

**KAZANORGSINTEZ 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 Open Joint Stock Company "Kazanorgsintez":

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Kazanorgsintez" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Audit 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.

Our audit involved performing procedures aimed at obtaining audit evidence that confirms the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, 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 over the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures 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 provide a basis for our qualified audit opinion on the fair presentation of these consolidated financial statements.



**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*

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

Audited entity: Open Joint Stock Company "Kazanorgsintez"

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

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

420051, Kazan, Belomorskaya str., Bld 101.

Independent Auditor: ZAO PricewaterhouseCoopers Audit


State registration certificate № 008.890, issued by the Moscow Registration 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

**KAZANORGSINTEZ Group**  
**Consolidated Statement of Comprehensive Income**  
*(in millions of Russian Roubles)*

	Note	2013	2012
Sales	7	46,215	45,519
Cost of sales	8	(36,834)	(35,772)
<b>Gross profit</b>		<b>9,381</b>	<b>9,747</b>
Selling, general and administrative expenses	9	(3,734)	(3,675)
Other (expenses)/income, net	10	(672)	160
Finance costs	11	(1,881)	(2,422)
Loss from investments		-	(9)
Finance income	12	62	98
Foreign exchange (loss)/gain, net		(271)	154
<b>Profit before income tax</b>		<b>2,885</b>	<b>4,053</b>
Income tax charge	13	(767)	(785)
<b>Profit for the year</b>		<b>2,118</b>	<b>3,268</b>
<b>Other comprehensive income less deferred tax</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Changes in other financial assets revaluation reserve	16	6	38
Income tax recorded in components of other comprehensive income		(1)	(8)
<b>Other comprehensive income after income tax</b>		<b>5</b>	<b>30</b>
<b>Total comprehensive income for the year</b>		<b>2,123</b>	<b>3,298</b>
<b>EARNINGS PER SHARE (RUB)</b>			
Basic and diluted	30	1.17	1.82

  
Minigulov F.G.  
General Director

25 March 2014

  
Kaleeva L.N.  
Chief Accountant



**KAZANORGSINTEZ GROUP**  
**Consolidated Statement of Financial Position**  
*(in millions of Russian Roubles)*

	Note	31 December 2013	31 December 2012
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	30,438	32,784
Intangible assets	15	738	872
Deferred tax assets	13	99	479
Other financial assets	16	390	384
Other non-current assets	17	127	123
<b>Total non-current assets</b>		<b>31,792</b>	<b>34,642</b>
<b>CURRENT ASSETS:</b>			
Inventories	18	5,002	4,895
Trade and other receivables	19	190	393
Income tax prepayments		19	-
Other prepaid and recoverable taxes	20	438	435
Other current assets	21	367	263
Cash and cash equivalents	22	1,397	1,618
<b>Total current assets</b>		<b>7,413</b>	<b>7,604</b>
<b>TOTAL ASSETS</b>		<b>39,205</b>	<b>42,246</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY AND RESERVES</b>			
Share capital	23	1,905	1,905
Additional paid-in capital	23	1,515	1,515
Other financial assets revaluation reserve		279	274
Retained earnings		10,669	9,536
<b>Total equity and reserves</b>		<b>14,368</b>	<b>13,230</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans and borrowings	24	16,375	21,372
Deferred tax liabilities	13	2,177	2,366
Finance lease liabilities	25	9	19
<b>Total non-current liabilities</b>		<b>18,561</b>	<b>23,757</b>
<b>CURRENT LIABILITIES:</b>			
Short-term loans and borrowings	26	2,438	1,521
Trade payables	27	1,218	834
Other payables and accrued liabilities	28	608	612
Advances from customers		1,511	1,666
Other taxes payable	29	501	626
<b>Total current liabilities</b>		<b>6,276</b>	<b>5,259</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>39,205</b>	<b>42,246</b>

**Kazanorgsintez GROUP**  
**Consolidated Statement of Changes in Equity**  
*(in millions Russian Roubles)*

Equity attributable to parent company shareholders						
Note	Share capital	Treasury Shares	Additional paid-in capital	Other financial assets revaluation reserve	Retained earnings	Total equity and reserves
Balance at 1 January 2012	1,905	(123)	1,515	244	6,461	10,002
Profit for the year ended 31 December 2012	-	-	-	-	3,268	3,268
Revaluation of other financial assets	-	-	-	30	-	30
<b>Total comprehensive income for the year ended 31 December 2012</b>	-	-	-	30	3,268	3,298
Dividends	-	-	-	-	(131)	(131)
Reissuance of treasury shares	-	123	-	-	(62)	61
<b>Balance at 31 December 2012</b>	<b>1,905</b>	<b>-</b>	<b>1,515</b>	<b>274</b>	<b>9,536</b>	<b>13,230</b>
Profit for the year ended 31 December 2013	-	-	-	-	2,118	2,118
Revaluation of other financial assets	-	-	-	5	-	5
<b>Total comprehensive income for the year ended 31 December 2013</b>	-	-	-	5	2,118	2,123
Dividends	-	-	-	-	(985)	(985)
<b>Balance at 31 December 2013</b>	<b>1,905</b>	<b>-</b>	<b>1,515</b>	<b>279</b>	<b>10,669</b>	<b>14,368</b>

The accompanying notes on pages 5-36 are an integral part of these consolidated financial statements.

**Kazanorgsintez GROUP**  
**Consolidated Statement of Cash Flows**  
**(in millions of Russian Roubles)**

	Note	2013	2012
<b>OPERATING ACTIVITIES:</b>			
Profit before income tax		2,885	4,053
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	14, 15	3,736	3,916
Finance income	12	(62)	(98)
Change in doubtful debt provision	10	(15)	(2)
Change in provision for inventory impairment	10	(4)	(66)
Change in provision for impairment of property, plant and equipment	10	(23)	(4)
Change in provision for employee benefits	28	18	225
Loss from investments		-	9
Gain on disposal of property plant and equipment	10	(34)	(14)
Grant funding from shareholders		-	(130)
Recovery of unclaimed dividends		(4)	-
Finance costs	11	1,881	2,422
Foreign exchange loss/(gain), net		271	(154)
<b>Operating profit before working capital changes</b>		<b>8,649</b>	<b>10,157</b>
Decrease in trade, other receivables and advances issued		108	225
(Increase) in other taxes recoverable and prepaid, other than income tax		(3)	(75)
(Increase)/decrease in inventories		(103)	99
(Increase)/decrease in other current assets		(4)	87
Increase/(decrease) in trade payables		284	(120)
(Decrease)/increase in advances received		(155)	455
(Decrease) in other current liabilities		(30)	(266)
(Decrease)/increase in other tax liabilities		(125)	127
<b>Total working capital changes</b>		<b>(28)</b>	<b>532</b>
Income taxes paid		(596)	-
Interest paid		(1,804)	(2,414)
<b>Cash flow from operating activities</b>		<b>6,221</b>	<b>8,275</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(1,074)	(1,179)
Proceeds from disposal of property, plant and equipment		11	39
Acquisition of intangible assets		(29)	(22)
Proceeds from disposal of financial assets		4	2
Interest income received	12	61	98
Dividends received		-	1
<b>Cash used in investing activities</b>		<b>(1,027)</b>	<b>(1,061)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings		229	-
Repayment of long-term borrowings		(4,663)	(6,408)
Dividends paid		(982)	(131)
Grant funding from shareholders		-	130
Proceeds from the sale of treasury shares		-	62
Repayment of finance lease liabilities		(59)	(114)
<b>Cash used in financing activities</b>		<b>(5,475)</b>	<b>(6,461)</b>
<b>Net (decrease) /increase in cash and cash equivalents</b>		<b>(281)</b>	<b>753</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,618</b>	<b>901</b>
Effect of exchange rate changes on cash held in foreign currencies		60	(36)
<b>Cash and cash equivalents at the end of the year</b>		<b>1,397</b>	<b>1,618</b>



## **1. GENERAL INFORMATION**

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

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

Details of the Company's subsidiaries are in Note 36.

## **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).

## **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, unless changes in disclosures. Refer to Notes 24 and 36.

**IFRS 11 "Joint Arrangements",** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, "Interests in Joint Ventures", and SIC-13, "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Standard did not have any material impact on the Group's consolidated financial statements.

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

**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 35.

### **3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)**

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

**"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.

**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 spare parts, stand-by and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment was removed because this requirement was too restrictive when compared with the definition of property, plant and equipment. 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. AS 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.

### **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 is not relevant to the Group. 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.

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

**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 consolidated financial statements.

#### **4. New Accounting Pronouncements (Continued)**

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

**Amendments to IAS 36 – “Recoverable amount disclosures for non-financial assets” (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).** The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or 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.

**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.

**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.

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

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of compliance**

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

### **Basis of preparation**

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

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

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

### **Basis of consolidation**

#### **Subsidiaries**

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

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

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

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

#### **Business 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 that represents the ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation 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. Non-controlling interests that are not present ownership interests are measured at fair value.

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.

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Business combinations (continued)**

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 the consolidated statement of changes in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

### **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 subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

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 discounts and VAT.

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

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

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

### **Lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Assets subject to finance leases are capitalised 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 long-term liabilities or trade and other payables.

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Lease (continued)**

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

### **Foreign currency translation**

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

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

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

### **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.

### **Employee benefits**

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

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

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



## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Income Taxes**

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for 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. Deferred tax balances are measured at tax rates enacted or substantively enacted at reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised (enacted or substantively enacted at reporting date). Deferred tax assets and liabilities are offset if there is a legal right for the offset of the current tax assets and liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

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

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

### **Uncertain income tax positions**

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

### **Property, plant and equipment**

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

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

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

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

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Property, Plant and Equipment (Continued)**

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

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

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

### **Construction in progress**

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

### **Intangible assets**

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

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

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

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

### **Inventories**

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

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

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

### **Value-added tax**

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

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Prepayments**

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

### **Impairment of assets**

The 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. An impairment loss is recognised in the consolidated statement of comprehensive income within profit or loss.

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

### **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.

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.

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Financial instruments (continued)**

*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:

- available-for-sale financial assets;
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group does not have other categories of financial assets.

### **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 available for sale**

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

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

Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Group's right to receive the dividends is established.

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

### **Loans and receivables**

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

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

### **Impairment of financial assets**

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

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Impairment of financial assets (continued)**

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

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

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

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

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

### **Derecognition of financial assets**

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

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, 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**

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

### **Treasury shares**

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

## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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 financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

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

### **Earnings per share**

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

### **Segment reporting**

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

### **Financial liabilities**

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

### **Derecognition of financial liabilities**

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

### **Offsetting**

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

### **Provisions for liabilities and charges**

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

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

### **Changes in presentation**

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

In 2013 the Group made a reclassification in the 2012 consolidated statement of comprehensive income that has no effect on the consolidated statement of financial position. The following reclassifications were made to the comparative figures in the consolidated statement of comprehensive income to ensure comparability of data for the reporting period:

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Changes in presentation (continued)

- Social benefits to employees in the total amount of RUB 38 million were reclassified from administrative, general and selling expenses to cost of sales as such presentation reflects the nature of the expenses more appropriately;
- Revenue from sales of foodservice centre products in the amount of RUB 52 million are recorded in sales, and the related expenses of RUB 140 million are recorded in cost of sales and 16 million are recorded in selling, general and administrative expenses as such presentation reflects the nature of the expenses more appropriately. In the previous years, these income and expenses were presented in other income/(expenses), net.

The total effect of reclassifications described above for presentation purposes on consolidated statement of comprehensive income for 2012 was as follows:

	As originally presented (the 2012 data)	Reclassification	As reclassified (the 2012 data)
Sales	45,467	52	45,519
Cost of sales	(35,594)	(178)	(35,772)
Selling, general and administrative expenses	(3,697)	22	(3,675)
Other income/(expenses), net	56	104	160

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

### Going concern

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

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

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

### Critical judgements in applying accounting policies

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

#### Taxation

Judgements are required in determining current tax liabilities. The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact income tax and deferred tax provisions in the period in which such determination is made.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries. The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.



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

### **Critical judgements in applying accounting policies (continued)**

#### Taxation (continued)

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

#### Environmental obligations

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

### **Key sources of estimation uncertainty**

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

#### Useful lives of property, plant and equipment

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

#### Impairment of assets

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

#### Allowances for doubtful debts

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

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

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**7. SALES**

	<b>2013</b>	<b>2012</b>
<b>By region:</b>		
Domestic sales	35,009	35,913
Export sales	11,206	9,606
<b>Total</b>	<b>46,215</b>	<b>45,519</b>

**8. COST OF SALES**

	<b>2013</b>	<b>2012</b>
Raw materials	23,629	22,562
Energy and water	4,639	4,073
Depreciation of property, plant and equipment and amortisation of intangible assets	3,554	3,744
Labour costs	3,161	2,855
Auxiliary materials	1,102	1,531
Minor and capital repair	487	518
Other	167	170
	<b>36,739</b>	<b>35,453</b>
Decrease in work in progress and finished goods	95	319
<b>Total</b>	<b>36,834</b>	<b>35,772</b>

In 2013 the Group made contributions to the Russian Federation State Pension Fund in amount of RUB 779 million (2012: RUB 651 million). These contributions are included to Labour costs in cost of sales and selling, general and administrative expenses.

**9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2013</b>	<b>2012</b>
Labour costs	1,166	1,161
Taxes other than income tax	836	887
Transportation and storage	405	378
Land rent expenses	259	262
Minor and capital repair	206	187
Material costs (energy, materials, etc.)	200	191
Depreciation and amortisation	182	172
Bank charges	52	38
Insurance	42	39
Other	386	360
<b>Total</b>	<b>3,734</b>	<b>3,675</b>

**10. OTHER EXPENSES/(INCOME), NET**

	<b>2013</b>	<b>2012</b>
Penalties on contracts	14	(1)
Recovery of provision for impairment of doubtful debt	(15)	(2)
Recovery of provision for impairment of property, plant and equipment	(23)	(4)
Recovery of provision for impairment of inventory	(4)	(66)
Maintenance of social infrastructure	162	184
Gain on disposal of property plant and equipment	(34)	(14)
Income from disposal of materials	(39)	(69)
Social policy expenditures and charity	15	29
Income from leased property	(3)	(24)
Grant funding from shareholders	-	(130)
Expenses for shared financing of heat energy tariffs	623	145
Gain on accounts payable write-off	(25)	(207)
Other expenses /(income)	1	(1)
<b>Total</b>	<b>672</b>	<b>(160)</b>

# **10. OTHER EXPENSES/(INCOME), NET (CONTINUED)**

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 623 million in 2013 (2012: RUB 145 million). These liabilities were fully settled in the reporting period.

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

# **11. FINANCE COSTS**

	2013	2012
Interest expense and charges on loans and borrowings	1,879	2,413
Interest expense on obligations under finance leases	2	9
<b>Total</b>	<b>1,881</b>	<b>2,422</b>

# **12. FINANCE INCOME**

	2013	2012
Interest income on cash and cash equivalents	46	95
Other interest income	16	3
<b>Total</b>	<b>62</b>	<b>98</b>

# **13. INCOME TAX**

The Group's income tax is as follows:

	2013	2012
Current income tax	577	-
Deferred tax charge	190	785
<b>Total</b>	<b>767</b>	<b>785</b>

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

	2013	2012
Profit before income tax	2,885	4,053
Theoretical tax charge at the statutory rate of 20%	577	811
Effect of non-deductible expenses and other permanent differences, net	190	(26)
<b>Income tax expense</b>	<b>767</b>	<b>785</b>

The net deferred income tax liability is detailed below:

	At 31 December 2013	At 31 December 2012
Deferred income tax asset	(99)	(479)
Deferred income tax liability	2,177	2,366
<b>Net deferred income tax liability</b>	<b>2,078</b>	<b>1,887</b>

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

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**13. INCOME TAX (CONTINUED)**

	31 December 2013	Credited/ charged to profit or loss	Charged to other comprehensive income	31 December 2012	Credited/ charged to profit or loss	Charged to other comprehensive income	31 December 2011
Property, plant and equipment and intangible assets	2,033	(143)	-	2,176	(276)	-	2,452
Inventories	63	(22)	-	85	(11)	-	96
Allowance for doubtful debts	7	5	-	2	3	-	(1)
Accrued liabilities	(75)	(4)	-	(71)	(45)	-	(26)
Tax loss carried forward	(19)	354	-	(373)	1,114	-	(1,487)
Revaluation of other financial assets	69	-	1	68	-	8	60
<b>Net deferred income tax liability</b>	<b>2,078</b>	<b>190</b>	<b>1</b>	<b>1,887</b>	<b>785</b>	<b>8</b>	<b>1,094</b>

**14. PROPERTY, PLANT AND EQUIPMENT**

	Land plots and buildings	Machinery and equipment	Other assets	Construction in progress	Total
<b>Cost</b>					
<b>At 1 January 2012</b>	<b>16,540</b>	<b>37,221</b>	<b>2,792</b>	<b>2,677</b>	<b>59,230</b>
Additions	137	182	247	571	1,137
Disposals	-	(145)	(74)	(144)	(363)
Transfers from construction in progress	298	493	67	(858)	-
Reclassifications	(1)	1	-	-	-
<b>At 31 December 2012</b>	<b>16,974</b>	<b>37,752</b>	<b>3,032</b>	<b>2,246</b>	<b>60,004</b>
Additions	35	118	114	1,004	1,271
Disposals	(6)	(339)	(6)	(16)	(367)
Transfers from construction in progress	86	390	-	(476)	-
Reclassifications	24	-	(24)	-	-
Reclassification to materials	-	-	(56)	(30)	(86)
<b>As at 31 December 2013</b>	<b>17,113</b>	<b>37,921</b>	<b>3,060</b>	<b>2,728</b>	<b>60,822</b>
<b>Accumulated depreciation and impairment</b>					
<b>At 1 January 2012</b>	<b>(5,842)</b>	<b>(16,160)</b>	<b>(1,606)</b>	<b>(72)</b>	<b>(23,680)</b>
Charge for the year	(442)	(3,029)	(293)	-	(3,764)
Write-off upon disposal	-	125	50	-	175
Reclassifications	1	(1)	-	-	-
Effect from impairment reclassification to inventories provision	-	-	-	45	45
Reversal of impairment provision	-	-	-	4	4
<b>At 31 December 2012</b>	<b>(6,283)</b>	<b>(19,065)</b>	<b>(1,849)</b>	<b>(23)</b>	<b>(27,220)</b>
Charge for the year	(447)	(2,851)	(274)	-	(3,572)
Write-off upon disposal	2	323	4	-	329
Reclassifications	(1)	-	1	-	-
Reclassification to materials	-	-	56	-	56
Reversal of impairment provision	-	-	-	23	23
<b>As at 31 December 2013</b>	<b>(6,729)</b>	<b>(21,593)</b>	<b>(2,062)</b>	<b>-</b>	<b>(30,384)</b>
<b>Net carrying value</b>					
<b>At 31 December 2012</b>	<b>10,691</b>	<b>18,687</b>	<b>1,183</b>	<b>2,223</b>	<b>32,784</b>
<b>At 31 December 2013</b>	<b>10,384</b>	<b>16,328</b>	<b>998</b>	<b>2,728</b>	<b>30,438</b>

#### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's plant sites presently occupy approximately 506.5 hectares of land for which the Group holds the title.

At 31 December 2013 property, plant and equipment and construction in progress with the carrying value of RUB 20,032 million (2012: RUB 27,533 million) were pledged to secure certain long-term loans granted to the Group (refer to Note 24).

In 2013 and 2012, interest was not capitalised in property, plant and equipment.

At 31 December 2013, property, plant and equipment include assets held under a number of finance lease agreements (refer to Note 25). At the end of the lease term the Group takes automatic ownership of these assets. The carrying value of such assets is RUB 17 million (hardware) (2012: RUB 546 million – equipment).

At 31 December 2013, property, plant and equipment include assets, which are fully depreciated but still in use, of historical cost of RUB 10,423 million (at 31 December 2012: RUB 10,168 million).

#### 15. INTANGIBLE ASSETS

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

	Software	Licences, franchises and other intangible assets	Total
<b>Cost</b>			
At 1 January 2012	136	1,374	1,510
Additions	23	-	23
At 31 December 2012	159	1,374	1,533
Additions	19	11	30
Disposals	(27)	-	(27)
At 31 December 2013	151	1,385	1,536
<b>Accumulated amortisation and impairment</b>			
At 1 January 2012	(118)	(391)	(509)
Charge for the year	(15)	(137)	(152)
At 31 December 2012	(133)	(528)	(661)
Charge for the year	(25)	(139)	(164)
Write-off upon disposal	27	-	27
At 31 December 2013	(131)	(667)	(798)
<b>Net carrying value</b>			
At 31 December 2012	26	846	872
At 31 December 2013	20	718	738

#### 16. OTHER FINANCIAL ASSETS

	Level of fair value hierarchy	31 December 2013 % of ownership	Amount	31 December 2012 % of ownership	Amount
OJSC Tatneftekhiminvestholding	3	7%	387	7%	381
OJSC Kazanskaya yarmarka	3	2%	2	2%	2
LLC TAIF-Invest	3	3%	1	3%	1
<b>Total</b>			<b>390</b>		<b>384</b>

Available-for-sale investments are carried at fair value. The amount of revaluation in 2013 of RUB 6 million (2012: RUB 38 million) and the relevant tax is recorded in other comprehensive income.

## 16. OTHER FINANCIAL ASSETS (CONTINUED)

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.

	Fair value	Valuation technique	Changes	Sensitivity of fair value measurements
<b>Available for sale financial instruments</b>				
		market valuation of comparable companies		
- investments	390		±10%	± 39

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

	31 December 2013	31 December 2012
Carrying amount at 1 January	384	361
Revaluation of investments reported in other comprehensive income	6	38
Disposal of investments	-	(15)
Carrying amount at 31 December	390	384

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

## 17. OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012
Catalysts, chemicals and other materials	127	123
<b>Total</b>	<b>127</b>	<b>123</b>

Other non-current assets comprise catalysts, chemicals and other materials used in production whose operating period exceeds 12 months.

## 18. INVENTORIES

	31 December 2013	31 December 2012
Inventory and supplies	3,803	3,601
Finished products	635	609
Work in progress and semi-finished products	576	697
Other inventory	68	72
Less: provision for impairment of stocks of materials, inventories and finished products	(80)	(84)
<b>Total</b>	<b>5,002</b>	<b>4,895</b>

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

	2013	2012
Balance of provision at beginning of the year	84	105
Recognised in the consolidated statement of comprehensive income in profit or loss	(4)	(66)
Provision for the materials reclassified from construction in progress (Note 14)	-	45
Balance of provision at end of the year	80	84

**19. TRADE AND OTHER RECEIVABLES**

	31 December 2013	31 December 2012
Trade receivables	108	306
Other receivables	141	150
Less: allowance for doubtful debt	(59)	(63)
<b>Total</b>	<b>190</b>	<b>393</b>

Management believes that fair value of receivables does not differ significantly from their carrying amounts.

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

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

As at 31 December 2013, the Group has no past due but not impaired receivables (2012: nil).

The Group does not hold any collateral as security.

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

	2013	2012
<b>Balance at beginning of the year</b>	<b>63</b>	<b>68</b>
Increase in provision for impairment	4	7
Amounts written off as uncollectible	(3)	(8)
Recovery of provision for impairment	(5)	(4)
<b>Balance at end of the year</b>	<b>59</b>	<b>63</b>

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

**20. OTHER PREPAID AND RECOVERABLE TAXES**

	31 December 2013	31 December 2012
Value-added tax	437	434
Insurance contributions	1	1
<b>Total</b>	<b>438</b>	<b>435</b>

**21. OTHER CURRENT ASSETS**

	31 December 2013	31 December 2012
Advances issued	378	290
Less: allowance for doubtful debt	(11)	(27)
<b>Total</b>	<b>367</b>	<b>263</b>

During the year ended 31 December 2013, the gain on recovery of provision for advances issued of RUB 14 million (2012: gain on recovery of provision of RUB 5 million) was recognised in the consolidated statement of comprehensive income.



## 22. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Current accounts:		
- in Roubles	110	92
- in foreign currency	221	1,190
Deposits	1,065	335
Other cash and cash equivalents	1	1
<b>Total</b>	<b>1,397</b>	<b>1,618</b>

## 23. SHARE CAPITAL AND ADDITIONAL PAID IN CAPITAL

	31 December 2013 '000 shares	31 December 2012 '000 shares
<b>Authorised number of shares</b>		
Ordinary shares at par value of RUB 1 each	26,785,114	26,785,114
Preferred shares at par value of RUB 1 each	119,596	119,596
<b>Total authorised shares</b>	<b>26,904,710</b>	<b>26,904,710</b>
<b>Issued and fully paid number of shares</b>	<b>'000 shares</b>	<b>'000 shares</b>
Ordinary shares at par value of RUB 1 each	1,785,114	1,785,114
Preferred shares at par value of RUB 1 each	119,596	119,596
<b>Total issued and fully paid shares</b>	<b>1,904,710</b>	<b>1,904,710</b>
<b>Treasury shares purchased</b>	<b>'000 shares</b>	<b>'000 shares</b>
At the beginning of the year	-	23,513
Re-acquired by the Group	-	-
Re-issued from treasury shares	-	(23,513)
<b>At the end of the year</b>	<b>-</b>	<b>-</b>

The Group had no treasury shares reducing issued and fully paid share capital as at 31 December 2013 (2012: nil).

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

In accordance with Russian law, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. Under Russian Accounting Rules the net profit for 2013 is RUB 2,157 million (2012 net profit was: RUB 3,285 million). Based on the 2012 results, the parent company decided to pay dividends (Note 31).

Group's ownership structure was as follows:

	% of ownership	
	31 December 2013	31 December 2012
LLC Telecom-Management	51.5%	51.5%
OJSC Svyazinvestneftehim	26.6%	26.6%
Other legal entities and individuals	21.9%	21.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Ordinary shareholders are entitled to one vote per share. Preferred shares are non-voting. All ordinary and preferred shares are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations. Preferred shareholders are entitled to an annual payment of dividends in the amount equal to 25% of their par value subject to authorisation by Company's Board of Directors. Preferred shareholders have a preferred right to recover the par value of preferred shares in liquidation.

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

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

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

## 24. LONG-TERM LOANS AND BORROWINGS

	31 December 2013	31 December 2012
<b>Loans and borrowings with fixed interest rate</b>		
RUB denominated loans and borrowings	14,992	19,292
EUR denominated loans and borrowings	103	92
USD denominated loans and borrowings	3,472	3,509
<b>Total long-term loans and borrowings</b>	<b>18,567</b>	<b>22,893</b>
Less: Current portion repayable within one year and shown under short-term borrowings (refer to Note 26)	(2,192)	(1,521)
<b>Net long-term loans and borrowings</b>	<b>16,375</b>	<b>21,372</b>

USD denominated loans and borrowings includes amount of loan received from Kazanorgsintez S.A. Kazanorgsintez S.A. company issued Loan Participation Notes amounting to USD 101 million with interest rate of 10% p.a. and due for repayment on 19 March 2015, on a limited recourse basis for the sole purpose of funding a loan to the Group. The Group guaranteed the repayment of notes in full and absolutely. Interest payments on the notes are due semi-annually in March and September of each year.

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

	31 December 2013	31 December 2012
<b>Fixed interest rate</b>		
RUB denominated loans and borrowings	8.4%	8.4%
EUR denominated loans and borrowings	6%	6%
USD denominated loans and borrowings	9.9%	9.6%

As at 31 December 2013, long-term borrowings totalling RUB 14,992 million (2012: RUB 19,292 million) are secured by the pledge of equipment and transport means with the carrying value of RUB 10,625 million, real estate assets under mortgage agreement with the carrying value of RUB 9,032 million and construction in progress with carrying value of RUB 375 million (2012: equipment amounting to RUB 16,121 million, real estate amounting to RUB 9,177 million and construction in progress with the carrying value of RUB 2,235 million).

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

- The fair value of floating rate instruments is normally their carrying amount.
- 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.

As at 31 December 2013, the fair value of long-term loans and borrowings with carrying value of RUB 16,375 million (as at 31 December 2012: RUB 21,372 million) calculated applying the rate of 8.15% (2012: 7.96%) is RUB 15,345 million (31 December 2012: RUB 20,336 million).

As at 31 December 2013, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate. They are presented as follows:

## 24. LONG-TERM LOANS AND BORROWINGS (CONTINUED)

	Less than 1 year	Between 1 and 5 years	Total
Loans and borrowings with fixed interest rate:			
RUB denominated loans and borrowings	3,114	15,211	18,325
EUR denominated loans and borrowings	106	-	106
USD denominated loans and borrowings	517	3,359	3,876
<b>Total</b>	<b>3,737</b>	<b>18,570</b>	<b>22,307</b>

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

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Loans and borrowings with fixed interest rate:				
RUB denominated loans and borrowings	2,584	20,078	2,014	24,676
EUR denominated loans and borrowings	93	-	-	93
USD denominated loans and borrowings	782	3,414	-	4,196
<b>Total</b>	<b>3,459</b>	<b>23,492</b>	<b>2,014</b>	<b>28,965</b>

## 25. FINANCE LEASE LIABILITIES

	31 December 2013	31 December 2012
<b>Minimum finance lease payments</b>		
Due within one year	12	59
Due later than one year and not later than five years	9	21
<b>Total future finance lease payments</b>	<b>21</b>	<b>80</b>
Less: future finance charges	(2)	(4)
<b>Present value of minimum finance lease payments</b>	<b>19</b>	<b>76</b>
Less: Current portion of finance lease liabilities (Note 28)	(10)	(57)
<b>Non-current finance lease liabilities</b>	<b>9</b>	<b>19</b>

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

## 26. SHORT-TERM LOANS AND BORROWINGS

	31 December 2013	31 December 2012
Loans and borrowings with fixed interest rate:		
USD denominated loans and borrowings	246	-
Current portion of long-term borrowings repayable within one year (Note 24)	2,192	1,521
<b>Total short-term loans and borrowings</b>	<b>2,438</b>	<b>1,521</b>

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

	31 December 2013	31 December 2012
<b>Fixed interest rate</b>		
USD denominated loans and borrowings	6%	-

## 26. SHORT-TERM LOANS AND BORROWINGS (CONTINUED)

The carrying amount of loans and borrowings with a maturity of less than one year approximates their fair values.

As at 31 December 2013, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate. They are presented as follows:

	Less than 3 months	Between 3 months and 1 year	Total
Loans and borrowings with fixed interest rate:			
RUB denominated loans and borrowings	515	2,599	3,114
USD denominated loans and borrowings	182	595	777
EUR denominated loans and borrowings	2	104	106
<b>Total</b>	<b>699</b>	<b>3,298</b>	<b>3,997</b>

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

	Less than 3 months	Between 3 months and 1 year	Total
Loans and borrowings with fixed interest rate:			
RUB denominated loans and borrowings	421	2,163	2,584
USD denominated loans and borrowings	359	423	782
EUR denominated loans and borrowings	93	-	93
<b>Total</b>	<b>873</b>	<b>2,586</b>	<b>3,459</b>

## 27. TRADE PAYABLES

At 31 December 2013 the majority of trade accounts payable was primarily denominated in RUB and included payables on purchases of raw materials, energy, maintenance services, spare parts and consumables. The fair value of trade payables approximates their carrying amounts.

The table below shows liabilities at 31 December 2013 by their remaining contractual maturity. The amounts disclosed below are contractual undiscounted cash flows, including gross contract commitments. Foreign currency payments are translated into reporting currency using the spot exchange rate at the reporting date:

	31 December 2013	31 December 2012
Within 90 days	1,218	834
<b>Total</b>	<b>1,218</b>	<b>834</b>

## 28. OTHER PAYABLES AND ACCRUED LIABILITIES

	31 December 2013	31 December 2012
Provisions for short-term employee benefits	381	363
Accrued employee benefit costs	181	163
Current portion of finance lease liabilities (Note 25)	10	57
Dividends payable	8	8
Deferred income	-	1
Other payables and accrued liabilities	28	20
<b>Total</b>	<b>608</b>	<b>612</b>

## 29. OTHER TAXES PAYABLE

	31 December 2013	31 December 2012
VAT	205	326
Property tax	132	147
Insurance contributions	71	62
Land tax	60	60
Personal income tax	32	29
Other taxes	1	2
<b>Total</b>	<b>501</b>	<b>626</b>

## 30. EARNINGS PER SHARE

Basic earnings per share:

	2013	2012
Number of ordinary shares outstanding (thousands)	1,785,114	1,785,114
Adjusted for weighted average number of ordinary treasury shares (thousands)	-	(362)
Weighted average number of ordinary shares in issue (thousands)	1,785,114	1,784,752
Profit for the year attributable to the Group's equity holders (million roubles)	2,118	3,268
Less: after-tax amount of preferred dividends (million roubles)	(28)	(28)
<b>Basic and diluted earnings per share (RUB)</b>	<b>1.17</b>	<b>1.82</b>

The Group does not have shares with diluting effect.

## 31. DIVIDENDS

	2013	2012
Dividends declared for the year ended 31 December 2011:		
- ordinary shares (RUB 0.06 per share)	-	107
- preferred shares (RUB 0.25 per share)	-	24
Dividends declared for the year ended 31 December 2012:		
- ordinary shares (RUB 0.54 per share)	955	-
- preferred shares (RUB 0.25 per share)	30	-
<b>Total</b>	<b>985</b>	<b>131</b>

Dividends declared for 2012 were paid out in full within the 2013 reporting year.

## 32. 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, and key management personnel according to IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Presented below is information regarding transactions during the year and balances with related parties

### 32. RELATED PARTY TRANSACTIONS (CONTINUED)

	Trade and other receivables	Trade and other payables
<b>At 31 December 2013</b>		
- shareholders	-	-
- other related parties*	72	632
<b>Total</b>	<b>72</b>	<b>632</b>
<b>At 31 December 2012</b>		
- shareholders	-	-
- other related parties*	76	168
<b>Total</b>	<b>76</b>	<b>168</b>

	Sales of goods and services	Purchase of goods and services	Purchase of property, plant and equipment	Dividends declared	Financial assistance	Repay- ment of interest on borrow- ings	Accrued interests	Proceeds from reissu- ance of treasury shares
<b>For 2013</b>								
- shareholders	-	1	-	766	-	-	-	-
- other related parties*	1,065	9,608	364	1	-	-	-	-
<b>Total</b>	<b>1,065</b>	<b>9,609</b>	<b>364</b>	<b>767</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>For 2012</b>								
- shareholders	-	3	86	91	130	-	-	-
- other related parties*	1,335	10,086	304	-	-	5	5	61
<b>Total</b>	<b>1,335</b>	<b>10,089</b>	<b>390</b>	<b>91</b>	<b>130</b>	<b>5</b>	<b>5</b>	<b>61</b>

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

Key management compensation for the year ended 31 December 2013 amounted to RUB 94 million (2012: RUB 97 million) and included salaries, bonuses and termination benefits to employees of the Group and related social security contributions.

Other rights and obligations connected to related parties were as follows:

	Contractual commitments to purchase services
<b>At 31 December 2013</b>	
- other related parties	342
<b>Total</b>	<b>342</b>
<b>At 31 December 2012</b>	
- other related parties	3
<b>Total</b>	<b>3</b>

### 33. COMMITMENTS AND CONTINGENCIES

#### Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of any ongoing legal proceedings will not have a material impact on the Group's consolidated financial position or consolidated operating results.

### **33. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

#### **Taxation contingencies in the Russian Federation**

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

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 for 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.

#### **Investment commitments**

The Board of Directors of the Company has approved budgeted capital expenditures for 2014 in the amount of RUB 3,199 million, including VAT (for 2013: RUB 1,746 million, including VAT) including contractual commitments for the year 2014 of RUB 162 million (for 2013: RUB 186 million). Total contractual capital expenditure commitments as at 31 December 2013 are RUB 1,344 million including VAT (31 December 2012: RUB 186 million). The Group expects to fund capital commitments from its own cash resources.

#### **Operating lease commitments**

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

Future minimum lease expenses under operating lease agreements as at 31 December 2013 make RUB 12 million within one year and RUB 7 million from two to five years (as at 31 December 2012: RUB 255 million within one year and RUB 11 million from two to five years).

#### **Russian Federation risk**

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

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



### 33. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### Environmental matters

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

#### Russian insurance environment

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

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

### 34. FINANCIAL RISK MANAGEMENT

#### Key financial risk factors

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

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

#### Capital risk management

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

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

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

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

#### Key categories of financial instruments

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

	31 December 2013	31 December 2012
<b>Financial assets</b>		
Cash and cash equivalents	1,397	1,618
<b>Loans and receivables</b>		
Trade and other receivables	190	393
<b>Financial assets available for sale</b>		
Other financial assets	390	384
<b>Total</b>	<b>1,977</b>	<b>2,395</b>
<b>Financial liabilities carried at amortised cost</b>		
Finance lease liabilities	19	76
Long-term loans and borrowings	16,375	21,372
Short-term loans and borrowings	2,438	1,521
Trade payables	1,218	834
Other payables and accrued liabilities	36	28
<b>Total</b>	<b>20,086</b>	<b>23,831</b>

#### **34. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Liquidity risk management**

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

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

At 31 December 2013 to finance its needs for liquidity, the Group had no limits for credit funds (at 31 December 2012: nil).

The summaries of the maturity profile of the Group's financial liabilities at 31 December 2013 and 2012 on contractual payments are presented in Notes 24, 25, 26 and 27.

##### **Foreign currency risk management**

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group performs certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

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

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

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Assets</b>		
<b>Trade and other receivables</b>	-	4
-EUR	-	4
<b>Cash and cash equivalents</b>	221	1,190
-USD	92	1,041
-EUR	129	149
<b>Total assets</b>	<b>221</b>	<b>1,194</b>
<b>Liabilities</b>		
<b>Loans and borrowings</b>	3,821	3,601
-USD	3,718	3,509
-EUR	103	92
<b>Finance lease liabilities</b>	19	76
-USD	19	35
-EUR	-	41
<b>Trade and other payables</b>	16	14
-USD	1	14
-EUR	15	-
<b>Total liabilities</b>	<b>3,856</b>	<b>3,691</b>
<b>Total net position</b>	<b>(3,635)</b>	<b>(2,497)</b>

##### Foreign exchange sensitivity analysis

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

The following table details the Group's sensitivity to a 15% (2012: 5%) increase and decrease in RUB against US dollar and 15% (2012: 5%) against Euro. The above estimates are based on the development of exchange rates during 2013 and beginning of 2014. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a relevant change in foreign currency rates. Positive numbers below indicate an increase in profit and equity where RUB strengthens against the relevant currency. For a similar weakening of RUB against the relevant currency, there would be an equal and opposite impact on the profit (after tax), and the balances below would be negative.

### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Foreign currency risk management (continued)

##### Foreign exchange sensitivity analysis (continued)

	USD impact		EUR impact	
	2013 15%	2012 5%	2013 15%	2012 5%
Increase/(decrease) in profit after tax	438	101	(1)	(1)

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

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

#### Interest rate risk management

As at 31 December 2013 the Group is not exposed to interest rate risk as the Group had no borrowings at floating interest rates.

#### Credit risk management

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

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 Groups' financial assets:

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

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

Rating C – others, credit worthiness difficulties are significant.

The maximum exposure to credit risk comprises the carrying amount of:

	<u>Rating A</u>
<b>At 31 December 2013</b>	
Cash and cash equivalents	1,397
Trade and other receivables	190
<b>At 31 December 2012</b>	
Cash and cash equivalents	1,618
Trade and other receivables	393

### 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Group does not use Non-recurring fair value measurements.

**Financial instruments carried at fair value.** Securities available for sale are recorded in the consolidated statement of financial position at their fair value and included in level 3 of fair value hierarchy (Note 16).

**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.

Carrying amount of trade receivables approximates their fair values and belongs to level 2 of fair value hierarchy, impaired receivables belong to level 3 of fair value hierarchy (Note 19).

Carrying amount of trade payables approximates their fair values and belongs to level 2 of fair value hierarchy (Note 27).

The fair value of loans and borrowings received is included in level 2 (Notes 24 and 26).

### 36. INVESTMENTS IN SUBSIDIARIES

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

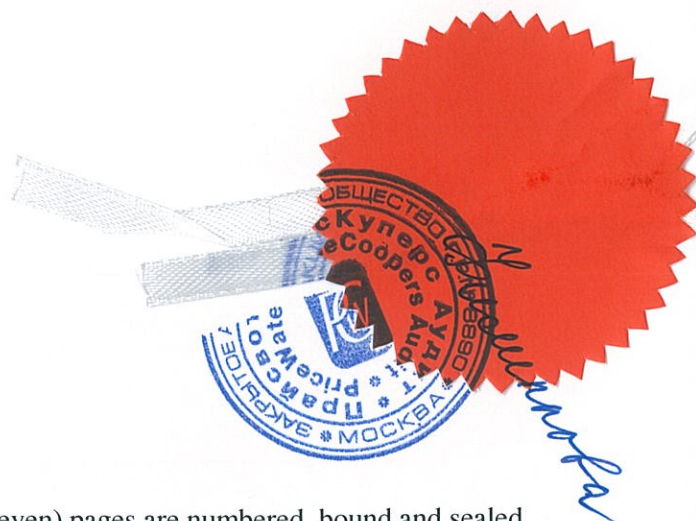
	Nature of business	% of ownership	
		31 December 2013	31 December 2012
Subsidiaries			
Incorporated in the Russian Federation			
LLC DK Khimikov	Entertainment	100	100

As at the reporting date the structured entity Kazanorgsintez S.A. was not consolidated due to changes in IFRS 10 "Consolidated Financial Statements" which does not have any material impact on these consolidated financial statements

### 37. EVENTS AFTER THE REPORTING PERIOD

By the issue of these financial statements, the Group has early settled its loan liabilities of RUB 949 million.

Director of closed joint stock company  
"PricewaterhouseCoopers Audit"  
E.V. Filipova  
"25" March 2014



37 (thirty seven) pages are numbered, bound and sealed.