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

31 DECEMBER 2013

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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 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

ZAO PricewaterhouseCoopers Audit, 10, Butyrsky Val, Moscow, Russia, 125047
T: +7 495 967 6000, Ф: +7 495 967 6001, www.pwc.ru

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 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

ZAO "PricewaterhouseCoopers Audit"

25 March 2014

Moscow, Russian Federation

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

Audited entity: OAO Nizhnekamskneftekhim

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

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

423574, Russia, Republic of Tatarstan, Nizhnekamsk

Independent auditor: ZAO PricewaterhouseCoopers Audit

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

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

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

Consolidated Statement of Comprehensive Income

	Note	2013	2012
Revenue	8	126,043	130,487
Cost of sales	9	(99,191)	(96,519)
Gross profit		**26,852**	**33,968**
Selling, general and administrative expenses	10	(14,581)	(12,939)
Other operating expenses, net	11	(3,145)	(1,688)
Operating profit		**9,126**	**19,341**
Finance costs	12	(172)	(212)
Finance income	13	291	352
Foreign exchange (loss)/gain		(171)	244
Share of post tax net results in associates		140	42
Profit before income tax		**9,214**	**19,767**
Income tax	14	(2,946)	(4,341)
Profit for the year		**6,268**	**15,426**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale investments		46	47
Currency translation reserve		59	(21)
Income tax attributable to items that may be reclassified to profit or loss		(8)	(9)
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		86	(149)
Total comprehensive income for the year		**6,451**	**15,294**
Profit is attributable to:			
Shareholders of the parent company		6,250	15,319
Non-controlling interest		18	107
Profit for the year		**6,268**	**15,426**
Total comprehensive income is attributable to			
Shareholders of the parent company		6,424	15,196
Non-controlling interest		27	98
Total comprehensive income		**6,451**	**15,294**
Earnings per share (in Russian roubles), basic and diluted	**26**	**3,41**	**8,37**

The accompanying notes on pages 5-48 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment and intangible assets	15	52,526	47,542
Investments in associates	16	495	316
Investments in securities and other financial assets	17	2,150	2,095
Deferred tax assets	14	696	730
Other non-current assets	18	790	639
Goodwill	19, 20	83	-
Total non-current assets		**56,740**	**51,322**
Current assets			
Inventories	21	14,400	12,676
Trade and other receivables	22	4,998	3,923
Income tax prepayments		468	350
Taxes prepayments and VAT recoverable	23	3,558	3,445
Investments in securities and other financial assets		-	91
Other current assets	24	698	862
Cash and cash equivalents	25	3,051	5,081
Total current assets		**27,173**	**26,428**
Total assets		**83,913**	**77,750**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	26	6,332	6,332
Currency translation reserve		65	15
Revaluation reserve		106	68
Retained earnings		53,470	52,277
Total equity attributable to shareholders of the parent company		**59,973**	**58,692**
Non-controlling interest		**769**	**706**
Total equity		**60,742**	**59,398**
Non-current liabilities			
Non-current loans and borrowings	27	1,358	3,260
Deferred tax liabilities	14	2,002	1,274
Other non-current liabilities	29	1,365	1,381
Total non-current liabilities		**4,725**	**5,915**
Current liabilities			
Current loans and borrowings	28	5,237	2,703
Accounts payable	32	9,565	5,772
Advances received and accrued liabilities	33	2,695	2,936
Income tax payable		5	26
Taxes payable, other than income tax	34	803	855
Dividends payable		17	9
Deferred income		124	136
Total current liabilities		**18,446**	**12,437**
Total liabilities		**23,171**	**18,352**
Total equity and liabilities		**83,913**	**77,750**

O. N. Nesterov
General Director

I. R. Yakhin
Chief Accountant

25 March 2014

The accompanying notes on pages 5-48 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

OPERATING ACTIVITIES	Note	2013	2012
Profit before income tax		9,214	19,767
Adjustments for:			
Depreciation charge	9,10	4,083	3,589
Finance income, net	12,13	(119)	(140)
Income from investments, net		(143)	(47)
(Gain)/loss on disposal of non-current assets		(169)	183
Foreign exchange loss/(gain), net		171	(244)
Change in allowance for doubtful debts	22	26	(47)
Change in allowance for inventory impairment	21	(3)	(36)
Change in provision for impairment of property, plant and equipment	15	-	99
Change in provision for impairment of other assets		(17)	-
Operating profit before working capital changes		**13,043**	**23,124**
(Increase)/ decrease in inventories	21	(1,522)	582
(Increase) in trade and other receivables	22	(1,023)	(240)
(Increase/decrease in prepaid and recoverable taxes other than prepaid income tax	23	(110)	151
Decrease in other assets		50	286
Increase in trade and other payables and other liabilities	29,32	4,129	373
(Decrease) /Increase in advances received and accruals	33	(252)	215
Decrease in taxes payable other than income tax	34	(53)	(48)
Working capital changes		**1,219**	**1,319**
Interest paid		(83)	(119)
Income taxes paid		(2,305)	(4,525)
Cash from operating activities		**11,874**	**19,799**
INVESTING ACTIVITIES			
Acquisition of subsidiaries (net cost)		(778)	-
Purchase of property, plant and equipment		(7,742)	(11,500)
Purchase of other financial assets		(12)	(133)
Interest received		281	352
Purchase of other non-current assets		(206)	(271)
Proceeds from sale of financial assets		93	2
Proceeds from sale of property, plant and equipment		80	141
Interest capitalised paid		(219)	(378)
Dividends received		-	5
Dividends received from associates		8	1
Loans issued		**-**	(75)
Cash used in investing activities		**(8,495)**	**(11,856)**
FINANCING ACTIVITIES			
Proceeds from non-current borrowings		82	9
Proceeds from current borrowings		4,630	991
Repayment of non-current borrowings		(3,292)	(4,650)
Repayment of current borrowings		(1,598)	(1,050)
Repayment of finance lease payables		(164)	(56)
Dividends paid		(5,125)	(4,373)
Acquisition of non-controlling interest		(70)	(431)
Proceeds of Government grants		100	176
Cash used in financing activities		**(5,437)**	**(9,384)**
Net decrease in cash and cash equivalents before the effects of exchange rate changes		(2,058)	(1,441)
Effect of exchange rate changes on cash and cash equivalents		28	54
Cash and cash equivalents at the beginning of the year		5,081	6,468
Cash and cash equivalents at the end of the year		**3,051**	**5,081**

The accompanying notes on pages 5-48 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Treasury shares	Retained earnings	Currency translation reserve	Revaluation reserve	Total equity attributable to shareholders of the parent company	Non-controlling interest	Total
Balance at 31 December 2011	**6,332**	**-**	**41,386**	**27**	**30**	**47,777**	**1,129**	**48,906**
Profit for the year	-	-	15,319	-	-	**15 319**	107	**15,426**
Other comprehensive income:								
Revaluation of post-employment benefit obligations	-	-	(149)	-	-	**(149)**	-	**(149)**
Change in fair value of available for sale investments	-	-	-	-	38	**38**	-	**36**
Currency translation reserve	-	-	-	(12)	-	**(12)**	(9)	**(21)**
Total comprehensive income	-		**15,170**	**(12)**	**38**	**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**
Profit for the year	-	-	**6,250**	**-**	-	**6,250**	18	**6,268**
Other comprehensive income:								
Change in fair value of available for sale investments	-	-	-	-	38	**38**	-	**38**
Currency translation reserve	-	-	-	50	-	**50**	9	**59**
Revaluation of post-employment benefit obligations	-	-	86	-	-	**86**	-	**86**
Total comprehensive income	-	-	**6,336**	**50**	**38**	**6,424**	**27**	**6,451**
Dividends	-	-	(5,094)	-	-	**(5,094)**	(35)	**(5,129)**
Acquisition of additional interest	-	-	(49)	-	-	**(49)**	(327)	**(376)**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	**-**	338	**338**
Change in non-controlling interest due to increase in share capital	-	-	-	-	-	**-**	60	**60**
Balance at 31 December 2013	**6,332**	**-**	**53,470**	**65**	**106**	**59,973**	**769**	**60,742**

The accompanying notes on pages 5-48 are an integral part of these consolidated financial statements.

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 37 (collectively the "Group") are principally engaged in the production and sale of petrochemicals within the Republic of Tatarstan. The Group employed an average of 23,799 and 23,991 employees during the years ended 31 December 2013 and 2012, respectively.

The main shareholders of the Company at 31 December 2013 are OAO Svyazinvetsneftekhim (100% owned by the Republic of Tatarstan) (31 December 2013 – 28.6% of voting shares; 31 December 2012 – 28.6% of voting shares) and Telecom-Management (100% owned by OAO TAIF) (31 December 2013 – 50.6% of voting shares; 31 December 2012 – 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 stock exchange.

Note 2 Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations. The political and economic turmoil have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is a threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management's current expectations.

Exchange rates of major foreign currencies as at 31 December 2013 were RUB 32.7292 = USD 1.00 (RUB 30.3727 as at 31 December 2012), RUB 44.9699 = EUR 1.00 (RUB 40,2286 as at 31 December 2012).

Note 3 Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2013:

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 Standard did not have any material impact on the Group's 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 Venturers". 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 Standard did not have any material impact on the Group's consolidated financial statements.

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

IFRS 12 "Disclosure of Interests 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 previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced 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 Standard also resulted in additional disclosures in these consolidated financial statements. Refer to Note 38.

IAS 27 "Separate Financial Statements" (revised in May 2011; effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The amended standard did not have any material impact on the Group's 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 amended standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changed 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 amended standard resulted in changed presentation of consolidated financial statements, but did not have any 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 reports accumulated amount of these remeasurements in retained earnings in equity. The amended standard changed presentation of financial statements, but had no impact on measurement of transactions and balances. Effect of changes in classification for presentation of the consolidated financial statements is presented in Note 30.

"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 enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amended standard did not have any material impact on the Group's consolidated financial statements.

Note 3 Adoption of new or revised standards and interpretations (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 now requires 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 amended standards did not have any material impact on the Group's 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) 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 remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group's consolidated financial statements.

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

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

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

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 did not have an impact on the financial statements. Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans", which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

Note 4 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets should be classified based on 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.

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

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

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 and its impact on the Group.

Note 4 New Accounting Pronouncements (continued)

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 Group does not expect the amendment to have any impact on its financial statements.

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

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

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

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

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

Note 5 Changes in presentation of financial statements

Starting from 1 January 2013 the amended IAS 19 "Employee Benefits" became effective. The amendments relate 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 liabilities (assets) when they occur, as follows: (i) service cost and net interest income in profit or loss; and (ii) remeasurements of post-employment benefit obligations in other comprehensive income. The amended standard changed presentation of data in the financial statements, but had no impact on measurement of transactions and balances.

The following reclassifications were made to the comparative figures in the consolidated statement of comprehensive income and notes to it to ensure comparability of data for the reporting period.Loss on remeasurement of post-employment benefit obligations for 2012 amounting to RUB 149 million which were included in "Selling, general and administrative expenses" of statement of comprehensive income were reclassified into "Remeasurements" of post-employment benefit obligations of statement of other comprehensive income.

Note 5 Changes in presentation of financial statements (continued)

The effect of reclassifications for presentation purposes of the consolidated statement of changes in equity as follows:

	As originally presented for 2012	Reclassification	Adjusted amount for 2012
Profit for the year	15,170	149	15,319
Revaluation of post-employment benefit obligations		(149)	(149)

The effect of reclassifications for presentation purposes of the consolidated statement of comprehensive income was as follows:

	As originally presented for 2012	Reclassification	Adjusted amount for 2012
Selling, general and administrative expenses	(13,088)	149	(12,939)
Revaluation of post-employment benefit obligations		(149)	(149)

Changes in the statement of comprehensive income had an impact on the disclosures in Note 10, but did not have any impact on other items of the statements of comprehensive income and financial position and disclosures in the relevant notes.

Starting from1 January 2013 the Group has changed the presentation method of statement of cash flows from direct to indirect. According to IAS 7 “Statement of Cash Flows” it is allowed to use both methods, however, management considers rational the transition to indirect method as parent company applies the indirect method of presentation statement of cash flows.

The effect of transition to inderct method of presentation the statement of cash flows:

	Amount according to direct method, 2012	Transition of method	Amount according to indirect method, 2012
Total operating activities	19,496	303	19,799
Total investing activities	(11,448)	(408)	(11,856)
Net decrease in cash and cash equivalents	(1,387)	(54)	(1,441)
Effect of exchange rate changes on cash and cash equivalents	(50)	104	54

Note 6 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment provision for receivables. Management has determined the impairment provision for accounts receivable based on specific customer identification, customer payment trends and subsequent receipts and settlements. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that, therefore, the recorded value approximates their fair value (see Note 22).

Impairment provision for investments in securities and other financial assets. 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 (see Note 17).

Note 6 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

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 30).

Deferred income tax asset recognition. Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are 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 7 Summary of Significant Accounting Policies

Statement of compliance with IFRSs

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of preparation

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

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

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

Basis of consolidation

Subsidiaries

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

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

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

Note 7 Summary of Significant Accounting Policies (continued)

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

Business combinations

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

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

Goodwill is measured by deducting fair value of the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date.

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

Goodwill is carried at cost less accumulated impairment losses, if any. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

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

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

Purchases and sales of non-controlling interests

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

Associates

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

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

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

Note 7 Summary of Significant Accounting Policies (continued)

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 value of future minimum lease payments, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their useful lives or over the term of the lease, if shorter If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

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

Note 7 Summary of Significant Accounting Policies (continued)

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.

Pension and other post-employment benefits

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

In the Russian Federation, all 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 past 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 Group as post-employment benefit obligations. The Group classifies these obligations as defined benefit plans. There are no assets on these plans.

Note 7 Summary of Significant Accounting Policies (continued)

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. Gains and losses from revaluation on pension plans are fully recognised in the consolidated statement of comprehensive income within other comprehensive income. Gains and losses from revaluation related to other long-term benefits are recognised in the consolidated statement of comprehensive income as a component of cost and selling, general and administrative expenses within labour expenses.

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

Income taxes

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at 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 (enacted or substantively enacted at reporting date). Deferred tax assets and liabilities are offset if there is a legal right for the offset of the current tax assets and liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to income taxes chargeable on gains from disposal of subsidiaries. The Group does not recognise deferred tax liabilities or assets on such temporary differences, except to the extent that management expects to sell the subsidiaries.

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 reporting date.

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.

Note 7 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Construction in progress

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

Intangible assets

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

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

Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Licenses	2-15 years
Software	2-12 years

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

Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

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

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

Note 7 Summary of Significant Accounting Policies (continued)

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 except for goodwill and financial assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. 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 instruments

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

Fair value of financial instruments not traded in an active market is measured using market valuation approach. Valuation is based on publicly available information of market multiples of net assets of analogue companies.

Note 7 Summary of Significant Accounting Policies (continued)

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

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

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

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

- financial assets at fair value through profit or loss;
- available-for-sale financial assets;
- held to maturity;
- loans and receivables.

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

Initial recognition of financial instruments.

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trade if:

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

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

Note 7 Summary of Significant Accounting Policies (continued)

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

Financial assets available for sale

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

The securities held by the Group are measured at fair value. Gains and losses arising from changes in fair value of these investments are recognised in other comprehensive income, the cumulative amount is recognised in the consolidated statement of financial position in equity in the investments valuation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses, which are recognised directly within profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is included in profit and loss.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive the dividends is established. Investments in unlisted shares that do not have a quoted market price in an active market are recorded at fair value. If their fair value cannot be reliably measured they are recorded at cost.

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

Held-to-maturity investments

This category includes 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 designates financial assets into the category of held-to-maturity investments at their initial recognition and reassesses the appropriateness of that classification at each reporting date.

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 balance sheet date. An impairment loss is recognised where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows generated by the asset decreased.

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

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

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

Note 7 Summary of Significant Accounting Policies (continued)

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 investment has been recognised in other comprehensive income and there is objective evidence that investment is impaired, the cumulative loss that had been recognised as a component of other comprehensive income in equity is transferred to profit and loss even though the investment has not been disposed of.

Impairment losses previously recognised through profit and loss are not reversed through profit and loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents

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

Share capital and treasury shares

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

Share capital

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

Dividends

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

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the Russian legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS. Dividends are disclosed in Note "Subsequent events" when they are declared after the reporting date but before the date of approval of the consolidated financial statements.

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.

Note 7 Summary of Significant Accounting Policies (continued)

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 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 8 Revenue

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

	Year ended 31 December 2013	Year ended 31 December 2012
Product sales	123,393	128,129
Processing fees	1,440	1,233
Transportation recharges and services	972	874
Other revenue	238	251
Total revenue	**126,043**	**130,487**

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

	Year ended 31 December 2013	Year ended 31 December 2012
Russia	58,216	63,416
Other Europe	46,594	49,449
СНГ	7,475	7,558
Asia	5,245	4,259
North America	3,764	2,060
Other	2,099	1,387
Total revenue	**123,393**	**128,129**

Note 9 Cost of sales

	Year ended 31 December 2013	Year ended 31 December 2012
Raw materials and consumables	68,248	66,188
Energy and fuel	16,339	14,158
Personnel costs	8,882	8,685
Depreciation	3,681	3,277
Repairs and maintenance	1,171	1,628
Purchased services	880	770
Rent expenses	451	533
Other expenses	693	636
Change in finished goods and work in progress	(1,154)	644
Total cost of sales	**99,191**	**96,519**

The rent agreements for land are renegotiated annually. The expected amount of rent payments for 2014 year is RUB 342 million (for 2013 – RUB 324 million).

Note 10 Selling, general and administrative expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Materials	4,176	3,733
Transportation expenses	3,609	3,239
Personnel costs	3,751	3,125
Taxes other than income taxes	1,265	1,079
Insurance	483	441
Depreciation	402	312
Repairs and maintenance	139	199
Energy and fuel	115	87
Custom service fees	38	78
Consulting, audit and information services	83	65
Other expenses	520	581
Total selling, general and administrative expenses	**14,581**	**12,939**

Total depreciation of RUB 4,083 million (for 12 months ended 31 December 2012: RUB 3,589 million) and total personnel costs of RUB 12,633 million are recorded in profit and loss for 12 months ended 31 December 2013 (for 12 months ended 31 December 2012: RUB 11,810 million).

Note 11 Other operating expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Expenses for shared financing of heat energy tariffs	2,806	698
Maintenance of social infrastructure	743	674
Financial results on disposal of property, plant and equipment	(169)	183
Impairment provision for receivables	26	(47)
Impairment provision for non-current assets	(17)	-
Impairment provision for property, plant and equipment	-	99
Impairment provision for inventories	(3)	(36)
Income from investments	(3)	(5)
Other income/expenses, net	(238)	122
Total other operating expenses, net	**3,145**	**1,688**

Expenses for shared financing of heat energy tariffs include actual expenses incurred to provide population with targeted social assistance associated with payments for housing and public utility services and compensation of expenses for heat payments due to cancelling cross subsidizing of tariffs for heat energy generated in the mixed mode in Tatarstan amounting to RUB 2,806 million. These liabilities were fully settled in the reporting period.

Note 12 Finance costs

	Year ended 31 December 2013	Year ended 31 December 2012
Borrowing costs	370	592
Finance lease interest expense	17	9
Effect from discounting	4	6
Less capitalised borrowing costs	(219)	(395)
Total finance costs	**172**	**212**

Note 13 Finance income

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income on bank deposits	266	335
Interest income on loans issued	15	17
Effect from discounting	10	-
Total finance income	**291**	**352**

Note 14 Income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Current income tax	2,165	4,081
Income tax for the previous periods	1	3
Deferred income tax	780	257
Total income tax expense	**2,946**	**4,341**

The income tax rate applicable to the majority of the Group's companies 2013 and 2012 income is 20% (ZAO Polymatiz – 15.5%).

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

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before income tax	**9,214**	**19,767**
Theoretical tax charge at statutory rate of 20% (ZAO Polymatiz – 15.5%)	1,832	3,924
Income tax for previous periods	1	3
Tax effect of expenses for heat	561	140
Tax effect of items which are not deductible or assessable for taxation purposes:	552	274
Total income tax expense	**2,946**	**4,341**

	Year ended 31 December 2013	Year ended 31 December 2012
Deferred tax assets	696	730
Deferred tax liabilities	(2,002)	(1,274)
Net deferred tax liabilities	**(1,306)**	**(544)**

Note 14 Income tax expense (continued)

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (ZAO Polymatiz – 15.5%) (2012: 20 %).

	31 December 2013	Business combinations (purchase/ sale)	Charged/ (credited) to profit or loss	Charged/ (credited) to other comprehensive income	31 December 2012	Charged/ (credited) to profit or loss	Charged/ (credited) to other comprehensive income	31 December 2011
Property, plant and equipment	(1,296)	(38)	(566)	-	(730)	(307)	-	(423)
Inventories	(195)	(2)	(41)	-	(154)	(12)	-	(142)
Other non-current assets	(5)	-	(22)	-	17	22	-	(5)
Non-current borrowings	(14)	(1)	4	-	(18)	11	-	(29)
Accounts payable	126	-	(9)	-	135	164	-	(29)
Deferred income	1	-	(32)	-	33	4	-	29
Other non-current liabilities	68	-	(103)	-	171	60	-	111
Accounts receivable and prepayments	63	1	67	-	(4)	(36)	-	32
Other current assets	46	67	8	-	38	(52)	-	90
Other, net	(127)	-	(87)	(8)	(32)	(111)	(9)	88
Deffered tax liabilities, net	**(1,333)**	**27**	**(781)**	**(8)**	**(544)**	**(257)**	**(9)**	**(278)**

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

With regard to other companies (dividends from which are taxable at a rate different from 0%) the Group did not record deferred tax liability of RUB nil million as at 31 December 2013 (RUB 0 million as at 31 December 2012) as the Group is able to control timing of these temporary differences recoverability and does not intend to recover them in the foreseeable future.

Note 15 Property, plant and equipment and intangible assets

	Buildings, land, facilities and infrastructure	Machinery and equipment	Construction in progress	Intangible asset	Other	Total
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
Additions from assets under construction	2,086	1,581	(3,768)	-	101	-
Effect of reclassification to inventory	-	-	(362)	-	-	(362)
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 period	(1,273)	(2,158)	-	(63)	(95)	(3,589)
Impairment provision	(89)	(4)	-	-	(6)	(99)
Reclassification	-	-	(159)	-	-	(159)
Write-off upon depreciation	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 1 January 2013	**20,465**	**12,478**	**11,651**	**670**	**2,278**	**47,542**
Cost balance at 1 January 2013	**50,815**	**51,998**	**11,825**	**879**	**4,813**	**120,330**
Additions	281	967	5,732	143	1,001	8,124
Reclassification	(115)	(10)	-	-	(13)	(138)
Additions on acquisition of subsidiaries	600	675	1	-	34	1,310
Additions from assets under construction	6,076	2,917	(8,995)	-	2	-
Effect of reclassification to inventory			(142)			(142)
Disposals	(141)	(285)	(102)	(127)	(18)	(673)
Balance at 31 December 2013	**57,516**	**56,262**	**8,319**	**895**	**5,819**	**128,811**
Accumulated depreciation and impairment at 1 January 2013	(30,350)	(39,520)	(174)	(209)	(2,535)	(72,788)
Depreciation for the period	(1,239)	(2,525)	-	(78)	(241)	(4,083)
Reclassification	115	10	-	-	13	138
Write-off of accumulated impairment	89	4	-	-	6	99
Write-off upon disposal	92	252	-	-	5	349
Accumulated depreciation and impairment at 31 December 2013	**(31,293)**	**(41,779)**	**(174)**	**(287)**	**(2,752)**	**(76,285)**
Carrying amount at 31 December 2013	**26,223**	**14,483**	**8,145**	**608**	**3,067**	**52,526**

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

Carrying amount of land included in Buildings, land and facilities group amounts to RUB 724 million (2012: RUB 645 million).

Included in the original cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RUB 38,659 million and RUB 37,495 million at 31 December 2013 and 2012, respectively.

Note 15 Property, plant and equipment and intangible assets (continued)

Included in additions is capitalised interest of RUB 219 million for the 12 months ended 31 December 2013 (for the year ended 31 December 2012 – RUB 395 million). The effective capitalisation rate for the 12 months ended 31 December 2013 was 4.23% (for the year ended 31 December 2012 – 5.26%).

Loan security under some loan agreements entered by the Group are property, plant and equipment in the amount of RUB 1,451 million (for the year ended 31 December 2012 - RUB 2,552 million).

Note 16 Investments in associates

	As of 31 December 2013	As of 31 December 2012
Balance at the beginning of the year	**316**	**373**
Dividends	(8)	(1)
Reclassification to available-for-sale investments at fair value	-	(91)
Changes in the Group's share of net assets in associates	187	35
Balance at the end of the year	**495**	**316**

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 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
OOO Elastokam	Production of polyurethane	246	206	50.00%	50.00%
OOO Gazenergoneftekhim	Production and sales of petrochemicals	125	-	49.00%	-
OAO Yamal-Povolzhye	Transportation of gas and derivative products via pipelines	12	-	33.40%	-
OAO L.Ya. Karpov Plant	Production of chemicals	96	97	32.81%	32.81%
OOO Yughimterminal	Chemicals transhipment	16	13	25.00%	25.00%
Total		**495**	**316**		

All associates are incorporated within the Russian Federation.

On 24 January 2013, the Board of Directors made a decision on OAO Nizhnekamskneftekhim participation in establishing OOO Gazenergoneftekhim with 49% interest in the share capital.

On 1 March 2013, following an extraordinary meeting of the Board of Directors, it was decided that OAO Nizhnekamskneftekhim would participate in establishing OAO Yamal-Povolzhye with 33.4% interest in the share capital.

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

Summaries of the Group's share of associates' revenue, assets and liabilities for the 12 months ended 31 December 2013 and the 12 months ended 31 December 2012 are as follows:

	31 December 2013	31 December 2012
Total assets	2,882	2,166
Total liabilities	(1,745)	(1,414)
Net assets	**1,137**	**752**
The Group's share in net assets	**495**	**316**

	31 December 2013	31 December 2012
Revenue	3,711	3,103
Profit for the year	290	85
Group's share of profit for the year	**140**	**42**

Note 17 Investments in securities and other financial assets

	Level of fair value hierarchy	As of 31 December 2013	As of 31 December 2012
Non-current			
Available-for-sale investments at fair value			
Equity securities	1.3	1,843	1,779
Loans and receivables at amortised cost			
Mortgage loans issued to employees	2	264	282
Other non-current financial assets	2	43	34
Investments in securities and other financial assets		**2,150**	**2,095**
Current			
Loans issued at amortised cost			
Term deposits	2	-	16
Other current financial assets	2	-	75
Investments in securities and other financial assets		**-**	**91**

Other financial assets

If interest rate for mortgage loans issued to employees increases by 5%, the cost of other financial assets decreases by RUB 67 million (2012 – RUB 75 million).

Equity securities

Equity securities represent investments into OAO AK Bars Bank, OAO AIKB Tatfondbank, OAO KB Intekhbank, OAO Tatneftekhiminvest-holding, OAO AKB Spurt with a stake of less than 10%.

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

	% of ownership				
	As of 31 December 2013	As of 31 December 2012	Level of fair value hierarchy	31 December 2013	31 December 2012
OAO AK BARS Bank	2.48%	2.48%	3	937	928
OAO Tatneftekhiminvest-holding	6.98%	6.98%	3	387	381
OAO AIKB Tatfondbank	1.35%	1.97%	3	198	200
OAO KB IntekhBank	6.25%	6.25%	3	147	145
OAO AKB Spurt	5.05%	5.05%	3	110	103
Other	-	-	1,3	64	22
Total	-	-	**-**	**1,843**	**1,779**

The table below discloses sensitivity to valuation inputs for financial assets, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

2013	Fair value	Valuation technique	Changes	Sensitivity of fair value measurements
Available for sale financial instruments				
- equity securities	1,843	Market data for comparable entities	±10%	± 184

2012	Fair value	Valuation technique	Changes	Sensitivity of fair value measurements
Available for sale financial instruments				
- equity securities	1,779	Market data for comparable entities	±10%	± 177

Note 17 Investments in securities and other financial assets (continued)

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

	At 31 December 2013	At 31 December 2012
Carrying amount at 1 January	**1,779**	**1,631**
Revaluation of investments reported in other comprehensive income	46	47
Reclassification to investments	18	101
Carrying amount as at 31 December	**1,843**	**1,779**

There were no changes in valuation technique for recurring fair value measurements during the year ended 31 December 2013.

As at 31 December 2013 the loans issued at amortised cost are presented net of impairment provision for the loan issued to OOO Tatneft-NKNK-Oil in the amount of RUB 386 million (RUB 386 million as of 31 December 2012). An impairment provision for equity securities amounted to RUB 0 million as at 31 December 2013 (RUB 19 million as at 31 December 2012).

Movement of provision for impairment of non-current investments in securities is presented in the table below:

	As of 31 December 2013	As of 31 December 2012
Balance at the beginning of the year	**405**	**459**
Increase in impairment provision	(19)	(54)
Closing balance	**386**	**405**

All the above financial assets are denominated in Russian Roubles.

The maximum exposure to credit risk at the reporting date is the fair value of each class of assets mentioned above.

The Group does not hold any collateral against assets as security.

Note 18 Other non-current assets

	As of 31 December 2013	As of 31 December 2012
Catalysts	734	577
Other non-current assets	56	62
Total other non-current assets	**790**	**639**

Note 19 Business combinations

In April 2013, the Group acquired 68.41% of ordinary registered uncertified shares of ZAO Polymatiz for RUB 815 million for a cash payment. In the 2nd half of 2013 the Group acquired 31.59% ordinary registered uncertified shares of ZAO Polymatiz for RUB 376 million, increasing its total share to 100%, the effect of transactions with non-controlling interests is reflected in the statement of changes in equity. The acquired company is located in Yelabuga, Tatarstan, and is a producer of non-woven textile materials in Russia. The Group calculated the fair value of the acquired company's identified assets and contingent liabilities.

All property, plant and equipment were classified as specialised and non-specialised. The fair value of non-specialised property, plant and equipment was determined based on the comparative approach, and specialised equipment was tested for impairment. For this purpose we applied the income approach by comparing its results with the replacement cost of specialised property, plant and equipment less physical and functional wear calculated using the cost approach. We used the discounted cash flows method as part of the income approach. Cash flow forecasts were based on production plans and programme provided by the company's management, as well as market performance of the industry. Fair value of accounts receivable and payable was calculated using the turnover ratio. Also, the fair value of short-term and long-term borrowings was calculated. Fair value of the company's net assets at the date of control acquisition was RUB 1,070 million.

Note 19 Business combinations (continued)

The purchase price allocation was performed as follows:

Assets	Fair value assessment at the control acquisition date
Property, plant and equipment and intangible assets	1,310
Deferred tax assets	68
Inventories	79
Trade and other accounts receivable	102
Cash and cash equivalents	1
Total assets	**1,560**
Liabilities	
Long-term borrowings	(268)
Deferred tax liabilities	(41)
Short-term loans	(12)
Accounts payable	(169)
Total liabilities	**(490)**
Fair value of identifiable net assets of subsidiary	**1,070**
Less: non-controlling interest	(338)
Goodwill on acquisition	83
Compensation at the acquisition date	**815**
Less: Cash and cash equivalents of subsidiary acquired	(1)
Outflow of cash and cash equivalents on acquisition	**814**

For the period from the acquisition date to 31 December 2013, the acquired subsidiary contributed RUB 406 million and RUB 244 million to the Group's revenue and profit, respectively. If the acquisition had occurred on 1 January 2013, the Group's revenue for 2013 would have been RUB 126,080 million, and profit for 2013 would have been RUB 6,627 million.

Note 20 Goodwill

Gross carrying amount at 31 December 2012	-
Acquisition of a subsidiary (Note 18)	83
Accumulated impairment.	-
Gross carrying amount at 31 December 2013.	**83**

The recoverable amount was determined based on value-in-use calculations. The calculations used cash flow projections based on financial budgets approved by management and covering a ten-year period. This term is considered reasonable in terms of the expansion and upgrade of the acquired business. The ten-year term was considered most economically feasible and correct when forecasts of the recoverable amount were made.

Assumptions used in value-in-use calculations to which the recoverable amount is most sensitive were as follows:

	2013
Sales growth rate	5.0%
Pre-tax discount rate	11.2%

The Company's management believes that discount rates used in calculations are reasonable and reflect specific risks relating to relevant cash generating units

Acquisition of 100% of ordinary registered uncertified shares of ZAO Polymatiz will bring future economic benefits to the Group. Goodwill will not decrease taxable base for future periods.

Note 21 Inventories

	As of 31 December 2013	As of 31 December 2012
Inventory and supplies	7,756	7,188
Finished goods	2,639	1,903
Work in progress	2,365	2,336
Goods dispatched	1,651	1,262
Provision for impairment of inventories, stocks of materials and finished products	(11)	(13)
Total	**14,400**	**12,676**

As at 31 December 2013, the carrying amount of inventories pledged as a security for obligations was RUB 59 million (as at 31 December 2012 – RUB 33 million).

Note 22 Trade and other receivables

	As of 31 December 2013	As of 31 December 2012
Receivables from domestic sales	2,964	1,831
Trade receivables from export sales (mainly denominated in USD and Euro)	2,066	2,162
Other receivables	164	107
Impairment provision	(196)	(177)
Total trade and other receivables	**4,998**	**3,923**

As of 31 December 2013, a provision for impairment of RUB 196 million (31 December 2012 – RUB 177 million) has been made against receivables from domestic trade. The net increase in the provision by RUB 19 million during the year ended 31 December 2013 (the net decrease of RUB 55 million during the year ended 31 December 2012) was recognised in statement of comprehensive income 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 2013	As of 31 December 2012
Balance at the beginning of the year	**177**	**232**
Increase in impairment provision	30	26
Reversal of impairment provision	(8)	(63)
Written off	(3)	(18)
Balance at the end of the year	**196**	**177**

The provision mainly relates to trade receivables of the Group from domestic sales.

As of 31 December 2013, trade and other receivables of RUB 451 million (31 December 2012 – RUB 276 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 2013	As of 31 December 2012
Up to 3 months	447	233
3 to 6 months	4	8
Past due more than 6 months	-	35
Total	**451**	**276**

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

	As of 31 December 2013	As of 31 December 2012
Russian Roubles	2,883	1,746
Euro	1,131	1,061
US Dollars	984	1,116
Total	**4,998**	**3,923**

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 23 Taxes prepayments and VAT recoverable

	As of 31 December 2013	As of 31 December 2012
Value added tax recoverable	3,376	3,216
Prepaid excise tax	176	226
Other	6	3
Total	**3,558**	**3,445**

Note 24 Other current assets

	As of 31 December 2013	As of 31 December 2012
Advances to suppliers	705	865
Provision for impairment of assets	(7)	(3)
Total other current assets	**698**	**862**

During the year ended 31 December 2013, the loss from accrual of impairment provision for advances to suppliers was recognised in the amount of RUB 4 million (the gain from reversal of impairment provision in 2012 was RUB 8 million).

Note 25 Cash and cash equivalents

		As of 31 December 2013	As of 31 December 2012
Current accounts	- in RUB	2,441	951
	- in foreign currency	139	328
Deposits		470	3,800
Cash on hand		1	-
Other cash and cash equivalents		-	2
Total cash and cash equivalents		**3,051**	**5,081**

Note 26 Shareholders' equity and earnings per share

As of 31 December 2013 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary registered shares (31 December 2012 – 1,611,256,000 ordinary registered shares) and non-voting preferred share capital of 218,983,750 registered shares (31 December 2012 – 218,983,750 registered shares) at the nominal value of 1 Russian Rouble per share.

At 31 December 2013 the Company has authorised share capital comprised of 27,400,000,000 ordinary registered shares (at 31 December 2012: 27,400,000,000 shares) and 218,983,750 declared preferred registered shares (at 31 December 2012: 218,983,750 shares) with par value of RUB 1 each.

The following dividends were declared and paid by the Company:

	As of 31 December 2013	As of 31 December 2012
Dividends declared during the year for 2011, RUB million, including:		
- ordinary shares	-	3,802
- preferred shares	-	517
Dividends declared during the year for 2012, RUB million, including:		
- ordinary shares	4,479	-
- preferred shares	609	-
Dividends per share declared during the year for 2011, RUB, including:		
- per ordinary share	-	2.36
- per preferred share	-	2.36
Dividends per share declared during the year for 2012, RUB, including:		
- per ordinary share	2.78	-
- per preferred share	2.78	-

The difference between dividends shown in the table above and the amount shown in the statements of changes in shareholders' equity of RUB 6 million (2012: RUB 6 million) is caused by dividends tax withheld on intergroup dividends.

Earnings per share

	As of 31 December 2013	As of 31 December 2012
Profit attributable to the shareholders of the parent company	6,250	15,319
Weighted average number of participating shares	1,830,237,640	1,830,215,443
Earnings per participating share (net and diluted earnings per share) (Russian Roubles per share)	**3.41**	**8.37**

Note 26 Shareholders' equity and earnings per share (continued)

The Golden Share

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

Rights attributable to preferred shares

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

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

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

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

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. The Russian legislation identifies net income as the basis for distribution. For 2013, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUB 6,089 million (for the year ended 31 December 2012 – RUB 16,954 million). However, legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

Note 27 Non-current loans and borrowings

	As of 31 December 2013	As of 31 December 2012
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	1,461	2,175
Loans and borrowings in Russian Roubles	2,511	372
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	581	2,128
Loans and borrowings in Euro	723	930
Less current portion of non-current loans and borrowings	(3,918)	(2,345)
Total non-current borrowings	**1,358**	**3,260**

Scheduled undiscounted maturity of borrowings is as follows:

	As of 31 December 2013	As of 31 December 2012
One to five years	1,410	3,415
Over five years	-	-
Total	**1,410**	**3,415**

Note 27 Non-current loans and borrowings (continued)

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

	As of 31 December 2013	As of 31 December 2012
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	6.19%	5.99%
Loans and borrowings in Russian Roubles	8.05%	12.27%
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	2.35%	3.22%
Loans and borrowings in Euro	0.71%	0.65%

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

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

The fair value of non-current loans and borrowings with a carrying value of RUB 1,358 million (31 December 2012 – RUB 3,260 million), determined based on procedure described above, is estimated at RUB 1,319 million (31 December 2012 – RUB 3,231 million).

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

Note 28 Current loans and borrowings

	As of 31 December 2013	As of 31 December 2012
Loans and borrowings with fixed interest rate:		
Loans and borrowings in Russian Roubles	225	89
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	577	-
Loans and borrowings in Euro	517	269
Current portion of long-term borrowings	3,918	2,345
Total current loans and borrowings	**5,237**	**2,703**

Scheduled undiscounted maturity of borrowings is as follows:

	As of 31 December 2013	As of 31 December 2012
Within three months	621	467
From three months to one year	4,895	2,456
Total	**5,516**	**2,923**

	As of 31 December 2013	As of 31 December 2012
Loans and borrowings with fixed interest rate:		
Loans and borrowings in Russian Roubles	10.14%	10.13%
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	2.07%	-
Loans and borrowings in Euro	1.99%	1.88%

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 5,530 million as of 31 December 2013 (31 December 2012 – RUB 3 million).

Note 28 Current loans and borrowings (continued)

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

Note 29 Other non-current liabilities

	As of 31 December 2013	As of 31 December 2012
Post-employment obligations (see Note 30)	879	658
Long-term payables	248	475
Government grants (deferred income)	118	164
Non-current finance lease liabilities (see Note 31)	76	38
Other non-current liabilities on benefits to employees (see Note 29)	38	38
Other	6	8
Total other non-current liabilities	**1,365**	**1,381**

Note 30 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	**2013**	**2012**
Obligations as at 1 January	658	525
Expenses charged to profit or loss, including:		
*Current service cost**	344	17
Net interest expenses	36	39
Benefits paid	(73)	(72)
Expense/(income) charged to other comprehensive income, including:		
*Actuarial income/(expense)***	(86)	149
Obligations at period-end	**879**	**658**

*Including 307 million of initial recognition the accumulated service costs for non-government pension obligations.

*Actuarial income/(expense) was due to changes in assumptions related to financial results. Changes in assumptions related to demographic results did not have a significant impact on revaluation income/(expense).

Other non-current liabilities on benefits to employees	**2013**	**2012**
Obligations as at 1 January	38	35
Current service cost	7	7
Net interest expenses	3	1
Benefits paid	(8)	(11)
Actuarial income/(expense)	(2)	6
Obligations at period-end	**38**	**38**

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

All actuarial income/(expense) arose from experience adjustments and the effects of changes in actuarial assumptions.

Total actuarial income recognised in statement of comprehensive income was RUB 88 million (in 2012 – actuarial expense of RUB 155 million).

The Group expects payments of RUB 80 million in 2014.

Key actuarial assumptions:

	Year ended 31 December 2013	Year ended 31 December 2012
Discount rate	7.43%	6.80%
Tariff/salary rates growth	6.50%	6.60%

Note 30 Non-current liabilities on benefits to employees (continued)

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

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

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

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

	Year ended 31 December 2013	Year ended 31 December 2012
Discount rate – 1% lower	56	65
Tariff/salary growth rate - 1% higher	56	65

The average term of the post-employment benefit obligation was 15-18 years as of 31 December 2013.

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

In 2013 the Group made contributions to the Russian Federation State Pension Fund of 2,098 mln. RR (2012: 1,869 mln. RR). Those contributions are included to labour expenses in cost of sales and selling, general and administrative expenses.

Note 31 Finance lease obligations

Finance lease obligations – minimum lease payments:

	As of 31 December 2013	As of 31 December 2012
Up to 1 year	82	84
1 to 5 years	83	53
Total finance lease payments	**165**	**137**
Future finance lease payments	(21)	(58)
Present value of finance lease obligations	**144**	**79**
Less amounts payable within 12 months	(68)	(41)
Non-current finance lease payments	76	38

During the 12 months ended 31 December 2013, lease payments were made in accordance with approved payment schedules and denominated in Russian Roubles. Lease obligations are 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 282 million and RUB 128 million as of 31 December 2013 and 31 December 2012, respectively.

Note 32 Payables

	As of 31 December 2013	As of 31 December 2012
Trade payables	8,717	5,112
Other payables	661	258
Accounts payable for acquisition of property, plant and equipment	119	361
Current finance lease payments (see Note 31)	68	41
Total payables	**9,565**	**5,772**

As of 31 December 2013 other payables include payables associated with acquisition of a subsidiary, ZAO Polimatiz amounting to RUB 382 mln.

Note 32 Payables (continued)

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

	As of 31 December 2013	As of 31 December 2012
Within three months	9,473	5,487
Due from three months to one year	92	285
Total payables	**9,565**	**5,772**

Note 33 Advances received and accrued liabilities

	As of 31 December 2013	As of 31 December 2012
Advances received	1,411	1,421
Payables to employees	539	781
Reserve on unutilised vacation	745	734
Total advances received and accrued liabilities	**2,695**	**2,936**

Note 34 Taxes payable, other than income tax

	As of 31 December 2013	As of 31 December 2012
SIC	206	257
VAT	194	247
Property tax	185	132
Land tax	109	80
Personal income tax	91	123
Other taxes	18	16
Total taxes payable, other than income tax	**803**	**855**

Note 35 Related party transactions

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

For the periods ended 31 December 2013 and 2012, the Group has the following transactions and balances with related parties:

Related party	**Revenue**	**Purchases of materials and services**	**Other Income/ (expenses)**	**Purchase of PPE and other non-current assets**	**Change in bad debt allowance**
OAO Nizhnekamskneftekhim	**8,026**	**32,551**	**22**	**40**	**-**
Parent company	-	46	-	-	-
Associates	418	283	-	-	-
Other related parties*	7,608	32,222	22	40	-
Subsidiaries	**46**	**163**	**67**	**7**	**-**
Parent company	-	-	-	-	-
Associates	3	1	33	-	-
Other related parties*	43	162	34	7	-
Total	**8,072**	**32,714**	**89**	**47**	**-**
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**

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

Note 35 Related party transactions (continued)

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

	Trade and other receivables	Bad debt provision	Trade and other payables
OAO Nizhnekamskneftekhim	**537**	**-**	**3,391**
Parent company	3	-	4
Associates	68	-	21
Other related parties*	466	-	3,366
Subsidiaries	**38**	**-**	**5**
Parent company	-	-	-
Associates	8	-	-
Other related parties*	30	-	5
Total	**575**	**-**	**3,396**
As of 31 December 2012			
OAO Nizhnekamskneftekhim	**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**

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

As of 31 December 2013, financial guarantees given and received by the Group to/from related parties was RUB 0 million (31 December 2012 – RUB 0 million).

As of 31 December 2013 purchase and supply commitments with related parties amounted to RUB 354 million (31 December 2012 – 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 272 million for the year ended 31 December 2013 (year ended 31 December 2012 – RUB 259 million).

Note 36 Segment information

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

- Business activities of companies;
- Product nature.

The first operating segment "Product and sales of petrochemicals" contains the results of the parent company OAO Nizhnekamskneftekhim only. This segment derives its revenue primarily from the manufacture and sale of petrochemical products.

Note 36 Segment information (continued)

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 36) that did not fall under the above listed operating segments and were presented under “All other segments”:

	As of and for the period ended	
	31 December 2013	**31 December 2012**
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 Neftekhim
7	OAO SOV-NKNK	OAO SOV-NKNK
8	OOO SCC Neftekhimik	OOO SCC Neftekhimik
9	OAO Neftekhimsevilen	OAO Neftekhimsevilen
10	ZAO Polymatiz	
11	OOO Kataliz-Prom	
12	OOO UETP-NKNK	

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

	As of and for the period ended	
	31 December 2013	**31 December 2012**
1	OOO Elastokam	OOO Elastokam
2	OAO L.Ya. Karpov Plant	OAO L.Ya. Karpov Plant
3	OOO Yugkhimterminal	OOO Yugkhimterminal
4	OOO Gazenergoneftekhim	
5	OAO Yamal-Povolzhye	

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

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

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

	Production and sales of petrochemicals	**Petrochemicals trading**	**All other segments**	**Total**
Revenue				
External sales	115,554	8,175	2,347	126,076
Inter-segmental sales	4,272	-	4,448	8,720
Total revenue	119,826	8,175	6,795	134,796
Result				
Gross profit	21,677	58	842	22,577
Operating profit	12,446	(46)	(86)	12,314
Foreign exchange gains/(losses), net	(184)	13	-	(171)
Interest income	279	53	2	334
Interest expense	(218)	(60)	(47)	(325)
Dividend income	74	-	-	74
Income tax charge	(2,479)	-	(37)	(2,516)
Net profit	6,089	(53)	(17)	6,019
Other information				
Depreciation	**(4 199)**	**-**	**(312)**	**(4,511)**

Note 36 Segment information (continued)

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

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

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

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

Other adjustments are related to timing differences in the dates of recognition of certain assets in RSA and IFRS (see Note 15).

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

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

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

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

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

Other adjustments represent elimination of intercompany dividends.

Note 36 Segment information (continued)

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

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	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 period 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	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**

Reportable segment capital expenditure for the period ended 31 December 2012 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	11,287	-	280	11,567
Reclassification of advances paid for assets under construction	(320)	-	(151)	(471)
Interest capitalised	395	-	-	395
Other adjustments	1,022		180	1,202
Capital expenditure, IFRS	**12,384**	**-**	**309**	**12,693**

Reportable segment operating profit for the period 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	19,684	151	1,100	20,935
Reclassification of other expenses	(1,417)	(69)	(202)	(1,688)
Differences in IFRS and RSA depreciation	114	-	103	217
IFRS provisions and other non-current liabilities	(11)	-	-	(11)
Other adjustments	(112)	-	-	(112)
Operating profit, IFRS	**18,258**	**82**	**1,001**	**19,341**

Note 36 Segment information (continued)

Reportable segment net profit for the 12 months ended 31 December 2012 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit	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	(11)	-	-	(11)
Other expenses	(698)	-	-	(698)
Other adjustments	(1,944)	-	-	(1,944)
Net profit, IFRS	**14,485**	**85**	**749**	**15,319**

Other adjustments represent elimination of intercompany dividends.

Other expenses are related to expenses for cross-subsidising of heat energy tariffs (Note 11).

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 period ended 31 December 2013)	**Production and sales of petrochemicals**	**Petrochemicals trading**	**All other segments**	**Total**
19 customers with sales turnover of more than RUB 1,000 million each	82,631	-	-	82,631
Other customers (with turnover less than RUB 1,000 million each)	32,799	8,175	2,438	43,412
Revenue, IFRS	**115,430**	**8,175**	**2,438**	**126,043**
Revenue by major customers (for the period ended 31 December 2012)	**Production and sales of petrochemicals**	**Petrochemicals trading**	**All other segments**	**Total**
21 customers with sales turnover of 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 products is presented below based on accounting records used to prepare the IFRS financial statements:

Revenue by major products (for the period ended 31 December 2013)	**Production and sales of petrochemicals**	**Petrochemicals trading**	**All other segments**	**Total**
Rubbers production	53,026	703	33	53,762
Plastics production	34,618	1,971	70	36,659
Olefin products and derivatives	21,002	3,747	627	25,376
Other products	6,784	1,754	1,708	10,246
Revenue, IFRS	**115,430**	**8,175**	**2,438**	**126,043**
Revenue by major products (for the period ended 31 December 2012)	**Production and sales of petrochemicals**	**Petrochemicals trading**	**All other segments**	**Total**
Rubbers sales	58,497	1,256	17	59,770
Plastics sales	31,919	1,484	108	33,511
Olefin products and derivatives	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**

Note 37 Principal subsidiaries

Subsidiary	Business activity	Percentage of voting interest held As of 31 December 2013	31 December 2012
OOO Trest TSNKhRS	General equipment repairs and construction	100.0%	100.0%
OOO RMZ-NKNK	Repairs and maintenance	100.0%	100.0%
OOO Transport Express	Transportation services	100.0%	100.0%
OOO Neftekhimagroprom	Agricultural	100.0%	100.0%
OOO Nizhnekamskneftekhim – Service	Wholesale and retail trade	100.0%	100.0%
OOO UOP Neftekhim	Food supplies and catering	100.0%	100.0%
ZAO Polymatiz	Production of non-woven textile materials	100.0%	-
OOO UETP-NKNK	Transportation of gas and derivative products via pipelines	100.0%	-
OOO SCC Neftekhimik	Ice arena	91.9%	91.9%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56.3%	56.3%
OAO SOV-NKNK	Water purification	51.9%	51.9%
OOO Kataliz-Prom	Petrochemicals production	50.1%	50.1%
OAO Polymer-NKNK	Production of technical goods	-	100.0%
OAO Neftekhimsevilen	Plastic products	-	51.0%

As of 31 December 2013 and 31 December 2012 the percentage of the Group's ownership interest in its subsidiaries is equal to the percentage of its voting interest.

In January 2013, the Extraordinary Shareholders' Meeting addressed the reorganisation of OAO Nizhnekamskneftekhim through the merger of OAO Polymer-NKNK. Following the Merger Agreement between OAO Polymer-NKNK and OAO Nizhnekamskneftekhim, on 29 April, the respective entry on the termination of operations as a result of the merger was made in the Unified State Register of Legal Entities. The effect of the merger is reflected in these consolidated financial statements.

The decision on the voluntary liquidation of OAO Neftekhimsevilen in accordance with the requirements of the effective Russian legislation was made at the Extraordinary Shareholders' Meeting In February 2013. On 23 October 2013, an entry "on liquidation following the decision of founders/stakeholders or governing bodies of a legal entity authorised to do so by constituent documents" was made in the Unified State Register of Legal Entities.

In March 2013, following a decision of the Board of Directors, the participation of OAO Nizhnekamskneftekhim in ZAO Polymariz through a stage-by-stage acquisition of shares was approved. As a result of the acquisition of ZAO Polymatiz, the share of OAO Nizhnekamskneftekhim amounted to 100%.

In October 2013, OAO Nizhnekamskneftekhim participated in the establishment of OOO UETP-NKNK with an interest of 100%.

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.

Note 38 Fair Value of Financial Instruments

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

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

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

Note 38 Fair Value of Financial Instruments (continued)

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

The Group does not use non-recurring measurements.

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

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The carrying amount of trade receivables approximates their fair values and belongs to level 2 of the fair value hierarchy, and impaired receivables belong to level 3 of the fair value hierarchy (see Notes 17 and 22).

The carrying amount of trade payables approximates their fair values and belongs to level 2 of the fair value hierarchy (see Note 32).

The fair value of loans and borrowings received is included in level 2 (see Notes 27 and 28).

Note 39 Financial instruments and financial risk factors

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

Foreign currency risk

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

The Group's overall strategy is to have no significant net exposure to currencies other than the Russian Rouble, Euro or the US 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 22, 25, 27 and 28. Management believes the Group's exposure to fluctuations in foreign exchange rates is limited to the aforementioned and to the proceeds from export sales.

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

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

Note 39 Financial instruments and financial risk factors (continued)

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

	As of 31 December 2013	As of 31 December 2012
Assets		
Trade and other accounts receivable	**2,115**	**2,177**
- US Dollars	984	1,116
- Euros	1,131	1,061
Cash	**139**	**328**
- US Dollars	97	246
- Euros	42	82
Total assets	**2,254**	**2,505**
Liabilities		
Borrowings	**3,859**	**5,502**
- US Dollars	2,619	4,303
- Euros	1,240	1,199
Trade and other accounts payable	**987**	**650**
- US Dollars	443	142
- Euros	544	508
Total liabilities	**4,846**	**6,152**
Total net monetary liability position	**(2,592)**	**(3,647)**

As of 31 December 2013, had the US Dollar and Euro strengthened or weakened by 15% (2012: 15%) against the Russian Rouble, with all other variables held constant, the consolidated profit (net of profit tax) and consolidated equity as of the year-end would have been lower/higher by the following:

Profit or loss

Changes in exchange rate	Year ended 31 December 2013	Year ended 31 December 2012
US Dollar	238	370
Euro	74	68

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 27). Borrowings issued at variable rates expose the group to cash flow interest rate risk.

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

Based on the simulations performed the impact on post-tax profit and loss of a 100 basis points for the period ended 31 December 2013 (100 basis points for the year ended 31 December 2012) point shift would be:

	As of 31 December 2013	As of 31 December 2012
Euribor	10	12
Libor	9	21

It 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.

Note 39 Financial instruments and financial risk factors (continued)

Credit risk

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

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

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

The management believes that the Group has no significant concentrations of credit risk.

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

Rating A – 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.

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

	Rating A
31 December 2013	
Cash and cash equivalents	3,051
Trade and other accounts receivable	4,998
Investments in securities and other financial current assets	-
31 December 2012	
Cash and cash equivalents	5,081
Trade and other accounts receivable	3,923
Investments in securities and other financial current assets	91

Liquidity risk

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

Note 32 analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the notes are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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

Note 40 Contingent liabilities, commitments and other risks

Tax contingencies

Taxation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year that the decision on the 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 at the moment; however, it may be significant to the consolidated financial position and/or the overall operations of the Group.

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

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

Note 40 Contingent liabilities, commitments and other risks (continued)

Key categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings (Notes 27, 28), finance leases (Note 31), and trade and other payables (Notes 29, 32). 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 (Notes 22), investments in securities and other financial assets (Note 17), and cash and cash equivalents (Note 25).

	31 December 2013	31 December 2012
Financial assets		
Financial assets at amortised cost		
Loans issued	264	357
Trade and other accounts receivable	5,041	3,957
Deposits (more than 3 months)	-	16
Cash and cash equivalents	3,051	5,081
Total assets carried at amortised cost	**8,356**	**9,411**
Financial assets at fair value		
Investments in securities	1,843	1,779
Total financial assets	**10,199**	**11,190**
Financial liabilities at amortised cost		
Borrowings	6,595	5,963
Trade and other accounts payable	9,745	6,206
Finance lease liabilities	144	79
Dividends payable	17	9
Total financial liabilities	**16,501**	**12,257**

Environmental matters

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

Commitments

Investment commitments

The Board has approved the 2014 Capital Expenditure Budget of RUB 6,623 million (2012 – RUB 8,072 million), including future contractual liabilities related to 2014 of RUB 5,127 million (2013 – RUB 2,330 million). As of 31 December 2013 total contractual commitments amount to RUB 6,459 million (31 December 2012 – RUB 3,128 million). The Group is planning to finance its investment commitments using the Group's own funds and borrowings.

Contractual commitments

As of 31 December 2013 contractual commitments to purchase and sell goods, works or services amounted to RUB 354 million (at 31 December 2012- RUB nil million).

Social commitments

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

Guarantees to third parties

The Group has entered in number of agreements under which the Group is guarantor to third parties in case of default of the principal debtors. The amount of guarantees given as at 31 December 2013 is RUB nil million (31 December 2012 – RUB nil million).

Note 40 Contingent liabilities, commitments and other risks (continued)

Letters of credit

The Group has unsecured uncovered letters of credit as of 31 December 2013 for RUB 1,501 million (RUB 2,094 million – as of 31 December 2012).

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 2013 the Company insured significant part of the Group's assets as well as insured employees of the Group from physical risks and on-the-job accidents.

Note 41 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 2013, the Group's strategy, which was unchanged from 2012, was to maintain the indebtness ratio not greater than 75% and a gearing ratio – not greater than 45%. The gearing ratios and the indebtness ratios as of 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	**31 December 2012**
Total borrowings (Notes 27, 28)	6,595	5,963
Less: Cash and cash equivalents (Note 25)	(3,051)	(5,081)
Net debt	**3,544**	**882**
Share capital	60,742	59,398
Total equity	**64,286**	**60,280**
Indebtedness ratio	**6%**	**1%**
Gearing ratio	**6%**	**1%**

The increase of the indebtedness ratio and gearing ratio during 2013 was mainly due to the increase of the net debt by RUB 2,662 million (in 2012: decrease by RUB 3,772 million).

Note 42 Events after the reporting date

Per the Company's sole stakeholder, a protocol of the Board of Directors meeting of 30 January 2014 thereby approves the decision to reorganise OOO Vtrorresursy through its merger with OOO Neftekhimresurs-NKNK.

Per the Company's sole stakeholder, a protocol of the Board of Directors meeting of 14 March 2014 thereby approves the decision to reorganise OOO Khokkeinyi Klub Neftekhimik through its merger with OOO SKK Neftekhimik.

Dividends

The Board of Directors of 14 March 2014 proposed paying dividends of RUB 1 830 million, based on the share price of RUB 1.00. This decision should be approved at the Annual General Shareholders' Meeting.