion

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

ZAO "PricewaterhouseCoopers Audit"

25 March 2013

Moscow, Russian Federation

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

Audited entity: OAO "Nizhnekamskneftekhim"

State registration certificate № 399/к-4(53), issued by State Registration Bureau of Republic of Tatarstan on 3 July 2001

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

423574, Russia, Republic of Tatarstan, Nizhnekamsk

Independent auditor: ZAO PricewaterhouseCoopers Audit

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

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

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

Consolidated Statement of Comprehensive Income

	Note	2012	2011
Revenue	**7**	130,487	126,021
Cost of sales	**8**	(96,519)	(91,465)
Gross profit		**33,968**	**34,556**
Selling, general and administrative expenses	**9**	(13,088)	(11,915)
Other operating expenses, net	**10**	(1,688)	(1,918)
Operating profit		**19,192**	**20,723**
Finance costs	**11**	(212)	(904)
Finance income	**12**	352	628
Foreign exchange gain/(loss)		244	(217)
Share of post tax net results in associates		42	15
Profit before income tax		**19,618**	**20,245**
Income tax expense	**13**	(4,341)	(4,402)
Profit for the year		**15,277**	**15,843**
Other comprehensive income:			
Change in fair value of available for sale investments		47	43
Currency translation reserve		(21)	19
Income tax related to components of other comprehensive income		(9)	(8)
Total comprehensive income for the year		**15,294**	**15,897**
Profit is attributable to:			
Shareholders of the parent company		15,170	15,758
Non-controlling interest		107	85
Profit for the year		**15,277**	**15,843**
Total comprehensive income is attributable to:			
Shareholders of the parent company		15,196	15,799
Non-controlling interest		98	98
Total comprehensive income		**15,294**	**15,897**
Earnings per participating share (Russian Roubles per share)	**23**	**8.29**	**8.61**

Consolidated Statement of Financial Position

	Note	31 December 2012	31 December 2011	31 December 2010
ASSETS				
Non-current assets				
Property, plant and equipment and intangible assets	14	47,542	39,136	34,811
Investments in associates	15	316	373	1,029
Investments in securities and other financial assets	16	2,095	1,999	2,533
Deferred tax assets	13	730	716	677
Other non-current assets	17	639	318	417
Total non-current assets		**51,322**	**42,542**	**39,467**
Current assets				
Inventories	18	12,676	12,928	7,841
Trade and other receivables	19	3,923	3,636	4,328
Income tax prepayments		350	32	223
Taxes prepayments and VAT recoverable	20	3,445	3,596	1,916
Investments in securities and other financial assets		91	-	727
Other current assets	21	862	1,459	1,298
Cash and cash equivalents	22	5,081	6,468	2,793
Total current assets		**26,428**	**28,119**	**19,126**
Total assets		**77,750**	**70,661**	**58,593**
LIABILITIES AND EQUITY				
Equity attributable to shareholders of the parent company				
Share capital	23	6,332	6,332	6,332
Currency translation reserve		15	27	16
Revaluation reserve		68	32	2
Retained earnings		52,277	41,386	28,291
Total equity attributable to shareholders of the parent company		**58,692**	**47,777**	**34,641**
Non-controlling interest		**706**	**1,129**	**1,577**
Total equity		**59,398**	**48,906**	**36,218**
Non-current liabilities				
Non-current loans and borrowings	24	3,260	7,361	8,080
Deferred tax liabilities	13	1,274	994	1,061
Other non-current liabilities	26	1,381	819	369
Total non-current liabilities		**5,915**	**9,174**	**9,510**
Current liabilities				
Current loans and borrowings and current portion of non-current loans and borrowings	25	2,703	3,761	5,986
Trade and other payables	29	5,772	5,062	3,669
Advances received and accrued liabilities	30	2,936	2,632	2,337
Income tax payable		26	154	63
Taxes payable, other than income tax	31	855	901	696
Dividends payable		9	5	3
Deferred income		136	66	111
Total current liabilities		**12,437**	**12,581**	**12,865**
Total liabilities		**18,352**	**21,755**	**22,375**
Total liabilities and equity		**77,750**	**70,661**	**58,593**

Vladimir M. Busygin
General Director

Ilfar R. Yakhin
Chief Accountant

25 March 2013

The accompanying notes on pages 9-52 are an integral part of these consolidated financial statements

Consolidated Statements of Cash Flows

	2012	2011
Cash flows from operating activities		
Cash received from customers and other debtors	148,634	143,341
Cash paid to suppliers and employees, and taxes other than income	(124,494)	(123,405)
Interest paid	(119)	(697)
Income taxes paid	(4,525)	(3,760)
Net cash received from operating activities	**19,496**	**15,479**
Cash flows from investing activities		
Proceeds from sale of third party promissory notes	-	2,343
Purchase of other investments	(16)	(146)
Proceeds from term deposit	-	320
Proceeds from sale of property, plant and equipment	181	11
Purchase of property, plant and equipment	(11,500)	(7,953)
Dividends and interest received	340	229
Loans issued	(75)	-
Capitalized interest paid	(378)	(179)
Net cash used in investing activities	**(11,448)**	**(5,375)**
Cash flows from financing activities		
Proceeds from current and non-current borrowings	662	3,589
Repayment of current and non-current borrowings	(5,362)	(7,013)
Payments under financial lease contracts	(56)	(40)
Dividends paid	(4,373)	(2,133)
Acquisition of non-controlling interest	(431)	(880)
Other income	176	50
Net cash used in financing activities	**(9,384)**	**(6,427)**
Net decrease/(increase) in cash and cash equivalents before the effects of exchange rate changes	**(1,337)**	**3,677**
Effect of exchange rate changes on cash and cash equivalents	(50)	(2)
Net decrease/(increase) in cash and cash equivalents	**(1,387)**	**3,675**
Cash and cash equivalents at the beginning of the year	6,468	2,793
Cash and cash equivalents as at 31 December	**5,081**	**6,468**

	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 2010	**6,332**	**-**	**28,291**	**16**	**2**	**34,641**	**1,577**	**36,218**
Profit for the year	-	-	15,758	-	-	**15,758**	85	**15,843**
Other comprehensive income:	-	-	-	-	-	**-**	-	**-**
Change in fair value of available for sale investments	-	-	-	-	30	**30**	5	**35**
Currency translation reserve	-	-	-	11	-	**11**	8	**19**
Total other comprehensive income	-	-	15,758	11	30	**15,799**	98	**15,897**
Acquisition of non-controlling interest in a subsidiary	-	-	(501)	-	-	**(501)**	(392)	**(893)**
Dividends	-	-	(2,162)	-	-	**(2,162)**	(154)	**(2,316)**
Balance at 31 December 2011	**6,332**	**-**	**41,386**	**27**	**32**	**47,777**	**1,129**	**48,906**
Profit for the year	-	-	15,170	-	-	**15,170**	107	**15,277**
Other comprehensive income:								
Change in fair value of available for sale investments	-	-	-	-	36	**36**	-	**36**
Currency translation reserve	-	-	-	(12)	-	**(12)**	(9)	**(21)**
Total other comprehensive income	-	**-**	**15,170**	**(12)**	**36**	**15,196**	**98**	**15,294**
Purchase of treasury shares	-	(1)	-	-	-	**(1)**	-	**(1)**
Placement of shares	-	1	-	-	-	**1**	-	**1**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	**-**	78	**78**
Acquisition of non-controlling interest in a subsidiary	-	-	45	-	-	**45**	(545)	**(500)**
Dividends	-	-	(4,324)	-	-	**(4,324)**	(54)	**(4,378)**
Balance at 31 December 2012	**6,332**	**-**	**52,277**	**15**	**68**	**58,692**	**706**	**59,398**

Note 1 Nizhnekamskneftekhim Group and its operations

OAO Nizhnekamskneftekhim (the “Company”) was incorporated as an open joint stock company on 18 August 1993 (the “privatisation date”) 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 managed by the production association Nizhnekamskneftekhim were transferred to the Company at their book value at the privatisation date in accordance with the privatisation laws of the Republic of Tatarstan.

The Company’s registered address is 423574, Nizhnekamsk, the Republic of Tatarstan, Russian Federation. The Company and its subsidiaries listed in Note 34 (collectively the “Group”) are principally engaged in the production and sale of petrochemicals within the Republic of Tatarstan. The Group employed an average of 23,991 and 23,699 employees during the years ended 31 December 2012 and 2011, respectively.

The main shareholders of the Company as at 31 December 2012 are OAO Svyazinvetsneftekhim (100% owned by the Republic of Tatarstan) (31 December 2012 – 28.6% of voting shares; 31 December 2011 – 28.6% of voting shares) and OOO Telecom-Management (100% owned by OAO TAIF) (31 December 2012 – 50.6 % of voting shares; 31 December 2011 – 50.6% of voting shares). OAO TAIF is an ultimate parent company of the Group.

The Company has its primary share listing on the MICEX stock exchange and quotation list «A» of second level on the RTS stock exchange, with a further listing of Level 1 American Depositary Receipts on the Berlin and Frankfurt stock exchanges.

Note 2 Operating environment of the Group

The Russian economy displays certain characteristics of an emerging market.

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

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

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

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

Note 3 Adoption of new or revised standards and interpretations

Certain new standards and interpretations became effective for the Group from 01 January 2012:

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

Note 3 Adoption of new or revised standards and interpretations (continued)

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

New accounting pronouncements

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

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

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

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

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

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

Note 3 Adoption of new or revised standards and interpretations (continued)

New accounting pronouncements (continued)

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

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

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

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

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

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

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

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

Note 3 Adoption of new or revised standards and interpretations (continued)

New accounting pronouncements (continued)

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

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The management does not expect these amendments to have a significant impact on the Group's consolidated financial statements.

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

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

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

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

Note 4 Comparative information

The revised IAS 1, Presentation of Financial Statements, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period (‘opening statement of financial position’), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The opening statement of financial position is presented in these consolidated financial statements as a result of changes in presentation made following the adoption of the revised IAS 1 from 1 January 2009, including the introduction of the statement of comprehensive income.

The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the consolidated financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of a number of notes to the additional opening statement of consolidated financial position is therefore, in management’s view, not material.

In 2011, the Group recognised the additional accrual related to costs on shared funding for heat tariffs (Note 10) of RUB 933 million. A decision to deliver partial subsidising of reduced heat tariffs for citizens covering hot water heat produced for 2011 in the amount of RUB 933 million by the Company was based on the 2011 decision by the Tatarstan government.

The changes in the statements of comprehensive income and financial position impacted the disclosures in Notes 10, 13, 23, 29, 32, 33 and 37 but did not have any significant impact on other items of the statement of consolidated financial position and disclosures in the relevant notes.

The effect of the recognised additional accrual for expenses for cross-subsidising of heat energy tariffs on the data presentation was as follows as at 31 December 2011:

	As originally presented at 31 December 2011	Changes	As changed at 31 December 2011
Trade and other payables	4,129	933	5,062
Other operating expenses, net	985	933	1,918
Earnings per share, RUB per share	9.12	(0.51)	8.61

A reclassification of comparatives was made in the statement of consolidated financial position to conform to the current year presentation.

- Software licenses with a carrying value of RUB 552 million as at 31 December 2011 (RUB 464 million as at 31 December 2010), included in “Other non-current assets”, were reclassified to “Property, plant and equipment and intangible assets”.
- “Deferred tax assets” and “Deferred tax liabilities” are presented separately, not off-set as “Deferred tax liabilities

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

Non-current assets	As originally presented at 31 December 2010	Reclassification	As reclassified at 31 December 2010
Property, plant and equipment	34,347	464	34,811
Other non-current assets	881	(464)	417
Deferred tax assets	-	677	677
Non-current liabilities			
Deferred tax liabilities	384	677	1,061

Note 4 Comparative information (continued)

Non-current assets	As originally presented at 31 December 2011	Reclassification	As reclassified at 31 December 2011
Property, plant and equipment	38,584	552	39,136
Other non-current assets	870	(552)	318
Deferred tax assets	-	716	716
Non-current liabilities			
Deferred tax liabilities	278	716	994

The reclassifications in the statement of financial position had an impact on information in notes (Notes 13, 14 and 17) and had no impact on any other captions in the statement of consolidated financial position and related note disclosures.

Note 5 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 may differ from such estimates. In particular, information about significant areas of estimation and critical judgments in applying accounting policies made by management in preparing these consolidated financial statements include:

Impairment provision for property, plant and equipment. Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a not significantly different amount for any impairment provision.

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 19).

Impairment provision for investments in securities. Management has determined the fair value of other non-current assets, based on an assessment of their recoverability and future expected cash flows, using discount rates applicable to the borrower. If the discount rate used were to increase by 5%, then this would have reduced the fair value of other non-current assets by RUB 75 million. Estimated amount of impairment provision as at 31 December 2012 and 2011 equal to RUB 405 million and RUB 459 million respectively (See Note 16).

Assessment of provision for payments of benefits to employees upon retirement. Management has determined that certain lump sum payments to employees on retirement 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 27).

Deferred income tax asset recognition. Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation 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 estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Note 6 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;
- Mark-to-market valuation of financial instruments, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Basis of consolidation

Subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities "SPE") in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. SPEs are consolidated when the substance of the relationship indicates that the SPE is controlled by the Group. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on these transactions are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered.

When preparing the consolidated financial statements of the Group, 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.

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

Purchases and sales of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the 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 under the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates.

Note 6 Summary of Significant Accounting Policies (continued)

Associates (continued)

Other post-acquisition changes in 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, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

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

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 discounted value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term. 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.

Note 6 Summary of Significant Accounting Policies (continued)

Lease (continued)

Finance lease payments are allocated using the effective interest method, between the finance charges included in finance expense, 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 non-current liabilities or trade and other payables.

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

Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results of operations and financial position of each entity are presented in the Russian Roubles (“RUB”). RUB has been selected as the presentation currency for the consolidated financial statements of the Group. Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates of the Central Bank of the Russian Federation (“CBRF”) effective at the date of the transactions. 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. 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 relating to the purchase or construction of assets are recognised as income over the periods of and in proportion to the respective depreciation. Grants as of the end of the reporting period are recorded in line item "other non-current liabilities" or "trade and other payables" in the statement of financial position subject to the estimated period of writing them off to income.

Employee benefits

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

Note 6 Summary of Significant Accounting Policies (continued)

Pension and other post-employment benefits

The Group is legally obliged to make defined contributions to the Russian Federation State Pension Fund. The Group has the contract with NSPF over non-state pension provision of labour. The Group's only liability is to make certain contributions in the period when the payments were made. These contributions are expensed when incurred.

In the Russian Federation, all payments to off-budget funds, inclusive of contributions to the Russian 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 service period, lump sum benefit on retirement and regular fixed payments to non-working pensioners.

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

Jubilee benefits and benefits paid to employees upon attainment of a certain past service period are classified and recorded by the Group as other long-term benefits.

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 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. Actuarial gains and losses are fully recognised in the statement of comprehensive income as selling, general and administrative expenses within labour expenses.

When evaluating its defined benefit liability, the Group recognises the past service cost as expenses in equal instalments during the average period of time, upon expiry of which the benefit payment is guaranteed. To the extent that the benefits are guaranteed immediately following the introduction of, or changes to, a pension plan, the Group immediately recognises the past service cost .

Income taxes

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are offset if there is a legal right for the offset of the current tax assets and liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on gains upon disposal of subsidiaries. The Group does not recognise deferred tax liabilities or assets on such temporary differences, except when management expects to dispose subsidiaries in foreseeable future.

Note 6 Summary of Significant Accounting Policies (continued)

Uncertain tax positions

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

Property, plant and equipment

All property, plant and equipment are state 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. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Depreciation is calculated using 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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the statement of comprehensive income in line item "other 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 have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

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

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

Depreciation charge is calculated using straight-line method within the expected useful lives of assets:

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.

Note 6 Summary of Significant Accounting Policies (continued)

Inventories (continued)

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

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

Value added tax

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 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 a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year in line item "other operating expenses, net".

Impairment of assets

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

The recoverable amount is the higher of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. All 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 impairment losses is recognised in profit and loss.

Financial assets

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

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

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

Note 6 Summary of Significant Accounting Policies (continued)

Financial assets (continued)

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

Effective interest method – applied to financial assets

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts to the carrying amount of the asset (including transaction costs and other premiums and discounts) through the expected life of the financial asset.

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

Financial assets available for sale

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Held-to-maturity investments

This category includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

Loans and receivables

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

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

Impairment of financial assets

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

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

Note 6 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent reversal of the amounts earlier written off is credited to profit or loss for the year. When a decline in fair value of an available-for-sale equity 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 on available for sale securities 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 include cash on hand, bank deposits and other highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and have minimal fair value and default risks

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.

Dividends

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

Retained earnings legally distributable are based on the statutory accounting reports of individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

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

Note 6 Summary of Significant Accounting Policies (continued)

Financial liabilities

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

Effective interest method – applied to financial liabilities

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

Amortised cost of financial assets and liabilities

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

Derecognition of financial liabilities

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

Offsetting

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

Provisions for liabilities and charges

Provisions are accrued 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 7 Revenue

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

Description	Year ended 31 December 2012	Year ended 31 December 2011
Product sales	128,129	123,930
Processing fees	1,233	745
Transportation recharges and services	874	789
Other revenue	251	557
Total revenue	**130,487**	**126,021**

Note 7 Revenue (continued)

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

Description	Year ended 31 December 2012	Year ended 31 December 2011
Russia	63,416	61,894
Other Europe	49,449	47,127
CIS	7,558	5,945
Asia	4,259	5,886
North America	2,060	1,144
Other	1,387	1,934
Total revenue	**128,129**	**123,930**

Note 8 Cost of sales

Description	Year ended 31 December 2012	Year ended 31 December 2011
Raw materials	66,188	65,297
Energy and fuel	14,158	14,648
Personnel costs	8,685	8,530
Depreciation	3,277	3,253
Repairs and maintenance	1,628	1,049
Purchased services	770	664
Rent expenses	533	458
Other expenses	636	566
Change in finished goods and work in progress	644	(3,000)
Total cost of sales	**96,519**	**91,465**

The rent agreements for land are renegotiated annually. The expected amount of rent payments for 2013 year is RUB 324 million (for 2012 – RUB 290 million).

Note 9 Selling, general and administrative expenses

Description	Year ended 31 December 2012	Year ended 31 December 2011
Materials	3,733	3,372
Personnel costs	3,274	2,936
Transportation expenses	3,239	2,812
Taxes other than income taxes	1,079	990
Insurance	441	414
Depreciation	312	211
Repairs and maintenance	199	143
Energy and fuel	87	126
Custom service fees	78	136
Consulting, audit and information services	65	59
Other expenses	581	716
Total selling, general and administrative expenses	**13,088**	**11,915**

Total depreciation of RUB 3,589 million (for 12 months ended 31 December 2011: RUB 3,464 million) and total personnel costs of RUB 11,959 million are recorded in profit and loss for 12 months ended 31 December 2012 (for 12 months ended 31 December 2011: RUB 9,095 million).

Note 10 Other operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Maintenance of social infrastructure	674	801
Expenses for cross-subsidizing of heat energy tariffs	698	933
Impairment provision for receivables	(47)	(2)
Impairment provision for property, plant and equipment	99	58
Impairment provision for inventory	(36)	-
Impairment provision for non-current assets	-	(97)
Financial results on disposal of property, plant and equipment	183	3
Income from financial investments	(5)	(6)
Income/expenses from financial investments	122	228
Total other operating expenses	**1,688**	**1,918**

Note 11 Finance costs

Finance costs	Year ended 31 December 2012	Year ended 31 December 2011
Borrowing costs	592	1,099
Financial lease interest expense	9	14
Effect from discounting	6	24
Less capitalised borrowing costs	(395)	(233)
Total finance costs	**212**	**904**

Note 12 Finance income

Finance income	Year ended 31 December 2012	Year ended 31 December 2011
Interest income on bank deposits	352	206
Gain on early repayment of promissory notes	-	422
Total finance income	**352**	**628**

In 2011, an issuer repaid promissory notes, ahead of schedule, totalling RUB 2,342 million.

Note 13 Income tax expense

Income tax expense comprises the following:

Description	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax	4,081	4,355
Income tax for the previous periods	3	161
Deferred income tax expenses/ (benefit)	257	(114)
Total income tax expense	**4,341**	**4,402**

The income tax rate applicable to the majority of the Group's subsidiaries in 2012 and 2011 income is 20%.

Presented below is reconciliation between actual income tax expense and taxes determined by applying the theoretical tax rate to profit before taxation.

Note 13 Income tax expense (continued)

Description	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	**19,618**	**20,245**
Theoretical tax charge at statutory rate of 20%	3,924	4,048
Income tax for the previous periods	3	161
Tax effect of expenses for cross-subsidizing of heat energy tariffs	140	187
Tax effect of items which are not deductible or taxable for tax purposes	274	6
Total income tax expense	**4,341**	**4,402**

Description	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Deferred tax assets	730	716	677
Deferred tax liabilities	(1,274)	(994)	(1,061)
Net deferred tax liabilities	**(544)**	**(278)**	**(384)**

Note 13 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% (2011: 20%).

	At 31 December 2012	Charged/ (credited) to profit or loss	Charged/ (credited) to other comprehen-sive income	At 31 December 2011	Charged/ (credited) to profit or loss	Charged/ (credited) to other compre-hensive income	At 31 December 2010
Property, plant and equipment	(730)	(307)	-	(423)	32	-	(455)
Inventories	(154)	(12)	-	(142)	(121)	-	(21)
Non-current assets	17	22	-	(5)	(86)	-	81
Non-current borrowings	(18)	11	-	(29)	20	-	(49)
Payables	135	164	-	(29)	51	-	(80)
Deferred income	33	4	-	29	(43)	-	72
Other non-current liabilities	171	60	-	111	109	-	2
Accounts receivable and prepayments	(4)	(36)	-	32	(19)	-	51
Other current assets	38	(52)	-	90	75	-	15
Other, net	(32)	(111)	(9)	88	96	(8)	-
Net deferred tax liabilities	**(544)**	**(257)**	**(9)**	**(278)**	**114**	**(8)**	**(384)**

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

With regard to other companies (dividends from which are taxeable at a rate different from 0%) the Group did not record deferred tax liability of RUB nil million as at 31 December 2012 (RUB 4 million as at 31 December 2011) as the Group is able to control timing of these temporary differnces recoverability and does not intend to recover them in the foreseeable future.

Note 14 Property, plant and equipment and intangible assets

	Buildings and land	Equip-ment	Construction in progress	Intangible asset	Other	Total
Carrying amount at 1 January 2011	**19,876**	**12,007**	**1,436**	**464**	**1,028**	**34,811**
Cost balance at 1 January 2011	**48,166**	**49,269**	**1,504**	**564**	**3,419**	**102,922**
Additions	7	481	7,366	134	353	8,341
Additions from assets under construction	1,225	1,304	(2,563)	-	34	-
Disposals	(45)	(235)	(480)	-	(24)	(784)
Balance at 31 December 2011	**49,353**	**50,819**	**5,827**	**698**	**3,782**	**110,479**
Accumulated depreciation and impairment at 1 January 2011	**(28,290)**	**(37,262)**	**(68)**	**(100)**	**(2,391)**	**(68,111)**
Depreciation for the year	(1,249)	(2,080)	-	(46)	(89)	(3,464)
Impairment provision	(101)	(5)	53	-	(5)	(58)
Depreciation write-off on disposal	30	232	-	-	28	290
Accumulated depreciation and impairment at31 December 2011	**(29,610)**	**(39,115)**	**(15)**	**(146)**	**(2,457)**	**(71,343)**
Carrying amount at 1 January 2012	**19,743**	**11,704**	**5,812**	**552**	**1,325**	**39,136**
Cost balance at 1 January 2012	**49,353**	**50,819**	**5,827**	**698**	**3,782**	**110,479**
Additions	267	1,458	9,986	202	982	**12,895**
Reclassification	-	-	159	-	-	**159**
Effect of reclassification to inventory			(362)			**(362)**
Additions from assets under construction	2,086	1,581	(3,768)	-	101	**-**
Disposals	(891)	(1,860)	(17)	(21)	(52)	**(2,841)**
Balance at 31 December 2012	**50,815**	**51,998**	**11,825**	**879**	**4,813**	**120,330**
Accumulated depreciation and impairment at 1 January 2012	**(29,610)**	**(39,115)**	**(15)**	**(146)**	**(2,457)**	**(71,343)**
Depreciation for the year	(1,273)	(2,158)	-	(63)	(95)	**(3,589)**
Impairment provision	(89)	(4)	-	-	(6)	**(99)**
Reclassification	-	-	(159)	-	-	**(159)**
Depreciation write-off on disposal	622	1,757	-	-	23	**2,402**
Accumulated depreciation and impairment at 31 December 2012	**(30,350)**	**(39,520)**	**(174)**	**(209)**	**(2,535)**	**(72,788)**
Carrying amount at 31 December 2012	**20,465**	**12,478**	**11,651**	**670**	**2,278**	**47,542**

Included in the equipment category are vehicles and machinery where the Group is a lessee under a finance lease.

Property, plant and equipment are presented net of an accumulated impairment provision of RUB 3,342 million at 31 December 2012 (RUB 3,243 million at 31 December 2011). The increase in the provision of RUB 99 million during 2012 (for the year ended 31 December 2011 – increase of RUB 58 million) was recognised within profit and loss as a component of other operating expenses.

Included in the original cost of property, plant and equipment are fully depreciated assets which are still in service in the amount of RUB 44,009 million and RUB 44,179 million as 31 December 2012 and 31 December 2011, respectively.

Included in additions is capitalised interest of RUB 395 million for the 12 months ended 31 December 2012 (for the year ended 31 December 2011 – RUB 233 million). The effective capitalisation rate for the 12 months ended 31 December 2012 was 5.26% (for the year ended 31 December 2011 – 7.27%).

Property, plant and equipment in the amount of RUB 2,552 million (for the year ended 31 December 2011 – RUB 2,687 million) is pledged as loan security under loan agreements.

Note 15 Investments in associates

Investments in associates

	As of 31 December2012	As of 31 December 2011
Balance at the beginning of the year	**373**	**1,029**
Dividends	(1)	(2)
Reclassification to available-for-sale investments at fair value	(91)	(669)
Changes in the Group's share of net assets in associates	35	15
Balance at the end of the year	**316**	**373**

At the beginning of 2011, the Group reassessed its ability to significant influence OAO Tatfondbank, OAO KB Intekhbank and OAO Tatneftekhiminvest-holding and subsequently recorded them as investments available for sale at fair value.

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

		Carrying amount		Ownership, %	
Associate	**Activities of associate**	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
OOO Elastokam	Production of polyurethane	206	182	50.00%	50.00%
OAO L.Ya. Karpov's Plant	Production of chemicals	97	94	32.81%	32.81%
OOO Yughimterminal	Chemicals transhipment	13	6	25.00%	25.00%
OAO AKB Spurt	Banking services	-	91	-	5.05%
Total		**316**	**373**		

All associates are incorporated within the Russian Federation.

In 2012, the Group reassessed its influence on OAO AKB Spurt and recorded them as investments available for sale at fair value.

Summaries of the Group’s share of associates’ revenue, assets and liabilities for the 12 months ended 2012 and the 12 months ended 2011 are as follows:

Description	As of 31 December 2012	As of 31 December 2011
Total assets	2,166	20,033
Total liabilities	(1,414)	(17,562)
Net assets	**752**	**2,471**
The Group’s share in net assets	**316**	**373**

	As of 31 December 2012	As of 31 December 2011
Revenue	3,103	4,517
Profit for the year	85	155
The Group’s share in profit/(loss) for the year	**42**	**15**

Note 16 Investments in securities and other financial assets

Description	As of 31 December 2012	As of 31 December 2011
Non-current		
Available-for-sale investments at fair value		
Equity securities	1,779	1,631
Loans and receivables at amortised cost		
Mortgage loans issued to employees	282	329
Other non-current financial assets	34	39
Investments in securities and other financial assets	**2,095**	**1,999**
Current		
Loans issued at amortised cost		
Term deposits	16	-
Other current financial assets	75	-
Investments in securities and other financial assets	**91**	**-**

The Group's other non-current financial assets are measured on the basis of Level 3 of fair values hierarchy, since input and assumptions used by management are not based on observable market data.

Equity securities

Equity securities represents investments into OAO AK Bars Bank, OAO Tatfondbank, OAO KB Intekhbank, OAO Tatneftekhiminvest-holding, OAO AKB Spurt with a stake of less 10%.The fair value of the equity investments is assessed on the basis of comparison of cost of investments to respective share of the fair value of net assets attributable to the Group as at the reporting date. The change in fair value for the year ended 31 December 2012 resulted in a gain recognised in other comprehensive income.

Loans issued at amortised cost are presented net of impairment provision for loan issued which has been fully provided to OOO Tatneft-NKNK-Oil in the amount of RUB 386 million as at 31 December 2012 (RUB 386 million as at 31 December 2011). An impairment provision for equity securities amounted to RUB 19 million as at 31 December 2012 (RUB 73 million as at 31 December 2011).

The Group's equity securities are measured on the basis of Level 3 of fair values hierarchy, since input and assumptions used by management are not based on observable market data.

The movement in the impairment provision for non-current assets is shown in the table below:

	As of 31 December 2012	As of 31 December 2011
Balance at the beginning of the year	**459**	**972**
Reversal of impairment provision	(54)	-
Effect on early repayment of promissory notes	-	(422)
Reclassification of impairment provision to Other non-current assets	-	(91)
Balance at the end of the year	**405**	**459**

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 17 Other non-current assets

	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010
Catalysts	577	276	395
Other non-current assets	149	133	116
Impairment provision for other non-current assets	(87)	(91)	(94)
Total other non-current assets	**639**	**318**	**417**

Other non-current assets are non-financial.

Note 18 Inventories

	As of 31 December 2012	As of 31 December 2011
Inventory and supplies	7,188	6,832
Finished goods	1,903	1,701
Goods dispatched	1,262	1,969
Work in progress	2,336	2,475
Provision for impairment of inventories, stocks of materials and finished products	(13)	(49)
Total	**12,676**	**12,928**

The carrying amount of inventories pledged as security for obligations as at 31 December 2012 was RUB 33 million (as at 31 December 2011 - RUB 13 million).

Note 19 Trade and other receivables

	As of 31 December 2012	As of 31 December 2011
Receivables from domestic sales	1,831	1,495
Receivables from export sales (mainly denominated in USD and Euro)	2,162	2,058
Other receivables	107	315
Impairment provision	(177)	(232)
Total trade and other receivables	**3,923**	**3,636**

A provision for impairment of RUB 177 million at 31 December 2012 (31 December 2011 – RUB 232 million) has been made against receivables from domestic trade. The net decrease in the provision by RUB 55 million during 2012 (the net decrease of RUB 32 million during the year ended 31 December 2011) was recognised within profit and loss as other operating expenses, net. Movements in the impairment provision for trade and other receivables are shown in the table below:

	As of 31 December 2012	As of 31 December 2011
Balance at the beginning of the year	**232**	**264**
Increase in impairment provision	26	11
Reversal of impairment provision	(63)	(7)
Written off	(18)	(36)
Balance at the end of the year	**177**	**232**

The provision mainly relate to other receivables of the Group from domestic sales.

Note 19 Trade and other receivables (continued)

As at 31 December 2012 trade and other receivables of RUB 276 million (31 December 2011 - RUB 413 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	As of 31 December 2012	As of 31 December 2011
Up to 3 months	233	399
3 to 6 months	8	11
Past due more than 6 months	35	3
Total	**276**	**413**

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

	As of 31 December 2012	As of 31 December 2011
Russian Roubles	1,746	1,746
US Dollars	1,116	788
Euro	1,061	1,102
Total	**3,923**	**3,636**

The receivables from export sales do not contain impaired assets.

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 receivables as security.

Note 20 Taxes prepayments and VAT recoverable

	As of 31 December 2012	As of 31 December 2011
Value added tax recoverable	3,216	3,483
Prepaid excise tax	226	111
Other	3	2
Total	**3,445**	**3,596**

Note 21 Other current assets

	As of 31 December 2012	As of 31 December 2011
Advances to suppliers	865	1,442
Prepaid expenses and other current assets	-	28
Impairment provision for advances to suppliers	(3)	(11)
Total other current assets	**862**	**1,459**

During 2012 gain from reversal of impairment provision for advances to suppliers was recognised in the amount of RUB 8 million (2011 – RUB 6 million).

Note 22 Cash and cash equivalents

	As of 31 December 2012	As of 31 December 2011
Current accounts - in RUB	951	3,503
- in foreign currency	328	558
Deposits	3,800	2,401
Cash on hand	-	5
Other cash and cash equivalents	2	1
Total cash and cash equivalents	**5,081**	**6,468**

Note 23 Shareholders' equity and earnings per share

As of 31 December 2012 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary shares (31 December 2011 – 1,611,256,000 ordinary shares) and non-voting preferred share capital of 218,983,750 shares (31 December 2011 – 218,983,750 shares) at nominal value of 1 Russian Roubles per share.

As of 31 December 2012 total number of ordinary shares is authorised for issue (authorised ordinary share capital) – 27,400,000,000 (31 December 2011 – 27,400,000,000 ordinary shares) and 218,983,750 preferred shares (31 December 2011 – 218,983,750 preferred shares) at nominal value of 1 Russian Roubles per share.

The following dividends were declared and paid by the Company:

	31 December 2012	31 December 2011
Dividends declared during the year for 2010, RUB million, including:		
- ordinary shares;	-	1,894
- preferred shares.	-	258
Dividends declared during the year for 2011, RUB million, including:		
- ordinary shares;	3,802	-
- preferred shares.	517	-
Dividends per share declared during the year for 2010, RUB per share, including:		
- ordinary shares;	-	1.18
- preferred shares.	-	1.18
Dividends per share declared during the year for 2011, RUB per share, including:		
- ordinary shares;	2.36	-
- preferred shares.	2.36	-

The difference between dividends amount presented above and the amount presented in the consolidated statement of changes in equity of RUB 6 million (2011 – RUB 10 million) is dividend tax charged on intercompany dividends paid within the Group.

Earnings Per Share

	As of 31 December 2012	As of 31 December 2011
Profit attributable to the shareholders of the parent company	15,170	15,758
Weighted average number of participating shares	1,830,215,443	1,830,239,750
Earnings per participating share (net and diluted earnings per share) (Russian Roubles per share)	**8.29**	**8.61**

Note 23 Shareholders' equity and earnings per share (continued)

The Golden Share

The Government of the Republic of Tatarstan possesses a special right ("Golden Share") to veto certain decisions taken at shareholders' and Board of Directors' meetings. Decisions subject to veto include: amendments and addendums 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; investments in holding companies, financial and industrial groups or other entities; entering into significant transactions and transactions with related parties in accordance with the Law of the Russian Federation "On Joint Stock Companies"; and the appointment of the chief executive officer (General Director) of the Company.

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 not less than 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 all financial reporting years.

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 held by 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. Russian legislation identifies the basis of distribution as the net profit. For 2012, the statutory net profit for the Company as reported in the published annual statutory reporting forms was RUB 16,954 million (for the year ended 31 December 2011 – RUB 14,414 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

Note 24 Non-current borrowings

Non-current borrowings less their current portion

	As of 31 December 2012	As of 31 December 2011
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	2,175	4,443
Loans and borrowings in Russian Roubles	372	1,999
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	2,128	2,987
Loans and borrowings in Euro	930	1,262
Less current portion of non-current loans and borrowings	(2,345)	(3,330)
Total non-current loans and borrowings	**3,260**	**7,361**

Note 24 Non-current borrowings (continued)

Non-current borrowings less their current portion (continued)

Scheduled undiscounted maturity of borrowings is as follows:

	As of 31 December 2012	As of 31 December 2011
Between one and five years	3,415	7,814
After five years	-	76
Total	**3,415**	**7,890**

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

	As of 31 December 2012	As of 31 December 2011
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	5.99%	7.28%
Loans and borrowings in Russian Roubles	12.27%	8.79%
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	3.22%	3.39%
Loans and borrowings in Euro	0.65%	1.95%

Fair value of non-current borrowings is determined as follows:

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

Fair value of non-current borrowings with a carrying value of RUB 3,260 million (31 December 2011 – RUB 7,361 million), determined based on procedure described above, is estimated at RUB 3,231 million (31 December 2011 – 10,851 million) The fair value of non-current loans and borrowings with fixed rates is based on cash flows discounted using estimates of an appropriate borrowing rates as at 31 December 2012 and as at 31 December 2011.

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 the calculation of EBIDTA should exclude the impact of foreign exchange gains and losses. The Group complied with financial covenants attached to its non-current borrowings agreements.

Note 25 Current borrowings

	As of 31 December 2012	As of 31 December 2011
Loans and borrowings with fixed interest rate:		
Loans and borrowings in Russian Roubles	89	63
Loans and borrowings with floating interest rate:		
Loans and borrowings in Euro	269	368
Current portion of non-current borrowings	2,345	3,330
Total non-current loans and borrowings	**2,703**	**3,761**

Note 25 Current borrowings (continued)

Scheduled undiscounted maturity of borrowings is as follows:

	As of 31 December 2012	As of 31 December 2011
Within three months	467	451
From three months to one year	2,456	3,814
Total	**2,923**	**4,265**

	As of 31 December 2012	As of 31 December 2011
Loans and borrowings with fixed interest rate:		
Loans and borrowings in Russian Roubles	10.13%	8.81%
Loans and borrowings with floating interest rate:		
Loans and borrowings in Euro	1.88%	2.48%

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 3 million as at 31 December 2012 (31 December 2011 – RUB 570 million).

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

Note 26 Other non-current liabilities

	As of 31 December 2012	As of 31 December 2011
Non-current payables	475	16
Non-current finance lease liabilities (see Note 28)	38	17
Government grants (deferred income)	164	211
Post-employment obligations (see Note 27)	658	525
Other non-current liabilities on benefits to employees(see Note 27)	38	35
Other	8	15
Total other non-current liabilities	**1,381**	**819**

Note 27 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 obligations	**2012**	**2011**
Obligations as at 1 January	525	-
Current service cost*	17	500
Interest expenses	39	36
Benefits paid	(72)	(47)
Actuarial loss	149	36
Obligations as at 31 December	**658**	**525**

Note 27 Non-current liabilities on benefits to employees (continued)

Including RUB 488 million of accumulated service cost upon initial recognition of the 2011 post-employment obligations.

Other non-current liabilities on benefits to employees	2012	2011
Obligations as at 1 January	35	-
Current service cost*	7	39
Interest expenses	1	3
Benefits paid	(11)	(7)
Actuarial loss	6	-
Obligations as at 31 December	**38**	**35**

*Including RUB 37 million of accumulated service cost upon initial recognition of other non-current liabilities on benefits to employees for 2011.

Discounted non-current liabilities on benefits to employees equal non-current liabilities on benefits to employees stated in the financial statements.

Amounts reflected in the consolidated statement of comprehensive income within labour costs in selling, general and administrative expenses:

	Post-employment obligations		Other obligations	
	12 months of 2012	12 months of 2011	12 months of 2012	12 months of 2011
Current service cost	17	500	7	39
Actuarial loss	149	36	6	-
Interest expenses	39	36	1	3
Total	**205**	**572**	**14**	**42**

Total actuarial loss made for 2012 was RUB 155 million (2011 - RUB 36 million). All actuarial gains and losses arose from as well as by experience adjustments as by change of assumptions.

The Group expects payments of RUB 89 million in 2013.

Key actuarial assumptions are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Discount rate	6.80%	8.15%
Salary rates growth	6.60%	4.60%

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

Note 28 Finance lease obligations

Finance lease obligations, i.e. minimum lease payments:

	As of 31 December 2012	As of 31 December 2011
Not later than 1 year	84	30
Later than 1 year and no later than 5 years	53	19
Total lease payments	**137**	**49**
Future finance lease payments	(58)	(16)
Present value of finance lease obligations	**79**	**33**
Less amounts payable within 12 months	(41)	(16)
Non-current finance lease payments	38	17

During 2012, lease payments were paid in accordance with approved payment schedules and denominated in Russian Roubles. Lease obligations effectively secured as the rights to the leased asset revert to the lessor in the event of default, had a net book value of RUB 128 million and RUB 52 million as at 31 December 2012 and 2011 respectively.

Note 29 Payables

	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010
Trade payables	5,112	3,957	3,373
Accounts payable for acquisition of property, plant and equipment	361	19	12
Other payables	258	1,070	274
Current finance lease payments (see Note 28)	41	16	10
Total payables	**5,772**	**5,062**	**3,669**

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

	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010
Within three months	5,487	4,883	3,653
Due from three months to one year	285	179	16
Total payables	**5,772**	**5,062**	**3,669**

Note 30 Advances received and accrued liabilities

	As of 31 December 2012	As of 31 December 2011
Advances received	1,421	1,262
Payables to employees	781	726
Reserve on unutilised vacation	734	644
Total advances received and accrued liabilities	**2,936**	**2,632**

Note 31 Taxes payable, other than income tax

	As of 31 December 2012	As of 31 December 2011
VAT	247	328
Social charges	257	233
Personal income tax	123	124
Property tax	132	131
Land tax	80	67
Other taxes	16	18
Total taxes payable other than income tax	**855**	**901**

Note 32 Related party transactions

For the purposes of these consolidated financial statements, parties are 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 or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering related party relationships, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

TAIF Group is the controlling shareholder of the Company and thus a related party. The TAIF Group is the principal supplier of raw materials to the Group.

For the years ended 31 December 2012 and 2011 the Group has the following transactions and balances with related parties:

Related party	Revenue	Purchases of materials and services	Dividends received	Other expenses/ (income)	Purchase of PPE and other non-current assets	Movement in bad debt provision
Year ended 31 December 2012						
OAO Nizhnekamskneftekhim	**7,742**	**34,409**	-	**684**	**1,057**	**22**
Parent company	-	94	-	-	-	-
Associates	421	239	-	(1)	-	22
Other related parties*	7,321	34,076	-	685	1,057	-
Subsidiaries	**26**	**262**	**-**	**(164)**	**2**	**-**
Parent company	-	-	-	-	-	-
Associates	1	-	-	(7)	-	-
Other related parties*	25	262	-	(157)	2	-
Total	**7,768**	**34,671**	**-**	**520**	**1,059**	**22**
Year ended 31 December2011						
OAO Nizhnekamskneftekhim	**6,977**	**38,182**	2	947	34	**20**
Parent company	-	6	-	-	-	-
Associates	485	270	1	3	-	20
Other related parties*	6,492	37,906	1	944	34	-
Subsidiaries	**20**	**375**	**-**	**-**	**-**	**-**
Parent company	-	-	-	-	-	-
Associates	1	3	-	-	-	-
Other related parties*	19	372	-	-	-	-
Total	**6,997**	**38,557**	**2**	**947**	**34**	**20**

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

Note 32 Related party transactions (continued)

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

	Cash and term deposits	Trade and other receivables	Allowance for doubt-ful debts	Trade and other payables
As of 31 December 2012				
OAO Nizhnekamsk-neftekhim	**-**	**270**	**153**	**1,330**
Parent company	-	-	-	-
Associates	-	195	153	6
Other related parties*	-	75	-	1,324
Subsidiaries	**-**	**15**	**-**	**5**
Parent company	-	-	-	-
Associates	-	4	-	1
Other related parties*	-	11	-	4
Total	**-**	**285**	**153**	**1,335**
As of 31 December 2011				
OAO Nizhnekamsk-neftekhim	**330**	**637**	**175**	**1,244**
Parent company	-	-	-	-
Associates	330	256	175	7
Other related parties*	-	381	-	1,237
Subsidiaries	**2**	**8**	**-**	**11**
Parent company	-	-	-	-
Associates	2	-	-	2
Other related parties*	-	8	-	9
Total	**332**	**645**	**175**	**1,255**

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

As of 31 December 2012 financial guarantees given and received by the Group for/from related parties was RUB 0 million (31 December 2011 – RUB 0 million).

As of 31 December 2012 there were no purchase and supply commitments with related parties (31 December 2011 – RUB 0 million).

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 259 million for the year ended 31 December 2012 (year ended 31 December 2011 – RUB 217 million).

Note 33 Segment information

Management has determined the operating segments based on the management reports, which are primarily derived from statutory records and regularly reconciled to IFRS consolidated financial statements. The Group'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 OAO Nizhnekamskneftekhim only. 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.

The table below contains other principal subsidiaries (see Note 34) that did not fall under the above listed operating segments and were presented under "All other segments":

	As of and for the year ended	
	31 December 2012	31 December 2011
1	OOO Trest TSNKhRS	OOO Trest TSNKhRS
2	OOO RMZ-NKNK	OOO RMZ-NKNK
3	OOO Transport Express	OOO Transport Express
4	OOO Neftekhimagroprom	OOO Neftekhimagroprom
5	OOO Nizhnekamskneftekhim–Service	OOO Nizhnekamskneftekhim–Service
6	OOO UOP Neftehim	OOO UOP Neftehim
7	OAO SOV-NKNK	OAO SOV-NKNK
8	OOO SCC Neftekhimik	OOO SCC Neftekhimik
9	OAO Neftekhimsevilen	OAO Neftekhimsevilen
10		OAO Nizhnekamskneftekhim –Divinil

The first operating segment "Production and sales of petrochemicals" includes dividends income from the following associate companies:

	As of and for the year ended	
	31 December 2012	31 December 2011
1	OOO Elastokam	OOO Elastokam
2	OAO L.Ya. Karpov's Plant	OAO L.Ya. Karpov's Plant
3	OOO Yughimterminal	OOO Yughimterminal
4		OAO AKB Spurt

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

Management of the Group assesses the performance of operating segments based on certain measures, which are presented to the chief operating decision maker. This includes 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). The information comprises measures such as total revenue, gross profit, operating profit and net profit. The RSA segment reporting information is reconciled where applicable to the amounts reported in the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

Note 33 Segment Information (Continued)

The Group's consolidated financial performance by operating segments for the year ended 31 December 2012:

	Production and sales of petrochemicals, RSA	Petrochemicals trading, IFRS	All other segments, RSA	Total
Revenue				
External sales	120,180	6,287	4,073	130,540
Inter-segmental sales	5,067	-	5,687	10,754
Total revenue	125,247	6,287	9,760	141,294
Result				
Gross profit	28,463	271	2,089	30,823
Operating profit	19,684	151	1,100	20,935
Foreign exchange gains/(losses), net	248	(4)	-	244
Interest income	335	59	18	412
Interest expense	(408)	(96)	(56)	(560)
Dividend income	1,783	-	-	1,783
Income tax charge	(3,843)	(29)	(86)	(3,958)
Net profit	16,954	85	647	17,686
Other information				
Depreciation	**(3,481)**	**-**	**(325)**	**(3,806)**

Reportable segment revenues for the year ended 31 December 2012 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenues, RSA and IFRS	125,247	6,287	9,866	141,400
Intercompany transactions	(5,067)	-	(5,793)	(10,860)
Other adjustments	(53)	-	-	(53)
Revenue, IFRS	**120,127**	**6,287**	**4,073**	**130,487**

The Group had the following segment capital expenditure for the year ended 31 December 2012:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure	11,287	-	280	11,567

Reportable segment capital expenditure for the year ended 31 December 2012 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemical s trading	All other segments	Total
Capital expenditure, segments	11,287	-	280	11,567
Reclassification of advances paid for assets under construction	(320)	-	(151)	(471)
Interest capitalized	395	-	-	395
Other adjustments	1,022		180	1,202
Capital expenditure, IFRS	**12,384**	**-**	**309**	**12,693**

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

Note 33 Segment Information (Continued)

Reportable segment operating profit for the year ended 31 December 2012 is reconciled to the Group's consolidated operating profit as follows.

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Operating profit, RSA and IFRS	19,684	151	1,100	20,935
Reclassification of other expenses	(1,417)	(69)	(202)	(1,688)
Differences in IFRS and RSA depreciation	114	-	159	273
IFRS provisions and other non-current liabilities	(141)	-	-	(141)
Other adjustments	(187)	-	-	(187)
Operating profit, IFRS	18,053	82	1,057	19,192

Reclassification of other expenses represents reconciliation between expenses reported as "Other" for statutory purposes and IFRS consolidated operating profit.

Reportable segment net profit for the year ended 31 December 2012 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals, RSA	Petrochemicals trading, IFRS	All other segments, RAR	Total
Net profit, RSA and IFRS	16,954	85	647	17,686
Reversal of RSA deferred tax	70	-	(57)	13
Differences in IFRS and RSA depreciation	114	-	159	273
Differences in RSA and IFRS provisions	(141)	-	-	(141)
Other expenses	(698)	-	-	(698)
Other adjustments	(1,963)	-	-	(1,963)
Net profit, IFRS	**14,336**	**85**	**749**	**15,170**

Other adjustments represent elimination of intercompany dividends.

Other expenses are related to expenses for cross-subsidizing of heat energy tariffs (see Note 10).

Other adjustments mainly represent gains from investments into debt securities redeemed ahead of schedule (see Note 14) and elimination of intercompany dividends.

The Group's consolidated financial performance by operating segments for the year ended 31 December 2011 is as follows:

	Production and sales of petrochemicals, RSA	Petrochemicals trading, IFRS	All other segments, RSA	Total
Revenue				
External sales	114,011	6,448	5,625	126,084
Inter-segmental sales	8,689	17	10,085	18,791
Total revenue	122,700	6,465	15,710	144,875
Result				
Gross profit	27,652	319	3,802	31,773
Operating profit	20,077	205	2,783	23,065
Foreign exchange losses, net	(217)	-	-	(217)
Interest income	161	72	10	243
Interest expense	(744)	(128)	(127)	(999)
Dividend income	180	-	-	180
Income tax charge	(3,928)	(40)	(561)	(4,529)
Net profit	14,414	109	2,114	16,637
Other information				
Depreciation	(3,259)	(1)	(359)	(3,619)

Note 33 Segment Information (Continued)

Reportable segment revenues for the year ended 31 December 2011 is reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenues, RSA and IFRS	122,700	6,465	15,710	144,875
Intercompany transactions	(8,689)	(17)	(10,084)	(18,790)
Other adjustments	(64)	-	-	(64)
Revenue, IFRS	**113,947**	**6,448**	**5,626**	**126,021**

The Group had the following segment capital expenditure for the year ended 31 December 2011:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure	5,817	-	371	6,188

Reportable segment capital expenditure for the year ended 31 December 2011 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	5,817	-	371	6,188
Reclassification of advances paid for assets under construction	1,998	-	174	2,172
Interest capitalized	233	-	-	233
Other adjustments	(323)		(63)	(386)
Capital expenditure, IFRS	**7,725**	**-**	**482**	**8,207**

Reportable segment operating profit for the year ended 31 December 2011 is reconciled to the Group's consolidated operating profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Operating profit, RSA and IFRS	20,077	205	2,783	23,065
Reclassification of other expenses	(1,903)	-	(15)	(1,918)
Differences in IFRS and RSA depreciation	66	-	174	240
IFRS provisions and other non-current liabilities	(553)	-	(48)	(601)
Other adjustments	(63)	-	-	(63)
Operating profit, IFRS	**17,624**	**205**	**2,894**	**20,723**

Reportable segment net profit for the 12 months ended 31 December 2011 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit, RSA and IFRS	14,414	109	2,114	16,637
Reversal of RSA deferred tax	171	-	(2)	169
Differences in IFRS and RSA depreciation	66	-	174	240
Differences in RSA and IFRS provisions	(553)	-	(48)	(601)
Other expenses	(933)	-	-	(933)
Other adjustments	246	-	-	246
Net profit, IFRS	**13,411**	**109**	**2,238**	**15,758**

Other expenses are related to expenses for cross-subsidizing of heat energy tariffs (Note 10).

Note 33 Segment Information (Continued)

The major part of revenue relates to a few customers, which individually account for less than 10% of total revenues each.

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

Revenue by major customers (for the year ended 31 December 2012)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
21 customers with sales turnover more than RUB 1,000 million each	88,348	-	-	88,348
Other customers (with turnover less than RUB 1,000 million each)	31,779	6,287	4,073	42,139
Revenue, IFRS	**120,127**	**6,287**	**4,073**	**130,487**

Revenue by major customers (for the year ended 31 December 2011)	Production and sales of petrochemicals, RSA	Petrochemicals trading, IFRS	All other segments, RAR	Total
20 customers with sales turnover more than RUB 1,000 million each	82,865	-	-	82,865
Other customers (with turnover less than RUB 1,000 million each)	31,082	6,448	5,626	43,156
Revenue, IFRS	**113,947**	**6,448**	**5,626**	**126,021**

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

Revenue by major products (for the year ended 31 December 2012)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Rubbers production	58,497	1,256	17	59,770
Plastics production	31,919	1,484	108	33,511
Olefins products	21,662	2,220	1,061	24,943
Other products	8,049	1,327	2,887	12,263
Revenue, IFRS	**120,127**	**6,287**	**4,073**	**130,487**

Revenue by major products (for the year ended 31 December 2011)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Rubbers production	57,714	1,167	52	58,933
Plastics production	28,613	1,023	241	29,877
Olefins products	17,803	1,615	879	20,297
Other products	9,817	2,643	4,454	16,914
Revenue, IFRS	**113,947**	**6,448**	**5,626**	**126,021**

Note 34 Principal subsidiaries

Subsidiary	Business activity	Percentage of voting interest held	
		As of 31 December 2012	As of 31 December 2011
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	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%
OAO SOV-NKNK	Water purification	51.9%	51.9%
OOO SCC Neftekhimik	Ice sports complex	91.9%	91.9%
OAO Neftekhimsevilen	Plastic products	100.0%	51.0%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56.3%	56.3%
OAO Polymer-NKNK	Production of technical goods	100.0%	100.0%
OAO Nizhnekamskneftekhim – Divinil	Divinil and butadiene production	-	100.0%
OOO Kataliz-Prom	Petrochemicals production	50.1%	-
NKNK FINANCE PLC	Group funding; a special purpose entity	-	-

As at 31 December 2012 and 31 December 2011 the percentage of ownership interest of the Group in its subsidiaries is equal to percentage of voting interest.

In December 2012, OAO Neftekhimsevilen purchased its own shares from the second investor. As a result of this transaction share of OAO Nizhnekamskneftekhim in the entity increased up to 100%.

In February 2011, the Group additionally acquired an additional 50% of OOO Nizhnekamskneftekhim - Divinil. On 6 March 2012, the Extraordinary Shareholders' Meeting addressed the reorganisation of OAO Nizhnekamskneftekhim through the merger of OAO NKNK-Divinil. Following the Merger Agreement between OAO NKNK-Divinil and OAO Nizhnekamskneftekhim, on 14 May 2012, the respective entry on the termination of operations as a result of the merger was made in the Unified State Register of Legal Entities.

In February 2012, OAO Nizhnekamskneftekhim established a new subsidiary, OOO Kataliz-Prom with a controlling interest of 50.1%.

Special purpose entity NKNK Finance PLC was established by NKNK to attract funds on favourable terms, the entity doesn't have other significant other operations other than organization of funding and this entity has no significant assets and liabilities.

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, and NKNK FINANCE PLC incorporated in Ireland. Special purpose entity, NKNK Finance PLC, was established by NKNK to attract funds on favourable terms, the entity doesn't have other significant other operations other than organization of funding and has no significant assets and liabilities.

Note 35 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 exchange 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 Dollar, and it does not enter into forward foreign exchange contracts or other derivative contracts to mitigate this risk. Management 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 19, 22, 24 and 25. 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 also. Through this structure the Group management believes that an element of natural hedging of US Dollar and Euro currency risk arises from these transactions and consequently there is no need to formally hedge the US Dollar and Euro to mitigate this risk.

Note 35 Financial instruments and financial risk factors (continued)

Foreign exchange risk (continued)

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 by US Dollar and Euro revenues received from customers.

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

	As of 31 December 2012	As of 31 December 2011
Assets		
Trade and other receivables	**2,177**	**1,890**
- US Dollars	1,116	788
- Euro	1,061	1,102
Cash	**328**	**558**
- US Dollars	246	538
- Euro	82	20
Total assets	**2,505**	**2,448**
Liabilities		
Borrowings	**5,503**	**9,060**
- US Dollars	4,303	7,430
- Euro	1,200	1,630
Trade and other payables	**650**	**718**
- US Dollars	142	134
- Euro	508	584
Total liabilities	**6,153**	**9,778**
Total net monetary liability position	(3,648)	(7,330)

At 31 December 2012, if the US Dollar and Euro had strengthened or weakened by 15% (2011: 15%) against the Russian Roubles with all other variables held constant, consolidated profit (net of profit tax) and consolidated equity for the year would have been lower/higher by the following:

Profit or loss

Changes in exchange rate:

	2012	2011
US Dollar	370	758
Euro	68	122

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 24). 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.

Note 35 Financial instruments and financial risk factors (continued)

Interest rate risk (continued)

Based on the simulations performed the impact on profit and loss of a 100 basis points for the year ended 31 December 2012 (100 basis points for the year ended 31 December 2011) point shift would be:

	As of 31 December 2012	As of 31 December 2011
Libor	21	28
Euribor	12	16

The Group does not use any hedging instruments to manage its exposure to changes in interest rates because management considers that there is no necessity to do so.

Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables, cash and cash equivalents. 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 for impairment of receivables already recorded.

The Group does not hold or issue financial instruments for trading purposes.

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

Credit risk is managed at the Group level. For wholesale customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The following ratings have been assigned to Groups' financial assets:

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

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

Rating C – others, creditworthiness difficulties are possible.

	Rating A	Rating B	Rating C
31 December 2012			
Cash and cash equivalents	5,081	-	-
Trade and other receivables	3,923	-	-
Investments in securities and other financial current assets	91	-	-
31 December 2011	**Rating A**	**Rating B**	**Rating C**
Cash and cash equivalents	6,468	-	-
Trade and other receivables	3,636	-	-
Investments in securities and other financial current assets	-	-	-

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

Liquidity risk

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

Notes 29 analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position 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 of breach of a covenant can have an impact on the ability of the Group to repay its obligations in a structured manner.

Note 35 Financial instruments and financial risk factors (continued)

Fair values

The estimated fair value of financial assets carried at amortised cost is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. At 31 December 2012 and 31 December 2011 the fair value of financial liabilities which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, did not materially differ, unless otherwise stated, from the carrying amount of these financial liabilities.

The carrying amounts of financial assets and liabilities with maturity of less than one year are assumed to approximate their fair values.

Note 36 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 tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

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

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

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

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

Legal proceedings

During the year, the Company 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.

Note 36 Contingent liabilities, commitments and other risks (continued)

Key categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings (Notes 24, 25), finance leases (Note 28) and trade and other payables (Notes 26, 29). 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 16, 19), investments in securities and other financial assets (Note 16) and cash and cash equivalents (Note 22).

	31 December 2012	31 December 2011
Financial assets		
Financial assets at amortised cost		
Loans issued	357	329
Trade and other receivables	3,957	3,675
Deposits (more than 3 months)	16	-
Cash and cash equivalents	5,081	6,468
Total assets carried at amortised cost	**9,411**	**10,472**
Financial assets at fair value		
Available-for-sale investments	1,779	1,631
Total financial assets	**11,190**	**12,103**
Financial liabilities at amortised cost		
Borrowings	5,963	11,122
Trade and other payables	6,206	5,062
Finance lease liabilities	79	33
Dividends payable	9	5
Total financial liabilities	**12,257**	**16,222**

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 in the consolidated fiancial statements, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Commitments

Investment commitments

The Board has approved the 2013 Capital Expenditure Budget of RUB 8,072 million (2012 - RUB 7,216 million) including future contractual liabilities of RUB 3,128 million. The Group is planning to finance its investment commitments using the Group's own funds and borrowings.

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 has not entered in 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 at 31 December 2012 for RUB 2,094 million (RUB 1,550 million – as at 31 December 2011).

Note 36 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 2012 the Company insured singificant part of the Group's assets as well as insured employees of the Group from physical risks and on-the-job accidents.

Note 37 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.

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 2012, the Group's strategy, which was unchanged from 2011, was to maintain the indebtness ratio not be greater than 75% and a gearing ratio not greater than 45%. The gearing ratio and the indebtness ratios at 31 December 2012 and 2011 were as follows:

	As of 31 December 2012	As of 31 December 2011
Total borrowings (Notes 24.25)	5,963	11,122
Less: Cash and cash equivalents (Note 22)	(5,081)	(6,468)
Net debt	**882**	**4,654**
Share capital	59,398	48,906
Total equity	**60,280**	**53,560**
Indebtness ratio	**1%**	**10%**
Gearing ratio	**1%**	**9%**

The decrease in the indebtness and gearing ratios during 2012 is mainly caused by a substantial decrease in net debt by RUB 3,772 million (2011 – RUB 6,618 million) following repayment of loans and borrowings of RUB 5,159 million (2011 – 2,944 million).

Note 38 Events after the reporting date

10 January 2013, the extraordinary shareholders meeting approved the decision on the reorganisation of OAO Nizhnekamskneftekhim through the merger with one of its 100% subsidiaries, i.e. OAO Polimer-NKNK, and respective merge agreement.

24 January 2013, the Board of Directors approved the participation of OAO Nizhnekamskneftekhim in the establishment of OOO Gazenergoneftekhim through the 49% investment into the charter capital.

1 March 2013, the Board of Directors approved the participation of OAO Nizhnekamskneftekhim in the investment into ZAO Polimatiz through the purchase of 100% of its share capital.

1 March 2013, the Board of Directors approved the participation of OAO Nizhnekamskneftekhim in the establishment of OAO Yamal-Povolzhie through the 33.4% investment into the share capital.

Dividends

18 March, 2013 the Board of Directors proposed a dividend of RUB 5,088 million estimating RUB 2.78 per share. This decision is subject for approval at the annual general shareholders meeting.

Director of closed joint stock company
"PricewaterhouseCoopers Audit"

E.V.Filippova
25 March 2013

53 (fifty three) pages are numbered, bound and sealed.