NIZHNEKAMSKNEFTEKHIM GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS

Independent Auditor's Report

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

1 We have audited the accompanying consolidated financial statements of OAO "Nizhnekamskneftekhim" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Group's Financial Statements

2 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

25 March 2011
Moscow, Russian Federation

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(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Comprehensive Income

	Note	2010	2009
Revenue	6	96,516	62,989
Cost of sales	7	(73,459)	(52,497)
Gross profit		**23,057**	**10,492**
Selling, general and administrative expenses	8	(9,343)	(7,369)
Other operating expenses	9	(1,434)	(1,299)
Operating profit		**12,280**	**1,824**
Financial expenses	10	(1,313)	(1,467)
Financial income	10	222	82
Foreign exchange gain/(loss)		62	(593)
Share of post tax net results in associates	13	91	161
Adjustment on exchange of availble-for-sale investments (non- cash)		-	(594)
Profit/(Loss) before taxation		**11,342**	**(587)**
Income tax expense	11	(2,457)	(61)
Profit/(Loss) for the year		**8,885**	**(648)**
Other comprehensive income/(expenses):			
Change in fair value of available-for-sale investments		58	(56)
Currency translation reserve		(50)	16
Other comprehensive income		-	314
Total comprehensive income/(expenses) for the year		**8,893**	**(374)**
Profit/(Loss) attributable to:			
Parent company shareholders		8,466	(760)
Non-controlling interest		419	112
Profit/(Loss) for the year		**8,885**	**(648)**
Total comprehensive income/(expenses) attributable to:			
Parent company shareholders		8,493	(491)
Non-controlling interest		400	117
Total comprehensive income/(expenses)		**8,893**	**(374)**
Earnings/(loss) per participating share (Russian roubles per share)	**20**	**4.63**	**(0.42)**

The accompanying notes on pages 8 to 39 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Note	31 December 2010	31 December 2009	31 December 2008
Assets				
Non-current assets				
Property, plant and equipment	12	34,347	35,716	37,647
Investments in associates	13	1,029	938	885
Investments in securities and other financial assets	14	2,533	2,876	3,458
Other non-current assets	14	881	754	659
Total non-current assets		**38,790**	**40,284**	**42,649**
Current assets				
Inventories	15	7,841	5,915	5,709
Trade and other receivables	16	4,328	3,706	3,282
Income tax prepaid		223	14	896
Taxes paid in advance and VAT on export sales	17	1,916	1,629	2,227
Investments in securities and other financial assets	14	727	336	-
Other current assets	18	1,298	883	1,124
Cash and cash equivalents	19	2,793	2,664	1,700
Total current assets		**19,126**	**15,147**	**14,938**
Total assets		**57,916**	**55,431**	**57,587**
Liability and Equity				
Equity attributable to parent company shareholders				
Share capital	20	6,332	6,332	6,332
Currency translation reserve		16	47	36
Revaluation reserve	14	2	(56)	(314)
Retained earnings		28,291	19,949	21,276
Total equity attributable to parent company shareholders		**34,641**	**26,272**	**27,330**
Non-controlling interest		**1,577**	**1,297**	**1,207**
Total equity		**36,218**	**27,569**	**28,537**
Non-current liabilities				
Non-current loans and borrowings	21	8,080	9,208	12,418
Deferred tax liability	11	384	321	301
Other non-current liabilities		369	139	303
Total non-current liabilities		**8,833**	**9,668**	**13,022**
Current liabilities				
Current loans and borrowings and current portion of non-current loans and borrowings	21	5,986	7,633	7,808
Accounts payable	22	3,669	7,256	5,705
Advance received and accrued liabilities	23	2,337	2,329	1,641
Income tax payable		63	17	2
Taxes other than income payable	24	696	570	399
Dividends payable		3	389	473
Deferred income		111	-	-
Total current liabilities		**12,865**	**18,194**	**16,028**
Total liabilities		**21,698**	**27,862**	**29,050**
Total liabilities and equity		**57,916**	**55,431**	**57,587**

Vladimir M. Busygin
General Director

Ilfar R. Yakhin
Chief Accountant

25 March 2011

The accompanying notes on pages 8 to 39 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	2010	2009
Cash flows from operating activities		
Cash receipts from customers	105,040	77,420
Cash paid to suppliers and employees, and taxes other than income	(95,966)	(67,598)
Interest paid	(1,250)	(1,293)
Income tax paid	(1,184)	(45)
Net cash received from operating activities	**6,640**	**8,484**
Cash flows from investing activities		
Loans repaid/(given)	5	(13)
Proceeds from sale of third party promissory notes	336	-
Term deposits	(370)	-
Proceeds from sale of property, plant and equipment	9	13
Purchase of property, plant and equipment	(2,969)	(3,087)
Dividends and interest received	21	9
Net cash used for investing activities	**(2,968)**	**(3,078)**
Cash flows from financing activities		
Proceeds from current and non-current borrowings	8,844	9,427
Repayment of current and non-current borrowings	(11,773)	(13,206)
Dividends paid	(623)	(680)
Net cash used for financing activities	**(3,552)**	**(4,459)**
Net increase in cash and cash equivalents before the effects of exchange rate changes	**120**	**947**
Effect of exchange rate changes	9	17
Net increase in cash and cash equivalents	**129**	**964**
Cash and cash equivalents at the beginning of the year	2,664	1,700
Cash and cash equivalents at the end of the year	**2,793**	**2,664**

The accompanying notes on pages 8 to 39 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Currency translation reserve	Revaluation reserve	Total equity attributable to the Company's shareholders	Non-controlling interest	Total
Balance as at 31 December 2008	**6,332**	**21,276**	**36**	**(314)**	**27,330**	**1,207**	**28,537**
Profit/(loss) for the period	-	(760)	-	-	**(760)**	112	**(648)**
Other comprehensive income/(expenses):							
Available-for-sale investments:							
- Losses arising during the year	-	-	-	(56)	**(56)**	-	**(56)**
- Reclassification adjustments for losses included in profit or loss	-	-	-	314	**314**	-	**314**
Currency translation reserve	-	-	11	-	**11**	5	**16**
Total comprehensive income/ (expenses)	-	(760)	11	258	**(491)**	117	**(374)**
Dividends	-	(567)	-	-	**(567)**	(27)	**(594)**
Balance as at 31 December 2009	**6,332**	**19,949**	**47**	**(56)**	**26,272**	**1,297**	**27,569**
Profit for the period	-	8,466	-	-	**8,466**	419	**8,885**
Other comprehensive income/(expenses):							
Change in fair value of available-for-sale investments	-	-	-	58	**58**	-	**58**
Currency translation reserve	-	-	(31)	-	**(31)**	(19)	**(50)**
Total comprehensive income/ (expense)	-	8,466	(31)	58	**8,493**	400	**8,893**
Dividends	-	(124)	-	-	(124)	(120)	**(244)**
Balance as at 31 December 2010	**6,332**	**28,291**	**16**	**2**	**34,641**	**1,577**	**36,218**

The accompanying notes on pages 8 to 39 are an integral part of these consolidated financial statements.

Note 1 Nizhnekamskneftekhim Group and its operations

OAO Nizhnekamskneftekhim (the "Company") was incorporated as an open joint stock company on 18 August 1993 (the "privatisation date") pursuant to approval by the State Property Management Committee of the Republic of Tatarstan, a republic within the Russian Federation. All assets and liabilities previously managed by the production association Nizhnekamskneftekhim were transferred to the Company at their book value at the privatisation date in accordance with the privatisation laws of the Republic of Tatarstan.

The Company's registered address is 423574, Nizhnekamsk, the Republic of Tatarstan, Russian Federation.

The Company and its subsidiaries listed in Note 27 (the "Group") are principally engaged in the production and sale of petrochemicals within the Republic of Tatarstan. The Group employed an average of 23,576 and 23,821 employees during the years ended 31 December 2010 and 2009, respectively.

The main shareholders of the Company as at 31 December 2010 are: OAO Svyazinvetsneftekhim (100% owned by the Republic of Tatarstan) (31 December 2010 – 28.6% of share capital; 31 December 2009 – 28.6% of share capital); and OAO TAIF (31 December 2010 – 50.6 % of share capital; 31 December 2009 – 50.6% of share capital) via its 100% subsidiary OOO "Telecom-Management". In November 2005 OAO Svyazinvestneftehim transferred under a trust management agreement its interest in 25.2% of the Company's share capital to a subsidiary of OAO TAIF. This trust management agreement was for a period of five years and permitted OOO TAIF-Invest to manage and vote these shares. In November 2010 this trust management agreement was not extended.

OAO TAIF controls the Company based on its percentage of ownership interests calculated on the Company's total number of outstanding common shares.

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

Note 2 Basis of preparation

Basis for preparation

These consolidated financial statements have been prepared in accordance with, International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by revaluation of available-for-sale financial assets. The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Change in presentation

The revised IAS 1 which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. Therefore, an entity that makes such a prior period adjustment or reclassification normally presents, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

Reclassification of other expenses have been made to the comparative figures in the statement of comprehensive income to conform to the current period presentation. Taxes other than income tax in the amount of RR 791 million were also reclassified from cost of sales to selling, general and administrative expenses and expenses related to maintenance of social infrastructure in the amount of RR 591 million were reclassified from selling, general and administrative expenses to other operating expenses.

In 2010, in order to improve the quality of information disclosed the Group has reclassified accrued interest to current loans and borrowings and current portion of non-current loans and borrowings; vacation pay accrual, to advance received and accrued liabilities and deferred income to other non-current liabilities.

Note 2 Basis of preparation (continued)

	Reclassified in compliance with new presentation	Reclassification	Reported as at 31 December 2009
Non-current liabilities			
Deferred income	-	(75)	75
Other non-current liabilities	139	75	64
Current liabilities			
Current loans and borrowings and current portion of non-current loans and borrowings	7,798	165	7,633
Accounts payable	6,706	(550)	7,256
Advances received and accrued liabilities	2,714	385	2,329

In 2009 the Group has presented further detailed information in its consolidated statement of financial position of Dividends payable and Advances received being presented as individual line items rather than being included in accounts payable and accrued liabilities. Additionally, Income tax prepaid, Taxes paid in advance and VAT on export sales are presented as a separate line item rather than being included in Trade and other receivables. Also, further information was presented through disclosure other non-current assets in investments into securities separately for other non-current financial assets and other non-current non-financial assets. Revaluation reserve was presented as a separate line item as compared to prior period when it was reported within Retained earnings.

	Reclassified in compliance with new presentation	Reclassification	Reported as at 31 December 2008
Non-current assets			
Investments in securities and other financial assets	3,458	3,458	-
Other non-current assets	659	(3,458)	4,117
Current assets			
Income tax prepaid	896	896	-
Taxes paid in advance and VAT on export sales	1,676	1,676	-
Other current assets	1,124	(2,572)	3,696
Equity attributable to parent company shareholders			
Revaluation reserve	(314)	(314)	-
Retained earnings	21,276	314	20,962
Non-current liabilities			
Deferred income	-	(92)	92
Other non-current liabilities	303	92	211
Current liabilities			
Current loans and borrowings and current portion of non-current loans and borrowings	7,808	101	7,707
Accounts payable	5,705	(2,215)	7,920
Advances received and accrued liabilities	1,641	1,641	-
Dividends payable	473	473	-

Functional and presentation currency

The Group's subsidiaries and associates maintain their accounting records in Russian Roubles ("RR"), which is their functional currency, and prepare their statutory financial statements in accordance with the Federal Law on Accounting. The one exception to this is a subsidiary incorporated in Finland, who operates and prepares its financial statements in Euros. All amounts in these financial statements are presented in millions of Russian Roubles ("RR million"), unless otherwise stated.

Note 3 New accounting pronouncements and revised standards

(a) Standards effective for annual periods beginning on or after 1 January 2010

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

The Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010. Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these financial statements.

Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards

Note 3 New accounting pronouncements and revised standards (continued)

and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

(b) Amendments to standards adopted before their effective date

The Group adopted the amendment to IAS 1, *Presentation of Financial Statements*, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. Reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

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

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Note 3 New accounting pronouncements and revised standards (continued)

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was early adopted by the Group); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Group as explained above.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any effect on its financial statements.

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

Note 3 New accounting pronouncements and revised standards (continued)

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendments to have any effect on its financial statements.

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

Note 4 Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information preparation and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from such estimates. In particular, information about significant areas of estimation and critical judgments in applying accounting policies made by management in preparing these financial statements include:

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

Impairment provision for receivables. Management has determined the impairment provision for accounts receivable based on specific customer identification, customer payment trends and subsequent receipts and settlements. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that, therefore, the recorded value approximates their fair value (see Note 16).

Impairment provision for investments in securities and other financial assets. Management has determined the fair value of other non-current assets, based on an assessment of their recoverability and future expected cash flows, using discount rates applicable to the borrower. If the discount rate used were to increase by 5%, then this would have reduced the fair value of other non-current assets by RR 182 million. Estimated amount of impairment provision as at 31 December 2010 and 2009 equal to RR 1,053 million and RR 1,226 million respectively (See Note 14);

Estimation of provision in respect of payments to employees on retirement. Management has determined that certain lump sum payments to employees on retirement constitute neither a legal or constructive obligation to the Group. Consequently, no provision in respect of post-employment benefits has been created. Management continues to review such programs and continues to assess whether they give rise to a legal or constructive obligation.

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

The Group has not recognised any deferred tax liability in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

Note 4 Critical accounting estimates and judgements in applying accounting policies (continued)

Going concern. Management prepared these financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analyzed the impact of the recent financial crisis on future operations of the Group (see Note 29).

Note 5 Summary of significant accounting policies

5.1 Group accounting

Subsidiaries

Those business undertakings in which the Group, directly or indirectly, has an interest of usually more than one half of the voting rights or otherwise has power to exercise control over the operations, are defined as subsidiary undertakings ("subsidiaries") and have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date when such control ceases.

All transactions, balances and unrealised gains and losses on transactions within the Group have been eliminated in the consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

For subsidiaries that are not wholly owned, non-controlling interest is measured as its proportion of the fair value at the acquisition date of the assets and liabilities of the subsidiary, adjusted for its share of subsequent profits, losses and dividends. Non-controlling interest transactions are accounted using the economic entity model.

Associates

Entities over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control ("associates") are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year and its share of post-acquisition movements in reserves is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero. When the Group has incurred obligations or guaranteed obligations in respect of the associate equity accounting is continued.

5.2 Investments

The Group classifies its investments into the following categories: trading, held-to-maturity or available-for-sale, loans to other entities and long-term accounts receivable. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with a fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. During the year, the Group did not hold any investments classified as trading or held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Loans to other entities and long-term accounts receivable are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and reviews such designation on a regular basis.

All purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are initially recognized and also subsequently carried at fair value, whilst held-to-maturity investments are carried at amortized cost using the effective yield method. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss is moved from other comprehensive income to profit or loss.

Note 5 Summary of significant accounting policies (continued)

The Group's investments which are not publicly traded and when valuation techniques cannot provide reliable estimate, and for which therefore no reliable method of fair value estimation exists, are excluded from fair value valuation.

Those financial assets that are excluded from fair valuation and that have a fixed maturity are measured at amortized cost using the effective interest rate method less impairment. Those that do not have a fixed maturity date are measured at cost less impairment.

Unquoted available-for-sale equity investments are reviewed for impairment losses at every reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash inflows. The discount rate applied reflects the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the investment under assessment. When the level of information available to calculate the net present value of expected future cash inflows makes this exercise impracticable, management uses different valuation techniques (such as net assets test) to estimate whether there is objective evidence of impairment and to determine the likely amount of impairment, if any.

5.3 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and instruments with maturity at the date of inception of less than three months, which are considered by the Group at the time of deposit to have minimal fair value and default risks.

5.4 Accounts receivable

Accounts receivable are carried at amortized costs which approximates original invoice amount less provision made for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

5.5 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice and acceptance of goods and services received. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as liability and asset. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

5.6 Inventories

Inventories are recorded at the lower of cost or net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) and usually excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

5.7 Property, plant and equipment and related government grants

All property, plant and equipment is carried at cost, except for assets acquired prior to 1 January 2003 which have been adjusted for the impact of changes in the general purchasing power in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", less accumulated depreciation. Assets under construction are carried at cost and depreciated from the time the asset is brought into use. At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Group's property, plant and equipment and assets under construction differs from the carrying amount. When there is such an indication, an impairment provision or reversal, as applicable, is made which is included in the results of operations in the period in which the indication of impairment or reversal occurred. The Group's property, plant and equipment and assets under construction are assessed for impairment by reference to the higher of fair value less costs to sell or their value in use, based on future cash flow forecasts from continuing use of the asset discounted to net present value. The discount rates used are those considered appropriate to the Group in the economic environment in the Russian Federation at each reporting date.

Expenditures for maintenance, repair and minor renewals to maintain facilities are expensed as incurred. Major replacements and renewals are capitalised.

Note 5 Summary of significant accounting policies (continued)

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised as part of the cost of the asset during the period of time that is reasonably required to complete and prepare the asset for its intended use.

Gains and losses arising from the retirement or other disposal of property, plant and equipment are included in the profit or loss as incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives. Estimated useful lives are assessed periodically with changes being applicable prospectively. Estimated useful lives of the assets as follows:

	Years
Buildings	30-40
Equipment	7-20
Other	2-10

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

Government grants related to the acquisition of property, plant and equipment are recognised when there is reasonable assurance that they will be received and that the Group will comply with any associated conditions. The grants are included in non-current liabilities as deferred income, and are amortised on a straight-line basis over the estimated useful lives of the related assets.

5.8 Finance lease

Assets held under finance leases are capitalized and included in property, plant and equipment at the lower of fair value and the present value of the minimum lease payments as determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are determined at the inception of the lease and included within liabilities. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period.

The Group has certain long-term arrangements under which it has acquired all of the capacity of certain property, plant and equipment. In circumstances where it is considered that the Group has the majority of the risks and rewards of ownership of the plant, the arrangement is considered to contain a finance lease.

5.9 Borrowings

Borrowings are carried at amortized cost using the effective interest method.

5.10 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.11 Foreign currency transactions and translation

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at the reporting date, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of income.

Note 5 Summary of significant accounting policies (continued)

At 31 December 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 30.4769 (31 December 2009 USD 1=RR 30.2442). The official Euro to RR exchange rate at 31 December 2010, as determined by the Central Bank of the Russian Federation, was Euro (EUR) 1=RR 40.3331 (31 December 2009 EUR 1=RR 43.3883).

The RR is not freely convertible in most countries outside of the Russian Federation.

The statement of financial position of the foreign subsidiary is translated into RR at the exchange rate prevailing at the reporting date. Statement of comprehensive income of the foreign subsidiary is translated at average exchange rate for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries are recognised as a currency translation adjustment.

5.12 Shareholders' equity

Share capital and treasury shares

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

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Earnings (loss) per share

Preferred shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. Earnings per share is determined by dividing the net profit (loss) attributable to ordinary and preference shareholders by the weighted average number of participating shares outstanding during the reporting year.

5.13 Revenue recognition

Revenues are recognised when title passes to the customer, as this is the date on which the risks and rewards of ownership are transferred to the customers, this is usually when products are shipped. Revenues are stated net of VAT and similar compulsory payments collected on behalf of the authorities, and sales between Group companies are eliminated.

Sales of services are recognized in the accounting period in which the services are rendered.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of such consideration cannot be measured reliably, revenue is measured at the fair value of the goods or services provided.

5.14 Employee benefits

The Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions benefits are included within personnel costs in selling, general and administrative expenses.

5.15 Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

(in millions of Russian roubles, unless otherwise stated)

Note 5 Summary of significant accounting policies (continued)

5.16 Provisions

Provisions for liabilities, including legal provisions, and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Note 6 Revenue

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

Description	Year ended 31 December 2010	Year ended 31 December 2009
Product sales	95,047	61,435
Processing fees	512	511
Transportation recharges and services	216	673
Other revenue	741	370
Total revenue	**96,516**	**62,989**

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

Description	Year ended 31 December 2010	Year ended 31 December 2009
Russia	46,375	28,277
Other Europe	36,851	25,543
CIS	5,384	3,485
Asia	4,433	3,258
North America	1,127	621
Other	877	251
Total product sales	**95,047**	**61,435**

Note 7 Cost of sales

Description	Year ended 31 December 2010	Year ended 31 December 2009
Raw materials	46,010	29,538
Energy and fuel	15,128	11,896
Personnel costs	5,281	4,620
Depreciation	3,681	3,576
Services and other	1,873	1,249
Social charges	1,267	1,108
Repairs and maintenance	919	568
Rent	370	261
Decrease in finished goods and work in progress	(1,070)	(319)
Total cost of sales	**73,459**	**52,497**

The rent agreements for land are renegotiated annually. The expected amount of rent payments for 2011 year is RR 270 million (for 2010 – 250 million).

Note 8 Selling, general and administrative expenses

Description	Year ended 31 December 2010	Year ended 31 December 2009
Transportation expenses	1,759	1,542
Personnel costs	1,994	1,661
Materials	2,640	1,569
Taxes other than income tax	852	791
Insurance	327	383
Social charges	288	234
Depreciation	154	151
Repairs and maintenance	124	166

(in millions of Russian roubles, unless otherwise stated)

Note 8 Selling, general and administrative expenses (continued)

Description	Year ended 31 December 2010	Year ended 31 December 2009
Energy and fuel	142	137
Custom service fees	114	75
Consulting, audit and information services	45	65
Other	904	595
Total selling, general and administrative expenses	**9,343**	**7,369**

Depreciation totalling RR 3,842 million (for the year ended 31 December 2009 – RR 3,727 million) and personnel costs totalling RR 7,275 million (for the year ended 31 December 2009 – RR 6,281million) were reflected within profit and loss for the year ended 31 December 2010.

Note 9 Other operating expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Maintenance of social infrastructure	631	591
Impairment provision for accounts receivable	80	43
Impairment provision for property, plant and equipment	80	14
Impairment provision for inventory	(1)	(1)
Impairment provision for non-current assets	85	31
Other expenses	559	621
Total other operating expenses	**1,434**	**1,299**

Note 10 Financial expenses and income

Financial expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Interest expenses	1,301	1,481
Lease expenses	5	28
Effect from discounting	15	-
Less interest capitalized	(8)	(42)
Total financial expenses	**1,313**	**1,467**

Financial income

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	70	8
Effect from discounting	152	74
Total financial income	**222**	**82**

Note 11 Income tax expense

Income tax expense comprises the following:

Description	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax expense	2,394	41
Deferred income tax expenses	63	20
Total income tax expense	**2,457**	**61**

The income tax rate applicable to the majority of the Group's 2010 and 2009 income is 20%.

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

(in millions of Russian roubles, unless otherwise stated)

Note 11 Income tax expense (continued)

Description	Year ended 31 December 2010	Year ended 31 December 2009
Profit before taxation	11,342	(587)
Theoretical tax charge at statutory rate of 20%:	2,268	(117)
Tax effects of items not deductible or assessable for taxation purposes	189	178
Total income tax expense	**2,457**	**61**

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%).

	31 December 2008	Tax effect of movement in temporary differences	31 December 2009	Tax effect of movement in temporary differences	31 December 2010
Property, plant and equipment	407	122	529	(74)	455
Inventories	(33)	(20)	(53)	55	2
Non-current financial assets	11	(79)	(68)	(14)	(82)
Non-current borrowings	58	-	58	(8)	50
Accounts payable	(62)	(14)	(76)	160	84
Deferred income	2	(2)	-	(72)	(72)
Other non-current liabilities	(24)	13	(11)	9	(2)
Accounts receivable and prepayments	(58)	-	(58)	7	(51)
Net deferred income tax liability	**301**	**20**	**321**	**63**	**384**

The Group has not recognised a deferred tax liability of RR 56 million as at 31 December 2010 (31 December 2009 – RR 22 million) in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in millions of Russian roubles, unless otherwise stated)

Note 12 Property, plant and equipment

	Buildings and land	Equipment	Other	Assets under construction	Total
Net book value at 1 January 2009	**21,283**	**13,064**	**1,027**	**2,273**	**37,647**
Gross book value at 1 January 2009	**46,802**	**46,278**	**3,299**	**2,273**	**98,652**
Additions	1	243	9	1,766	**2,019**
Additions from assets under construction	700	2,118	45	(2,863)	**-**
Impairment provision	-	-	-	(14)	**(14)**
Disposals	(85)	(315)	(35)	(163)	**(598)**
Gross book value at 31 December 2009	**47,418**	**48,324**	**3,318**	**999**	**100,059**
Accumulated depreciation at 1 January 2009	**(25,519)**	**(33,214)**	**(2,272)**	**-**	**(61,005)**
Depreciation for the year	(1,470)	(2,179)	(78)	-	**(3,727)**
Accumulated depreciation on disposals	56	310	23	-	**389**
Accumulated depreciation at 31 December 2009	**(26,933)**	**(35,083)**	**(2,327)**	-	**(64,343)**
Net book value at 1 January 2010	**20,485**	**13,241**	**991**	**999**	**35,716**
Gross book value at 1 January 2010	**47,418**	**48,324**	**3,318**	**999**	**100,059**
Additions	36	565	70	2,112	**2,783**
Additions from assets under construction	734	617	56	(1,407)	**-**
Impairment provision	(13)	(5)	(8)	(54)	**(80)**
Disposals	(9)	(232)	(17)	(214)	**(472)**
Gross book value at 31 December 2010	**48,166**	**49,269**	**3,419**	**1,436**	**102,290**
Accumulated depreciation at 1 January 2010	**(26,933)**	**(35,083)**	**(2,327)**	**-**	**(64,343)**
Depreciation for the year	(1,362)	(2,406)	(74)	-	**(3,842)**
Accumulated depreciation on disposals	5	227	10	-	**242**
Accumulated depreciation at 31 December 2010	**(28,290)**	**(37,262)**	**(2,391)**	-	**(67,943)**
Net book value at 31 December 2010	**19,876**	**12,007**	**1,028**	**1,436**	**34,347**

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

Gross finance lease liabilities – minimum lease payments.

Description	**31 December 2010**	**31 December 2009**
No later than 1 year	18	49
Later than 1 year and no later than 5 years	2	6
Total lease payments	**20**	**55**
Future finance charges on finance leases	(4)	(4)
Present value of finance lease liabilities	**16**	**51**
Less current term lease payments	(10)	(46)
Long non-current lease payments	6	5

During 2010 lease payments were in accordance with approved payment schedules and denominated in RR. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default at net book value RR 145 million and RR 154 million as at 31 December 2010 and 2009 respectively.

Property, plant and equipment are presented net of an accumulated impairment provision of RR 3,975 million at 31 December 2010 (RR 3,895 million at 31 December 2009). The increase in the provision of RR 80 million during the year ended 31 December 2010 (during the year ended 31 December 2009 – increase of RR 14 million) was recognised within profit and loss as a component of other operating expenses.

Included in the cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RR 42,662 million and RR 39,033 million at 31 December 2010 and 2009, respectively.

Included in additions is capitalised interest of RR 8 million for the year ended 31 December 2010 (year ended 31 December 2009 – RR 42 million). The effective capitalisation rate for the year ended 31 December 2010 was 15.20% (for the year ended 31 December 2009 – 6.24%).

(in millions of Russian roubles, unless otherwise stated)

Note 13 Investments in associates

Investments in associates

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at the beginning of the year	**938**	**885**
Dilution	-	(108)
Share of post tax net results in associates	91	161
Balance at the end of the year	**1,029**	**938**

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

Associate	Activities of associate	Amount of investment		Ownership percentage	
		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Tatneftekhiminvest-holding	Holding company	316	305	7.30%	7.30%
Spurt Bank	Banking services	86	80	5.05%	5.05%
Tatfundbank	Banking services	208	197	2.33%	2.33%
KB Intekhbank	Banking services	145	138	6.25%	6.25%
SP Elastokam	Production of polyurethane	169	125	50.00%	50.00%
Karpov Plant	Production of chemicals	91	89	32.81%	32.81%
Yughimterminal	Chemicals transhipment	14	4	25.00%	25.00%
Total		**1,029**	**938**		

All associates are incorporated within the Russian Federation.

Significant influence is exercised over the associates listed above where the Group owns less than 20% through other means of influence such as common directorships and chairmanships, and significant transactions.

Summaries of the Group's share of associates' revenue, assets and liabilities for the years ended and as at 31 December 2010 and 2009 are as follows:

Associate	Share of associate revenue		Share of associate assets		Share of associate liabilities	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
SP Elastokam	598	453	312	261	143	137
Karpov Plant	284	258	271	274	180	185
Spurt Bank	70	73	741	556	656	475
Tatfundbank	132	152	1,424	1,222	1,212	1,025
KB Intekhbank	70	56	699	535	554	397
Tatneftekhiminvest -holding	1	96	317	305	1	-
Yughimterminal	63	1	149	5	138	1
Total	**1,218**	**1,089**	**3,913**	**3,158**	**2,884**	**2,220**

Note 14 Investments in securities and other current and non-current assets

Description	31 December 2010	31 December 2009
Non-current		
Available for sale investments at fair value		
Debt securities	1,564	1,769
Equity securities	756	699
Loans and receivables at amortized cost		
Loan to Tatneft-NKNK-Oil	-	92
Mortgage loans issued to employees	166	165
Non-current other financial assets	47	151
Investments in securities and other financial assets	**2,533**	**2,876**

(in millions of Russian roubles, unless otherwise stated)

Note 14 Investments in securities and other current and non-current assets (continued)

Current		
Available for sale investments at fair value		
Debt securities	357	336
Investments held for maturity		
Terms deposits	370	-
Investments in securities and other financial assets	**727**	**336**

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

Loan to Tatneft-NKNK-Oil

Management have assessed the recoverability of the loan and reflected an impairment provision of RR 294 million during 2006 and additional impairment provision of RR 92 million in 2010.

Debt securities

Debt securities represents promissory notes with a fair valued based on the scheduling of anticipated contractual cash flows and the use of an 8.0% discount rate. This 8.0% discount rate has been estimated based on management's assessment of the borrowing rate of the issuer of these promissory notes.

The current portion of these promissory notes in the amount of RR 357 million as at 31 December 2010 are reported within current available for sale investments at fair value.

Equity securities

Equity securities represents 2% stake in Aк Bars Bank. Fair value of that equity investment is assessed on the basis of comparison of cost of investment to respective share of its net assets attributable to the Group as at the reporting date. The change in fair value for the year ended 31 December 2010 resulted in a gain recognized in other comprehensive income and expenses in the amount of RR 58 million.

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

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at the beginning of the year	**1,226**	**1,089**
Reclassification to trade and other accounts receivable (see Note 16)	(212)	106
Reclassification from trade and other accounts receivable (see Note 16)	106	-
Increase in impairment provision	107	31
Reversal of impairment provision	(22)	
Effect of discounting	(152)	-
Balance at the end of the year	**1,053**	**1,226**

All the above other non-current assets are denominated in Russian Roubles.

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

Description	31 December 2010	31 December 2009
Other non-current assets	881	754
Total other non-current assets	**881**	**754**

Other non-current non-financial assets represent licences, catalysts and prepaid expenses, which will be utilized in the period after 31 December 2011.

(in millions of Russian roubles, unless otherwise stated)

Note 15 Inventories

Description	31 December 2010	31 December 2009
Finished goods and work in progress	3,146	2,076
Raw materials	2,927	2,439
Materials and supplies	1,817	1,450
Impairment provision	(49)	(50)
Total inventories	**7,841**	**5,915**

Note 16 Trade and other receivables

Description	31 December 2010	31 December 2009
Receivables from domestic sales	2,396	1,980
Receivables from export sales (denominated in USD and Euro)	2,086	1,590
Other accounts receivable	110	214
Impairment provision	(264)	(78)
Total trade and other receivables	**4,328**	**3,706**

A provision for impairment of RR 264 million at 31 December 2010 (31 December 2009 – RR 78 million) has been made against receivables from domestic trade and other sales to reduce them to their estimated recoverable value. The net increase in the provision of RR 80 million during the year ended 31 December 2010 (year ended 31 December 2009 – decrease by RR 6 million) was recognised within profit and loss as other operating expenses.

The movement of the impairment provision for trade and other receivables is shown in the table below:

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at the beginning of the year	**78**	**190**
Reclassification from other non-current assets (Note 14)	212	-
Reclassification to other non-current assets (Note 14)	(106)	(106)
Increase in impairment provision	97	24
Reversal of impairment provision	(17)	(16)
Write-off	-	(14)
Balance at the end of the year	**264**	**78**

The individually impaired receivables mainly relate to domestic customers. The aging of these receivables is as follows:

Description	31 December 2010	31 December 2009
Up to 6 to 12 months	-	-
Over 12 months	264	78
Total	**264**	**78**

As at 31 December 2010 trade receivables of RR 152 million (31 December 2009 - RR 749 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

Description	31 December 2010	31 December 2009
Not past due	4,092	2,760
Up to 3 months	132	664
3 to 6 months	6	27
Past due more than 6 months	14	58
Total	**4,244**	**3,509**

As at 31 December 2010 and 2009, respectively, there were no past due other accounts receivable.

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

(in millions of Russian roubles, unless otherwise stated)

Note 16 Trade and other receivables (continued)

Description	31 December 2010	31 December 2009
Russian roubles	2,242	2,080
US Dollar	1,175	1,220
Euro	911	406
Total	**4,328**	**3,706**

The receivables from export sales do not contain impaired assets.

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

Note 17 Taxes paid in advance and VAT on export sales

	31 December 2010	31 December 2009
VAT Receivable	951	629
VAT on export sales	872	940
Social charges	2	1
Excise taxes	78	58
Other	13	1
Total	**1,916**	**1,629**

Note 18 Other current assets

Description	31 December 2010	31 December 2009
Advances to suppliers	1,198	790
Other current assets	100	93
Total other current assets	**1,298**	**883**

The movement of the provision is shown in the table below:

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at the beginning of the year	**16**	**6**
Increase in impairment provision	1	10
Balance at the end of the year	**17**	**16**

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

Note 19 Cash and cash equivalents

Description	31 December 2010	31 December 2009
RR denominated amounts	2,313	1,911
USD denominated amounts	386	649
Euro denominated amounts	94	104
Total cash and cash equivalents	**2,793**	**2,664**

(in millions of Russian roubles, unless otherwise stated)

Note 20 Shareholders' equity and earnings per share

As of 31 December 2010 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary shares (31 December 2009 –1,611,256,000 ordinary shares). As of 31 December 2010 the Company had authorised, issued and paid up non-voting preferred share capital of 218,983,750 shares (31 December 2009 – 218,983,750 shares).

Earnings per share

	Year ended 31 December 2010	Year ended 31 December 2009
Profit/(Loss) attributable to parent company shareholders	8,466	(760)
Weighted average number of participating shares	1,830,239,750	1,830,239,750
Earnings/(loss) per participating share (Russian roubles per share)	**4.63**	**(0.42)**

Golden share

The Government of the Republic of Tatarstan possesses a special right ("Golden Share") to veto certain decisions taken at shareholders' and Board of Directors' meetings. Decisions subject to veto include: amendments to the Company's charter or adoption of a new edition; reorganisation of the Company; liquidation of the Company, creation of the liquidation commission and approval of the interim and final liquidation balance sheets; increases and decreases in share capital; investments in holding companies, financial and industrial groups or other entities; entering into significant transactions and transactions with related parties in accordance with the Law of the Russian Federation "On Joint Stock Companies"; and the appointment of the chief executive officer (General Director) of the Company.

Rights attributable to preferred shares

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

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

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

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

Dividends and distributable reserves

Dividends declared:

For the year ended 31 December 2008, approved in the annual general shareholders' meeting on 3 June 2009:	
Per ordinary share in RR	0.31
Per preferred share in RR	0.31

For the year ended 31 December 2009, approved in the annual general shareholders' meeting on 15 April 2010:	
Per ordinary share in RR	0.07
Per preferred share in RR	0.07

(in millions of Russian roubles, unless otherwise stated)

Note 20 Shareholders' equity and earnings per share (continued)

The following amounts have not been included in the consolidated financial statements since they were proposed on 14 March 2011 by the Board of Directors:

For the year ended 31 December 2010, as proposed by Board of Directors to the annual general shareholders' meeting on 15 April 2011:	
Per ordinary share in RR	1.18
Per preferred share in RR	1.18

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2010, the current year statutory net profit for the Company as reported in the published annual statutory reporting forms was RR 7,174 million (for the year ended 31 December 2009 – RR 424 million) and the closing balance of the accumulated profit including the current year statutory net profit totalled RR 27,283 million as at 31 December 2010 (as at 31 December 2009 – RR 20,238 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

Note 21 Loans and borrowings

Non-current loans and borrowings

Description	31 December 2010	31 December 2009
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	8,760	7,828
Loans and borrowings in Russian Roubles	2,674	756
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	187	1,660
Loans and borrowings in Euro	1,522	1,976
Less current portion of non-current loans and borrowings	(5,063)	(3,012)
Total non-current loans and borrowings	**8,080**	**9,208**

Scheduled maturity of non-current borrowings is as follows:

Description	31 December 2010	31 December 2009
Between one and five years	7,861	8,971
After five years	219	237
Total	**8,080**	**9,208**

Weighted average effective interest rates of non-current borrowings:

Description	31 December 2010	31 December 2009
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	8.02%	7.97%
Loans and borrowings in Russian Roubles	10.37%	15.89%
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	0.53%	0.64%
Loans and borrowings in Euro	1.21%	1.38%

(in millions of Russian roubles, unless otherwise stated)

Note 21 Loans and borrowings (продолжение)

Current loans and borrowings and current portion of non-current loans and borrowings

Description	31 December 2010	31 December 2009
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	-	1,451
Loans and borrowings in Russian Roubles	626	2,388
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	-	782
Loans and borrowings in Euro	297	-
Current portion of non-current borrowings	5,063	3,012
Total current loans and borrowings	**5,986**	**7,633**

Scheduled maturity of current borrowings is as follows:

Description	31 December 2010	31 December 2009
Within three months	596	1,508
From three months to one year	5,390	6,125
Total	**5,986**	**7,633**

Weighted average effective interest rates of current borrowings:

Description	31 December 2010	31 December 2009
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	-	10.64%
Loans and borrowings in Russian Roubles	10.02%	15.03%
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	-	2.41%
Loans and borrowings in Euro	1.46%	2.19%

The fair value of current loans and borrowings approximates their carrying amount, as the impact of discounting is not significant. The fair value of non-current loans and borrowings with fixed rates is based on cash flows discounted using estimates of a market borrowing rate - a rate of 10% at 31 December 2010 and 10% at 31 December 2009. The fair value of loans and borrowings as at 31 December 2010 equals to RR 13,396 million (31 December 2009 – RR 16,203 million).

As of 31 December 2010 loans and borrowings entered by the Group that are secured by fixed assets amount to RR 2,361 millions (RR 3,187 millions at 31 December 2009) and inventories amounts to RR nil million (RR 20 millions at 31 December 2009). The Group has undrawn committed credit facilities in amount of RR 3,513 million at 31 December 2010 (31 December 2009 – RR 4,463 million).

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

Note 22 Trade and other accounts payable

	31 December 2010	31 December 2009
Trade accounts payable	3,385	6,991
Other	284	265
Total trade and other accounts payable	**3,669**	**7,256**

Accounts payable and accrued liabilities are predominantly RR denominated.

Note 23 Advance received and accrued liabilities

	31 December 2010	31 December 2009
Advances received	1,220	1,560
Payables to employees	1,117	769
Total advance received and accrued liabilities	**2,337**	**2,329**

(in millions of Russian roubles, unless otherwise stated)

Note 24 Taxes other than income payable

	31 December 2010	31 December 2009
VAT	233	165
Social charges	149	95
Personal income tax	122	68
Property tax	107	101
Tax on land	59	80
Other taxes	26	61
Total taxes other than income payable	**696**	**570**

Note 25 Related party transactions

For the purposes of these financial statements, parties are considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

For the years ended 31 December 2010 and 2009 the Group has the following transactions and balances with related parties.

Description	Revenue	Purchases of materials and services	Purchases of PPE	Change in impairment provisions
For the year ended 31 December 2010				
OAO Nizhnekamskneftekhim	**6,238**	**31,437**	**-**	**(42)**
Shareholders	-	3	-	-
Associates	346	200	-	(55)
other entities*	5,892	31,234	-	13
Subsidiaries	**80**	**448**	**5**	**-**
Shareholders	-	-	-	-
Associates	1	2	5	-
other entities*	79	446	-	-
Total	**6,318**	**31,885**	**5**	**(42)**
For the year ended 31 December 2009				
OAO Nizhnekamskneftekhim	**5,444**	**22,860**	**41**	**(101)**
shareholders	-	-	-	-
Associates	237	159	-	(101)
other entities*	5,207	22,701	41	-
Subsidiaries	**70**	**463**	**-**	**-**
shareholders	-	-	-	-
associates	-	-	-	-
other entities*	70	463	-	-
Total	**5,514**	**23,323**	**41**	**(101)**

*other entities include fellow subsidiaries

(in millions of Russian roubles, unless otherwise stated)

Note 25 Related party transactions (continued)

Balances with the related parties of NKNK Group presented below:

Description	Cash and term deposits	Loans issued and debt securities	Accounts receivable	Impair-ment provision	Accounts payable	Loans and bor-rowings payable	Dividends payable
As at 31 December 2010							
OAO Nizhnekamsk-neftekhim	**147**	**1,921**	**1,488**	**(174)**	**(491)**	**-**	**-**
shareholders	-	-	-	-	-	-	-
associates	147	-	230	(174)	(7)	-	-
other entities*	-	1,921	1,258	-	(484)	-	-
Subsidiaries	**163**	**-**	**18**	**-**	**(28)**	**-**	**-**
shareholders	-	-	-	-	-	-	-
associates	163	-	1	-	(1)	-	-
other entities*	-	-	17	-	(27)	-	-
Total	**310**	**1,921**	**1,506**	**(174)**	**(519)**		
As at 31 December 2009							
OAO Nizhnekamsk-neftekhim	**18**	**2,197**	**1,252**	**(131)**	**(2,505)**	**-**	**(10)**
shareholders	-	-	-	-	-	-	-
associates	18	-	216	(118)	(19)	-	(10)
other entities*	-	2,197	1,036	(13)	(2,486)	-	-
Subsidiaries	**28**	**-**	**5**	**-**	**(9)**	**(57)**	**-**
shareholders	-	-	-	-	-	-	-
associates	28	-	-	-	-	(57)	-
other entities*	-	-	5	-	(9)	-	-
Total	**46**	**2,197**	**1,257**	**(131)**	**(2,514)**	**(57)**	**(10)**

*other entities include fellow subsidiaries

Directors' compensation

Compensation paid to directors and senior management for their services in full time or part time executive management positions comprises a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to the Russian statutory financial statements. Total directors' and senior management compensation of the above nature, included within personnel costs in selling, general and administrative expenses, amounted to RR 168 million for the year ended 31 December 2010 (year ended 31 December 2009 – RR 156 million).

Note 26 Segment information

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

- Business activities of companies; and
- Product nature.

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

(in millions of Russian roubles, unless otherwise stated)

Note 26 Segment information (continued)

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

The table below contains other principal subsidiaries (see Note 27) that did not fall under the above listed operating segments and were presented under "All other segments":

	As of and for the year ended 31 December	
	2010	**2009**
1	OOO Trest TSNKhRS	OOO Trest TSNKhRS
2	OOO RMZ-NKNK	OOO RMZ-NKNK
3	OOO Transport-express	OOO Transport-express
4	OOO Neftekhimagroprom	OOO Neftekhimagroprom
5	OOO Nizhnekamskneftekhim – Service	OOO Nizhnekamskneftekhim – Service
6	OOO UOP Neftehim	OOO UOP Neftehim
7	OAO SOV-NKNK	OAO SOV-NKNK
8	OOO SCC Neftekhimik	OOO SCC Neftekhimik
9	OAO Neftekhimsevilen	OAO Neftekhimsevilen
10	OOO Nizhnekamskneftekhim –Divinil	OOO Nizhnekamskneftekhim –Divinil

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

	As of and for the year ended 31 December	
	2010	**2009**
1	OAO Tatneftekhiminvest-holding	OAO Tatneftekhiminvest-holding
2	OAO AKB Spurt Bank	OAO AKB Spurt Bank
3	OAO Tatfondbank	OAO Tatfondbank
4	OOO KB Intekhbank	OOO KB Intekhbank
5	OOO Elastokam	OOO Elastokam
6	OAO Karpov Plant	OAO Karpov Plant
7	Other (less than 5% of total share in associate revenue)	Other (less than 5% of total share in associate revenue)

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

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

The Group's financial performance by operating segments for the year ended 31 December 2010:

Description	Production and sales of petrochemicals, RSA	Petrochemicals trading, IFRS	All other segments, RSA	Total
Revenue				
External sales	88,150	3,987	4,784	96,921
Inter-segment sales	6,257	70	7,227	13,554
Total revenue	94,407	4,057	12,011	110,475
Result				
Gross profit	18,637	222	1,706	20,565
Operating profit	12,301	129	831	13,261
Exchange loss, net	(66)	-	(4)	(70)
Interest income	23	44	4	71
Interest expense	(1,049)	(63)	(141)	(1,253)
Dividends income	77	-	-	77
Income tax expense	(2,187)	(29)	(215)	(2,431)
Net profit	7,174	80	598	7,852
Other information				
Depreciation	(3,174)	(1)	(390)	(3,565)

(in millions of Russian roubles, unless otherwise stated)

Note 26 Segment information (continued)

Reportable segment revenues for the year ended 31 December 2010 is reconciled to the Group's revenue as follows:

Description	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenues, RSA and IFRS	94,407	4,057	12,011	110,475
Intercompany transactions	(6,257)	(70)	(7,227)	(13,554)
Other adjustments	(405)	-	-	(405)
Revenues, IFRS	**87,745**	**3,987**	**4,784**	**96,516**

Reportable segment operating profit for the year ended 31 December 2010 is reconciled to the Group's operating profit as follows:

Description	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Operating profit, RSA and IFRS	12,301	129	831	13,261
Reclassification of other expenses	(1,435)	-	14	(1,421)
Difference in IFRS and RSA depreciation	(435)	-	158	(277)
IFRS provisions	(347)	-	-	(347)
Other adjustments	1,027	-	37	1,064
Operating profit, IFRS	**11,111**	**129**	**1,040**	**12,280**

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

Reportable segment net profit for the year ended 31 December 2010 is reconciled to the Group's net profit as follows:

Description	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit, RAR and IFRS	7,174	80	598	7,852
Reversal RAR deferred tax	32	-	15	47
Diff in IFRS and RSA depreciation	(435)	-	158	(277)
Diff in RSA and IFRS provisions	274	-	-	274
Other adjustments	1,061	-	(72)	989
Net profit, IFRS	**8,106**	**80**	**699**	**8,885**

Other adjustments mainly represent elimination of intercompany dividends and expenses on exchange of availble-for-sale investments.

The Group's financial performance by operating segments for the year ended 31 December 2009:

Description	Production and sales of petrochemicals, RSA	Petrochemicals trading, IFRS	All other segments, RSA	Total
Revenue				
External sales	55,838	4,175	4,078	64,091
Inter-segment sales	4,424	15	3,837	8,276
Total revenue	60,262	4,190	7,915	72,367
Result				-
Gross profit	8,342	283	763	9,388
Operating profit (loss)	2,893	215	301	3,409
Exchange loss, net	(593)	-	-	(593)
Interest income	55	24	2	81
Interest expense	(1,128)	(38)	(153)	(1,319)
Dividends income	602	-	-	602
Income tax expense	(275)	(19)	(46)	(340)
Net profit(loss)	424	182	773	1,379
Other information				
Depreciation	**(2,940)**	**(1)**	**(198)**	**(3,139)**

(in millions of Russian roubles, unless otherwise stated)

Note 26 Segment information (continued)

Reportable segment revenues for the year ended 31 December 2009 is reconciled to the Group's revenue as follows:

Description	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenues, RSA and IFRS	60,262	4,190	7,915	72,367
Intercompany transactions	(4,424)	(15)	(3,837)	(8,276)
Other adjustments	(613)	-	(489)	(1,102)
Revenues, IFRS	**55,225**	**4,175**	**3,589**	**62,989**

Reportable segment operating profit for the year ended 31 December 2009 is reconciled to the Group's operating profit as follows:

Description	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Operating profit (loss), RSA and IFRS	2,893	215	301	3,409
Reclassification of other expenses	(1,130)	-	125	(1,005)
Difference in IFRS and RSA depreciation	(539)	-	141	(398)
Other adjustments	217	-	(399)	(182)
Operating profit, IFRS	**1,441**	**215**	**168**	**1,824**

Reportable segment net profit for the year ended 31 December 2009 is reconciled to the Group's net profit as follows:

Description	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit (loss), RAR and IFRS	424	182	773	1,379
Reversal RAR deferred tax	284	-	(14)	270
Diff in IFRS and RSA depreciation	(540)	-	142	(398)
Other adjustments	(333)	-	(1,566)	(1,899)
Net profit (loss), IFRS	**(165)**	**182**	**(665)**	**(648)**

The major part of revenue relates to a few customers, whichindividually accounts for less than 10% of total revenues each and presented below based on accounting records used to prepare IFRS financial statements.

Revenue by major customers (for the year ended 31 December 2010)	Product and sales of petrochemicals	Petrochemicals trading	All other segments	Total
19 customers with sales turnover more than RR 1,000 million each	64,677	-	-	64,677
Other customers (with turnover less than RR 1,000 million each)	23,068	3,987	4,784	31,839
Revenues, IFRS	**87,745**	**3,987**	**4,784**	**96,516**

Revenue by major customers (for the year ended 31 December 2009)	Product and sales of petrochemicals	Petrochemicals trading	All other segments	Total
11 customers with sales turnover more than RR 1,000 million each	31,791	-	-	31,791
Other customers (with turnover less than RR 1,000 million each)	22,979	4,175	4,044	31,198
Revenues, IFRS	**54,770**	**4,175**	**4,044**	**62,989**

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

Revenue by major products (for the year ended 31 December 2010)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Rubbers production	41,806	568	39	42,413
Plastic production	22,137	705	9	22,851
Olefins products	17,345	655	836	18,836
Other products	6,454	2,062	3,900	12,416
Revenues, IFRS	**87,742**	**3,990**	**4,784**	**96,516**

(in millions of Russian roubles, unless otherwise stated)

Note 26 Segment information (continued)

Revenue by major products (for the year ended 31 December 2009)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Rubbers production	23,293	153	28	23,474
Plastic production	14,711	756	1,060	16,527
Olefins products	12,806	1,364	126	14,296
Other products	3,960	1,902	2,830	8,692
Revenues, IFRS	**54,770**	**4,175**	**4,044**	**62,989**

Note 27 Principal subsidiaries

		Percentage of voting interest held	
Subsidiary	Business	31 December 2010	31 December 2009
OOO Trest TSNKhRS	General equipment repairs and construction	100%	100%
OOO RMZ-NKNK	Repair and maintenance	100%	100%
OOO Transport-express	Transportation	100%	100%
OOO Neftekhimagroprom	Agricultural	100%	100%
OOO Nizhnekamskneftekhim – Service	Wholesale and retail trade	100%	100%
OOO UOP Neftehim	Food supplies and catering	100%	100%
OAO SOV-NKNK	Water purification	52%	52%
OOO SCC Neftekhimik	Ice sports complex	87%	87%
OAO Neftekhimsevilen	Plastic products	51%	51%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56%	56%
OOO Polymer-NKNK	Production of technical goods	100%	100%
OOO Nizhnekamskneftekhim –Divinil*	Butadiene production	50%	50%
ZAO Kaminterhim	Petrochemicals production	100%	49%

* The Group executes control over OOO Nizhnekamskneftekhim-Divinil through chairmanship and seats in the Board of Directors.

As at 31 December 2010 and 2009 the percentage of ownership interest of the Group in its subsidiaries is equal to percentage of voting interest.

In May 2010 the Group acquired 51% shares of ZAO Kaminterhim in addition to 49% held as at 1 January 2010. As result the Group controls ZAO Kaminterhim. Financial result on acquisition was not material.

All the consolidated subsidiaries are incorporated in the Russian Federation, except for Oy Nizhex Scandinavia Ltd ("Nizhex"), which is incorporated in Finland.

Note 28 Financial instruments and financial risk factors

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

Foreign exchange risk

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

The Group's overall strategy is to have no significant net exposure to currencies other than the Russian rouble, Euro or the US dollar, and it does not enter into forward foreign exchange contracts or other derivative contracts to mitigate this risk. Management has not set any limit on its exposure to foreign exchange risk but periodically reviews its exposure of foreign exchange movements. The Group's financial assets and liabilities denominated in US dollars and Euro are listed in Notes 16, 19 and 21. Management believes the Group's exposure to fluctuations in foreign exchange rates is limited to the aforementioned and to the proceeds from export sales. The policy of the Group is to have its non-current borrowings denominated primarily in US Dollars and Euro and to price its export sales in US Dollars and Euro also. Through this structure Group management believes that an element of natural hedging of US Dollar and Euro currency risk arises from these transactions and consequently there is no need to formally hedge the US Dollar and Euro to mitigate this risk.

(in millions of Russian roubles, unless otherwise stated)

Note 28 Financial instruments and financial risk factors (continued)

At 31 December 2010, if the Euro had decreased by 15% against the Russian Roubles with all other variables held constant, post tax profit for the year would be higher by the following:

	Year ended 31 December 2010	Year ended 31 December 2009
Effect on post tax profit	158	495

At 31 December 2010, if the US dollar had decreased by 15% against the Russian Roubles with all other variables held constant, post tax profit for the year would be higher by the following:

	Year ended 31 December 2010	Year ended 31 December 2009
Effect on post tax profit	1,121	1,330

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

Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises primarily from borrowings (Note 21). Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk.

The major use of proceeds from borrowings is the funding of capital investments. The Group makes every effort to have such borrowings at fixed rates so that the return on capital projects is as predictable as possible, thus reducing the risk that the effectiveness of capital investments will go down due to changes in the market interest rate. The Group management does not eliminate the possibility of using certain arrangements to hedge interest-rate risks in order to be able to mitigate the risk of fixed interest rates being inconsistent with the current cost of borrowings on the market.

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

Based on the simulations performed the impact on profit and loss and equity of a 50 basis points for the year ended 31 December 2010 (50 basis points for the year ended 31 December 2009) point shift would be:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit and loss	163	223

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

Credit risk

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

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

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

(in millions of Russian roubles, unless otherwise stated)

Note 28 Financial instruments and financial risk factors (continued)

Credit risk is managed on a Group basis. 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; and
Rating C – others, creditworthiness difficulties may be anticipated.

	Rating "A"	Rating "B"	Rating "C"
At 31 December 2010			
Cash and cash equivalents	2,793	-	-
Trade and other receivables	4,328	-	-
Investments in securities and other financial current assets	727	-	-
Investments in securities and other financial non-current assets	2,533	-	-

	Rating "A"	Rating "B"	Rating "C"
At 31 December 2009			-
Cash and cash equivalents	2,664	-	-
Trade accounts receivable and other receivables	3,706	-	-
Investments in securities and other financial current assets	336	-	-
Investments in securities and other financial non-current assets	2,876	-	168

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

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
As at 31 December 2010				
Trade accounts payable	3,669	-	-	-
Lease payments	18	2	-	-
Dividends payable	3	-	-	-
Borrowings (principal)	5,986	4,545	3,273	202
As at 31 December 2009				
Trade accounts payable	7,256	-	-	-
Lease payments	49	6	-	-
Dividends payable	389	-	-	-

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

Note 28 Financial instruments and financial risk factors (continued)

Fair values

The estimated fair value of financial assets carried at amortized cost is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. At 31 December 2010 and 31 December 2009 the fair value of financial liabilities which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, did not materially differ, unless otherwise stated, from the carrying amount of these financial liabilities.

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

Note 29 Contingent liabilities, commitments and other risks

Contingent liabilities

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2010 no provision for potential tax liabilities had been recorded (31 December 2009 – RR nil million).

Legal proceedings

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

Environmental matters

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

Commitments

Capital commitments

As of 31 December 2010 the Group had entered into capital commitments equal to RR nil (31 December 2009 - RR nil).

Social assets

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

Guarantees to third parties

The Group has entered in number of agreements under which the Group is guarantor to third parties in case of default of the principal debtors. The amount of guarantees given as at 31 December 2010 is RR nil million (31 December 2009 – RR nil million).

Note 29 Contingent liabilities, commitments and other risks (continued)

Letters of credit

The Group has unsecured uncovered letters of credit as at 31 December 2010 for RR 834 million (RR 336 million – as at 31 December 2009).

Other risks

Operations and legislative matters

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

As at 31 December 2010 the Company, which represents the majority of the Group operations, had in place insurance in respect of physical assets and compensations to personal.

Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade and other receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

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

Note 30 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 monitors capital on the basis of its gearing ratio and indebtness ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. The indebtness ratio is calculated as net debt divided by total equity.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain the indebtness ratio not be greater than 75% and a Gearing ratio not greater than 45%. The gearing ratio and the indebtness ratios at 31 December 2010 and 2009 were as follows:

(in millions of Russian roubles, unless otherwise stated)

Note 30 Capital risk management (continued)

	Year ended 31 December 2010	Year ended 31 December 2009
Total borrowings (Note 21)	14,066	16,841
Less: cash and cash equivalents (Note 19)	(2,793)	(2,664)
Net debt	**11,273**	**14,177**
Total equity	36 218	27,569
Total capital	**47,491**	**41,746**
Indebtness ratio	**31%**	**51%**
Gearing ratio	**24%**	**34%**

The decrease in the indebtness and gearing ratios during 2010 is mainly caused by a substantial decrease in net debt following a net repayment of loans and borrowings of RR 2,905 million (in year 2009 - RR 3,779 million).

Note 31 Events after reporting date

Dividends

As discussed in Note 20, on 14 March 2011 the Board of Directors proposed a dividend of RR 2,152 million. This decision is subject for approval at the annual general shareholders meeting.