

**NIZHNEKAMSKNEFTEKHIM GROUP  
IFRS CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

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## ***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 at 31 December 2011 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 information.

### **Management's Responsibility for the Consolidated 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 consolidated 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 about whether the consolidated 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
- 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*ZAO PricewaterhouseCoopers Audit*

26 March 2012  
Moscow, Russia



**Consolidated Statement of Comprehensive Income**

	Note	2011	2010
Revenue	6	126,021	96,516
Cost of sales	7	(91,465)	(73,459)
<b>Gross profit</b>		<b>34,556</b>	<b>23,057</b>
Selling, general and administrative expenses	8	(11,915)	(9,343)
Other operating expenses, net	9	(985)	(1,434)
<b>Operating profit</b>		<b>21,656</b>	<b>12,280</b>
Financial expenses	10	(904)	(1,313)
Financial income	10	628	222
Foreign exchange (loss)/gain		(217)	62
Share of post tax net results in associates	13	15	91
<b>Profit before taxation</b>		<b>21,178</b>	<b>11,342</b>
Income tax expense	11	(4,402)	(2,457)
<b>Profit for the year</b>		<b>16,776</b>	<b>8,885</b>
<b>Other comprehensive income/(expense):</b>			
Change in fair value of available for sale investments.	14	35	58
Currency translation reserve		19	(50)
<b>Total comprehensive income for the year</b>		<b>16,830</b>	<b>8,893</b>
<b>Profit attributable to:</b>			
Parent company shareholders		16,691	8,466
Non-controlling interest		85	419
<b>Profit for the year</b>		<b>16,776</b>	<b>8,885</b>
<b>Total comprehensive income attributable to:</b>			
Parent company shareholders		16,732	8,493
Non-controlling interest		98	400
<b>Total comprehensive income</b>		<b>16,830</b>	<b>8,893</b>
<b>Earnings per participating share (Russian Roubles per share)</b>	<b>21</b>	<b>9.12</b>	<b>4.63</b>

The accompanying notes on pages 8-49 are an integral part of these consolidated financial statements.

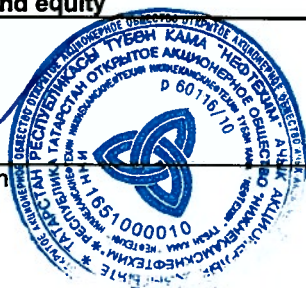


**Consolidated statement of financial position**

	Note	31 December 2011	31 December 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, Plant and Equipment	12	38,584	34,347
Investment in associates	13	373	1,029
Investments in securities and other financial assets	14	1,999	2,533
Other non-current assets	15	870	881
<b>Total non-current assets</b>		<b>41,826</b>	<b>38,790</b>
<b>Current assets</b>			
Inventories	16	12,928	7,841
Trade and other receivables	17	3,636	4,328
Income tax prepaid		32	223
Taxes paid in advance and VAT recoverable	18	3,596	1,916
Investments in securities and other financial assets	14	-	727
Other current assets	19	1,459	1,298
Cash and cash equivalents	20	6,468	2,793
<b>Total current assets</b>		<b>28,119</b>	<b>19,126</b>
<b>Total assets</b>		<b>69,945</b>	<b>57,916</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Equity attributable to parent company shareholders</b>			
Share capital	21	6,332	6,332
Currency translation reserve		27	16
Revaluation reserve		32	2
Retained earnings		42,319	28,291
<b>Total equity attributable to parent company shareholders</b>		<b>48,710</b>	<b>34,641</b>
<b>Non-controlling interest</b>		<b>1,129</b>	<b>1,577</b>
<b>Total equity</b>		<b>49,839</b>	<b>36,218</b>
<b>Non-current liabilities</b>			
Non-current loans and borrowings	22	7,361	8,080
Deferred tax liability	11	278	384
Other non-current liabilities	23	819	369
<b>Total non-current liabilities</b>		<b>8,458</b>	<b>8,833</b>
<b>Current liabilities</b>			
Current loans and borrowings and current portion of non-current loans and borrowings	22	3,761	5,986
Accounts payable	24	4,129	3,669
Advances received and accrued liabilities	25	2,632	2,337
Income tax payable		154	63
Taxes other than income payable	26	901	696
Dividends payable		5	3
Deferred income		66	111
<b>Total current liabilities</b>		<b>11,648</b>	<b>12,865</b>
<b>Total liabilities</b>		<b>20,106</b>	<b>21,698</b>
<b>Total liabilities and equity</b>		<b>69,945</b>	<b>57,916</b>

Vladimir M. Busygin  
General Director

26 March 2012



Ilfar R. Yakhin  
Chief Accountant



**Consolidated Statement of Cash Flows**

	2011	2010
<b>Cash flows from operating activities</b>		
Cash receipts from customers and other debtors	143,545	105,040
Cash paid to suppliers and employees, and taxes other than income	(123,405)	(95,966)
Interest paid	(876)	(1,250)
Income tax paid	(3,760)	(1,184)
<b>Net cash received from operating activities</b>	<b>15,504</b>	<b>6,640</b>
<b>Cash flows from investing activities</b>		
Loans repaid	-	5
Acquisition non-controlling interest	(880)	-
Proceeds of redemption of third party promissory notes	2,343	336
Purchase of other investments	(146)	-
Proceeds from term deposit	370	(370)
Proceeds from sale of property, plant and equipment	11	9
Purchase of property, plant and equipment	(7,953)	(2,969)
Dividends and interest received	25	21
<b>Net cash used for investing activities</b>	<b>(6,230)</b>	<b>(2,968)</b>
<b>Cash flows from financing activities</b>		
Proceeds from current and non-current borrowings	3,589	8,844
Repayment of current and non-current borrowings	(7,013)	(11,747)
Payments under financial lease contracts	(40)	(26)
Dividends paid	(2,133)	(623)
<b>Net cash used for financing activities</b>	<b>(5,597)</b>	<b>(3,552)</b>
<b>Net increase in cash and cash equivalents before the effects of exchange rate changes</b>		
	<b>3,677</b>	<b>120</b>
Effect of exchange rate changes on cash and cash equivalents	(2)	9
<b>Net increase in cash and cash equivalents</b>	<b>3,675</b>	<b>129</b>
Cash and cash equivalents at the beginning of the year	2,793	2,664
<b>Cash and cash equivalents at 31 December</b>	<b>6,468</b>	<b>2,793</b>

The accompanying notes on pages 8-49 are an integral part of these consolidated financial statements.

**NIZHNEKAMSKNEFTEKHIM GROUP**

IFRS consolidated financial statements  
for the year ended 31 December 2011  
(in millions of Russian Rubles 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
<b>Balance as at 31 December 2009</b>	<b>6,332</b>	<b>19,949</b>	<b>47</b>	<b>(56)</b>	<b>26,272</b>	<b>1,297</b>	<b>27,569</b>
Profit for the period	-	8,466	-	-	8,466	419	8,885
Change in fair value of available for sale investments	-	-	-	58	58	-	58
Revaluation reserve	-	-	(31)	-	(31)	(19)	(50)
Total other comprehensive income/ (expenses)	-	8,466	(31)	58	8,493	400	8,893
Dividends	-	(124)	-	-	(124)	(120)	(244)
<b>Balance as at 31 December 2010</b>	<b>6,332</b>	<b>28,291</b>	<b>16</b>	<b>2</b>	<b>34,641</b>	<b>1,577</b>	<b>36,218</b>
Profit for the period	-	16,691	-	-	16,691	85	16,776
Other comprehensive income	-	-	-	-	-	-	-
Change in fair value of available for sale investments	-	-	-	30	30	5	35
Revaluation reserve	-	-	11	-	11	8	19
Total other comprehensive income	-	16,691	11	30	16,732	98	16,830
Change in non-controlling interest in a subsidiary	-	(501)	-	-	(501)	(392)	(893)
Dividends	-	(2,162)	-	-	(2,162)	(154)	(2,316)
<b>Balance as at 31 December 2011</b>	<b>6,332</b>	<b>42,319</b>	<b>27</b>	<b>32</b>	<b>48,710</b>	<b>1,129</b>	<b>49,839</b>

The accompanying notes on pages 8-49 are an integral part of these consolidated financial statements.



## **Note 1 Nizhnekamskneftekhim Group and its operations**

AO 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 29 (collectively the "Group") are principally engaged in the production and sale of petrochemicals within the Republic of Tatarstan. The Group employed an average of 23,699 и 23,576 employees during the years ended 31 December 2011 and 2010, respectively.

The main shareholders of the Company as at 31 December 2011 are OAO Svyazinvetsneftekhim (100% owned by the Republic of Tatarstan) (31 December 2011 – 28.6% of share capital; 31 December 2010 – 28.6% of share capital) and OAO TAIF (31 December 2011 – 50.6 % of voting rights; 31 December 2010 – 50.6% of voting rights) via its 100% subsidiary OOO Telecom-Management.

AO 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**

### **Statement of compliance**

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

### **Basis of preparation**

The Group operates in accordance with Russian laws and statutory requirements regulating accounting and reporting procedures. The Russian accounting and reporting procedures may significantly differ from that set forth by IFRS. In this respect the financial statements of individual companies of the Group have been adjusted to have the consolidated financial statements compliant to all the requirements of IFRS.

The Group's consolidated financial statements have been prepared under the historical cost convention except for the following adjustments:

- to acquired assets, liabilities and contingent liabilities of subsidiaries and associates carried at fair value under IFRS 3 Business Combinations;
- to measuring financial instruments at the current market rates under IFRS 39 Financial instruments: Recognition and Measurement.

### **Basis of consolidation**

#### ***Subsidiaries***

Subsidiaries are those companies and other entities (including special purpose entities "SPE") in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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





## **Note 2 Basis of preparation (continued)**

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

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

## **Note 3 Adoption of New or Revised Standards and Interpretations**

The following new standards and interpretations became effective for the Group from 1 January 2011:

***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. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties.

***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 the 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 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 above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets")

***Other revised standards and interpretations effective for the current period.*** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.



### **Note 3 Adoption of New or Revised Standards and Interpretations (continued)**

#### **New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted.

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

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

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

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

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

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



### **Note 3 Adoption of New or Revised Standards and Interpretations (continued)**

**IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group does not expect the amendments to have any material effect on its financial statements.

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

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

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

**Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013)**, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the new standard on its financial statements.

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

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

**Other revised standards and interpretations:** The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly 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 17).

**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 a constructive obligation to the Group. Consequently, a provision in respect of post-employment benefits has been created and recognized in the consolidated statement of financial position. Management continues to review such programs and continues to assess whether they give rise to a voluntary obligation (See Note 23).

**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.

**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 31).

## **Note 5 Summary of significant accounting policies**

### **5.1 Accounting policies of the Group**

#### **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.



## **Note 5 Summary of significant accounting policies (continued)**

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. Dividends received from associates reduce the carrying value of the investments in associates.

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.

### **Disposals of subsidiaries or associates**

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

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

### **5.2 Revenue and income recognition**

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

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

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

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

### **5.3 Construction contracts**

The nature of the majority of the Group's construction contracts is such that their outcome cannot be estimated reliably, therefore contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.



## **Note 5 Summary of significant accounting policies (continued)**

### **5.4 Finance lease**

Assets subject to finance leases are capitalised and included in property, plant and equipment at the lower of fair value or present discounted value of future minimum lease payments as determined at the inception of the lease. The obligations relating to finance lease net off the finance charges in respect of the future periods, are determined at the inception of the lease and included within liabilities. The interest component of the lease obligation is allocated to the 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.

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

### **5.5 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.

At 31 December 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 32.1961 (31 December 2010 USD 1=RR 30.4769). The official Euro to RR exchange rate at 31 December 2011, as determined by the Central Bank of the Russian Federation, was Euro (EUR) 1=RR 41.6714 (31 December 2010 EUR 1=RR 40.3331).

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.

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

### **5.6 Borrowing costs**

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

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for use or sale (a qualifying asset) are added to the cost of this asset, until such time as the asset is substantially ready for its intended use or sale.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.



## **Note 5 Summary of significant accounting policies (continued)**

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

### **5.7 Government grants**

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 Employee benefits**

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

### **5.9 Pension and other post-employment benefits**

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

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

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

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

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

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

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



## **Note 5 Summary of significant accounting policies (continued)**

### **5.10 Income taxes**

Income taxes have been provided for in the consolidated financial statements under Russian law enacted or substantively enacted at the balance sheet date. The income tax charge/credit comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income in profit or loss or other comprehensive income.

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

Deferred 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 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.

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

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.

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.





### **Note 5 Summary of significant accounting policies (continued)**

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:

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

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

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

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

#### **5.13 Intangible assets**

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

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

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

#### **5.14 Inventories**

Inventories are recorded at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and those related production overhead (based on norm operating capacity) but excludes borrowing. The cost of finished goods and semi-finished products comprises raw material, direct labour, other direct costs and those variable costs but excludes borrowing costs and other costs not directly related to production. Inventories and materials are valued using weighed average method less impairment provision. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

#### **5.15 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.

#### **5.16 Advances given**

Advances given are carried at cost less provision for impairment. Advances given are classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayment on services (including insurance services) is included into expenses of the period or into assets value in the course of rendering services. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year in line "other operating expenses, net".



## **Note 5 Summary of significant accounting policies (continued)**

### **5.17 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.

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

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.

### **5.18 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.

### **5.19 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks, bank deposits 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



## Note 5 Summary of significant accounting policies (continued)

### 5.20 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 and are payable 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.

### 5.21 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 2011	Year ended 31 December 2010
Product sales	123,930	94,421
Processing fees	745	512
Transportation recharges and services	789	842
Other revenue	557	741
<b>Total revenue</b>	<b>126,021</b>	<b>96,516</b>

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

Description	Year ended 31 December 2011	Year ended 31 December 2010
Russia	61,894	45,749
Other Europe	47,127	36,851
CIS	5,945	5,384
Asia	5,886	4,433
North America	1,144	1,127
Other	1,934	877
<b>Total product sales</b>	<b>123,930</b>	<b>94,421</b>



**Note 7 Cost of sales**

Description	Year ended 31 December 2011	Year ended 31 December 2010
Raw materials	65,297	46,010
Energy and fuel	14,648	15,128
Personnel costs	6,618	5,281
Depreciation	3,253	3,681
Services and other	1,297	1,873
Social charges	1,912	1,267
Repairs and maintenance	982	919
Rent	458	370
Increase in finished goods and work in progress	(3,000)	(1,070)
<b>Total cost of sales</b>	<b>91,465</b>	<b>73,459</b>

The rent agreements for land are renegotiated annually. The expected amount of rent payments for 2012 year is RUB 290 million (for 2011 – RUB 270 million).

**Note 8 Selling, general and administrative expenses**

Description	Year ended 31 December 2011	Year ended 31 December 2010
Materials	3,372	2,640
Personnel costs	2,477	1,994
Transportation expenses	2,419	1,759
Taxes other than income tax	990	852
Insurance	412	327
Insurance contributions	459	288
Depreciation	165	154
Repairs and maintenance	143	124
Custom service fees	136	114
Energy and fuel	126	142
Consulting, audit and information services	59	45
Other	1,157	904
<b>Total selling, general and administrative expenses</b>	<b>11,915</b>	<b>9,343</b>

Depreciation totalling RUB 3,418 million (for the year ended 31 December 2010 – RUB 3,842 million) and personnel costs totalling RUB 9,095 million (for the year ended 31 December 2010 – RUB 7,275 million) were reflected within profit and loss for the year ended 31 December 2011.

**Note 9 Other operating expenses, net**

Description	Year ended 31 December 2011	Year ended 31 December 2010
Maintenance of social infrastructure	801	631
Impairment provision for accounts receivable	(2)	80
Impairment provision for property, plant and equipment	58	80
Impairment provision for inventory	-	(1)
Impairment provision for non-current assets	(97)	85
Gain on disposal of property, plant and equipment	3	29
Other expenses	222	530
<b>Total other operating expenses, net</b>	<b>985</b>	<b>1,434</b>



**Note 10 Financial expenses and income**

**Financial expenses**

Description	Year ended 31 December 2011	Year ended 31 December 2010
Interest expenses	1,099	1,301
Lease expenses	14	5
Effect from discounting	24	15
Less interest capitalised	(233)	(8)
<b>Total financial expenses</b>	<b>904</b>	<b>1,313</b>

**Finance income**

Description	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	206	70
Effect from discounting	422	152
<b>Total financial income</b>	<b>628</b>	<b>222</b>

In 2011 issuer repaid promissory notes ahead of schedule totalling RUB 2,342 million. (see Note 14).

**Note 11 Income tax expense**

Income tax expense comprises the following:

Description	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax expense	4,355	2,394
Tax on income for the previous period	161	-
Deferred income tax (benefit)/expenses	(114)	63
<b>Total income tax expense</b>	<b>4,402</b>	<b>2,457</b>

The income tax rate applicable to the majority of the Group's subsidiaries in 2011 and 2010 is 20%.

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

Description	Year ended 31 December 2011	Year ended 31 December 2010
<b>Profit before taxation</b>	<b>21,178</b>	<b>11,342</b>
Theoretical tax charge at statutory rate of 20%	4,235	2,268
Tax effect of items which are not deductible or taxable for tax purposes	167	189
<b>Total income tax expense</b>	<b>4,402</b>	<b>2,457</b>

Description	Year ended 31 December 2011	Year ended 31 December 2010
<b>Opening balance</b>	<b>384</b>	<b>321</b>
Recognised in the statement of comprehensive income in profit and loss	(114)	63
Revaluation of investments available-for-sale	8	-
<b>Total income tax expense</b>	<b>278</b>	<b>384</b>



**Note 11 Income tax expense (continued)**

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 % (2010: 20 %).

	31 December 2011	Tax effect of movement in temporary differences	31 December 2010	Tax effect of movement in temporary differences	31 December 2009
Property, Plant and Equipment	423	(32)	455	(74)	529
Inventories	142	121	21	69	(48)
Non-current assets	5	86	(81)	(81)	-
Non-current borrowings	29	(20)	49	(9)	58
Accounts payable	29	(51)	80	156	(76)
Deferred income	(29)	43	(72)	(72)	-
Other non-current liabilities	(111)	(109)	(2)	8	(10)
Accounts receivable and prepayments	(32)	19	(51)	7	(58)
Other current assets	(90)	(75)	(15)	(10)	(5)
Other, net	(88)	(88)	-	69	(69)
<b>Net deferred income tax liability</b>	<b>278</b>	<b>(106)</b>	<b>384</b>	<b>63</b>	<b>321</b>

The Group has not recognised a deferred tax asset of RUB 4 million as at 31 December 2011 (31 December 2010 – RUB 56 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.

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for the year ended 31 December 2011

(in millions of Russian Roubles unless otherwise stated)

**Note 12 Property, plant and equipment**

	<b>Buildings and land</b>	<b>Equipment</b>	<b>Other</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Book value at 1 January 2010</b>	<b>20,485</b>	<b>13,241</b>	<b>991</b>	<b>999</b>	<b>35,716</b>
<b>Balance at 1 January 2010</b>	<b>47,418</b>	<b>48,324</b>	<b>3,318</b>	<b>999</b>	<b>100,059</b>
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)
<b>Balance at 31 December 2010</b>	<b>48,166</b>	<b>49,269</b>	<b>3,419</b>	<b>1,436</b>	<b>102,290</b>
<b>Accumulated depreciation at 1 January 2010</b>	<b>(26,933)</b>	<b>(35,083)</b>	<b>(2,327)</b>	<b>-</b>	<b>(64,343)</b>
Depreciation for the year	(1,362)	(2,406)	(74)	-	(3,842)
Depreciation write-off on disposal	5	227	10	-	242
<b>Accumulated depreciation at 31 December 2010</b>	<b>(28,290)</b>	<b>(37,262)</b>	<b>(2,391)</b>	<b>-</b>	<b>(67,943)</b>
<b>Book value at 31 December 2010</b>	<b>19,876</b>	<b>12,007</b>	<b>1,028</b>	<b>1,436</b>	<b>34,347</b>
<b>Balance at 1 January 2011</b>	<b>48,166</b>	<b>49,269</b>	<b>3,419</b>	<b>1,436</b>	<b>102,290</b>
Additions	7	481	353	7,366	8,207
Additions from assets under construction	1,225	1,304	34	(2,563)	-
Impairment provision	(101)	(5)	(5)	53	(58)
Disposals	(45)	(235)	(24)	(480)	(784)
<b>Balance at 31 December 2011</b>	<b>49,252</b>	<b>50,814</b>	<b>3,777</b>	<b>5,812</b>	<b>109,655</b>
<b>Accumulated depreciation at 1 January 2011</b>	<b>(28,290)</b>	<b>(37,262)</b>	<b>(2,391)</b>	<b>-</b>	<b>(67,943)</b>
Depreciation for the year	(1,249)	(2,080)	(89)	-	(3,418)
Depreciation write-off on disposal	30	232	28	-	290
<b>Accumulated depreciation at 31 December 2011</b>	<b>(29,509)</b>	<b>(39,110)</b>	<b>(2,452)</b>	<b>-</b>	<b>(71,071)</b>
<b>Book value at 31 December 2011</b>	<b>19,743</b>	<b>11,704</b>	<b>1,325</b>	<b>5,812</b>	<b>38,584</b>

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**Note 12 Property, plant and equipment (continued)**

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

Finance lease liabilities - minimum lease payments:

<b>Description</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
No later than 1 year	30	18
Later than 1 year and no later than 5 years	19	2
<b>Total lease payments</b>	<b>49</b>	<b>20</b>
Future finance charges on finance leases	(16)	(4)
<b>Present value of finance leases liabilities</b>	<b>33</b>	<b>16</b>
Less amounts payable within 12 months	(16)	(10)
Non-current finance lease payments	17	6

During 2011, lease payments were in accordance with approved payment schedules and denominated in Russian Roubles. 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 RUB 44 million and RUB 145 million as at 31 December 2011 and 2010 respectively.

Property, plant and equipment are presented net of an accumulated impairment provision of RUB 4,033 million at 31 December 2011 (RUB 3,975 million at 31 December 2010). The increase in the provision of RUB 58 million during the year ended 31 December 2011 (during the year ended 31 December 2010 – increase of RUB 80 million) was recognised within profit and loss as a component of other operating expenses.

Included in the original cost of property plant and equipment are fully depreciated assets which are still in service in the amount of RUB 44,179 million and RUB 42,662 million at 31 December 2011 and 2010, respectively.

Included in additions is capitalised interest of RUB 233 million for the year ended 31 December 2011 (year ended 31 December 2010 – RUB 8 million). The effective capitalisation rate for the year ended 31 December 2011 was 7.27 %.

Loan security by the some loan agreements entered by the Group are the property, plant and equipment in the amount of RUB 2,687 million (RUB 2,793 million at 31 December 2010).





**Note 13 Investments in associates**

**Investments in associates**

	As of 31 December 2011	As of 31 December 2010
<b>Balance at the beginning of the year</b>	<b>1,029</b>	<b>938</b>
Dividends	(2)	-
Disposals	(669)	-
Share of post tax net results in associates	15	91
<b>Balance at the end of the year</b>	<b>373</b>	<b>1,029</b>

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	
		As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
OAO Tatneftekhiminvest-holding	Holding company	-	316	-	7.30%
OAO AKB Spurt	Banking services	91	86	5.05%	5.05%
OAO Tatfondbank	Banking services	-	208	-	2.33%
OAO KB Intekhsbank	Banking services	-	145	-	6.25%
OOO Elastokam	Production of polyurethane	182	169	50.00%	50.00%
OAO L.Ya. Karpov's Plant	Production of chemicals	94	91	32.81%	32.81%
Yughimterminal	Chemicals transshipment	6	14	25.00%	25.00%
<b>Total Investments in associates</b>		<b>373</b>	<b>1,029</b>		

All associates are incorporated within the Russian Federation.

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**Note 13 Investments in associates (continued)**

Significant influence is exercised over the on the OAO AKB Spurt 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 the 12 months ended 2011 and the 12 months ended 2010 are as follows:

Associate	Share of associate revenue		Share of associate assets		Share of associate liabilities	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
OOO Elastokam	851	598	371	312	189	143
OAO L.Ya. Karpov's Plant	323	284	288	271	194	180
OAO AKB Spurt	84	70	903	741	812	656
OAO Tatfondbank	-	132	-	1,424	-	1,212
OAO KB Intekhbank	-	70	-	699	-	554
OAO Tatneftekhiminvest-holding	-	1	-	317	-	1
Yughinterminal	40	63	135	149	129	138
<b>Total</b>	<b>1,298</b>	<b>1,218</b>	<b>1,697</b>	<b>3,913</b>	<b>1,324</b>	<b>2,884</b>

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

**Note 14 Investments in securities and other financial assets**

Description	As of 31 December 2011	As of 31 December 2010
<b>Non-current</b>		
<b>Available-for-sale investments at fair value</b>		
Debt securities	-	1,564
Equity securities	1,631	756
<b>Loans and receivables at amortised cost</b>		
Mortgage loans issued to employees	329	166
Other non-current financial assets	39	47
<b>Investments in securities and other financial assets</b>	<b>1,999</b>	<b>2,533</b>
<b>Current</b>		
<b>Available-for-sale investments at fair value</b>		
Debt securities	-	357
<b>Loans issued at amortised cost</b>		
Term deposits	-	370
<b>Investments in securities and other financial assets</b>	<b>-</b>	<b>727</b>

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



**Note 14 Investments in securities and other financial assets (continued)**

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% discount rate. This 8% discount rate has been estimated based on management's assessment of the borrowing rate of the issuer of these promissory notes.

In 2011, the issuer made an early repayment on promissory notes of RUB 2,342 million, (see Note 10). Related income was reflected in financial income in amount RUB 422 million.

Equity securities

Equity securities represents investments into OAO AK Bars Bank, OAO Tatfondbank, OAO KB Intekhsbank and OAO Tatneftekhiminvest-holding with a stake of less 10%. Fair value of that equity investments is assessed on the basis of comparison of cost of investments to respective share of the fair value of net assets attributable to the Group as at the reporting date. The change in fair value for the year ended 31 December 2011 resulted in a gain recognised in other comprehensive income in the amount of RUB 35 million.

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

	As of 31 December 2011	As of 31 December 2010
<b>Balance at the beginning of the year</b>	<b>1,053</b>	<b>1,226</b>
Reclassification to trade and other accounts receivable (see Note 17)	-	(212)
Reclassification from trade and other accounts receivable (see Note 17)	-	106
Increase in impairment provision	-	107
Reversal of impairment provision	-	(22)
Effect of discounting	(422)	(152)
<b>Balance at the end of the year</b>	<b>631</b>	<b>1,053</b>

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.

**Note 15 Other non-current assets**

	As of 31 December 2011	As of 31 December 2010
Licenses and software	553	465
Catalysts	276	395
Other non-current assets	41	21
<b>Total other non-current assets</b>	<b>870</b>	<b>881</b>

Other non-current assets are not financing and will be used in the period after December 31, 2012.



**Note 16 Inventories**

Description	As of 31 December 2011	As of 31 December 2010
Finished goods and work in progress	4,176	3,146
Goods dispatched	1,969	-
Raw materials	4,179	2,927
Support materials	2,653	1,817
Impairment provision	(49)	(49)
<b>Total inventories</b>	<b>12,928</b>	<b>7,841</b>

**Note 17 Trade and other receivables**

Description	As of 31 December 2011	As of 31 December 2010
Receivables from domestic sales	1,495	2,396
Receivables from export sales (mainly denominated in USD and Euro)	2,058	2,086
Other accounts receivable	315	110
Impairment provision	(232)	(264)
<b>Total trade and other receivables</b>	<b>3,636</b>	<b>4,328</b>

A provision for impairment of RUB 232 million at 31 December 2011 (31 December 2010 – RUB 264 million) has been made against receivables from domestic trade. The net decrease in provision by RUB 32 million during the year ended 2011 (the net increase of RUB 80 million during the year ended 31 December 2010) 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:

Description	As of 31 December 2011	As of 31 December 2010
<b>Balance at the beginning of the year</b>	<b>264</b>	<b>78</b>
Reclassification from other non-current assets (Note 15)	-	212
Reclassification to other non-current assets (Note 15)	-	(106)
Increase in impairment provision	11	97
Reversal of impairment provision	(7)	(17)
Write-off	(36)	-
<b>Balance at the end of the year</b>	<b>232</b>	<b>264</b>

The individually impaired receivables mainly relate to domestic customers.

As at 31 December 2011 trade receivables of RUB 413 million (31 December 2010 - RUB 152 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Description	As of 31 December 2011	As of 31 December 2010
Up to 3 months	399	132
3 to 6 months	11	6
Past due more than 6 months	3	14
<b>Total</b>	<b>413</b>	<b>152</b>



**Note 17 Trade and other receivables (continued)**

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

	As of 31 December 2011	As of 31 December 2010
Russian Roubles	1,745	2,242
US Dollar	788	1,175
Euro	1,102	911
<b>Total</b>	<b>3,636</b>	<b>4,328</b>

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 18 Taxes paid in advance and VAT recoverable**

	As of 31 December 2011	As of 31 December 2010
VAT recoverable	1,790	951
VAT on export sales	1,693	872
Excise taxes	111	78
Other	2	15
<b>Total taxes paid in advance and VAT recoverable</b>	<b>3,596</b>	<b>1,916</b>

**Note 19 Other current assets**

	As of 31 December 2011	As of 31 December 2010
Advances to suppliers	1,431	1,198
Prepaid expenses and other assets	28	100
<b>Total other current assets</b>	<b>1,459</b>	<b>1,298</b>

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

	As of 31 December 2011	As of 31 December 2010
<b>Balance at the beginning of the year</b>	<b>17</b>	<b>16</b>
Increase in impairment provision	11	1
Decrease in impairment provision	(17)	-
<b>Balance at the end of the year</b>	<b>11</b>	<b>17</b>

**Note 20 Cash and cash equivalents**

	As of 31 December 2011	As of 31 December 2010
RUB denominated amounts	5,910	2,313
USD denominated amounts	461	386
Euro denominated amounts	97	94
<b>Total cash and cash equivalents</b>	<b>6,468</b>	<b>2,793</b>

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**Note 21 Shareholders' equity and earnings per share**

As of 31 December 2011 the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary shares (31 December 2010 – 1,611,256,000 ordinary shares). As of 31 December 2011 the Company had authorised, issued and paid up non-voting preferred share capital of 218,983,750 shares (31 December 2010 – 218,983,750 shares).

**Earnings per share**

	As of 31 December 2011	As of 31 December 2010
Profit attributable to parent company shareholders	16,691	8,466
Weighted average number of participating shares	1,830,239,750	1,830,239,750
<b>Earnings/(loss) per participating share (net and diluted earnings per share) (Russian roubles per share)</b>	<b>9.12</b>	<b>4.63</b>

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

In the event that no decision is taken in the General Shareholders' Meeting regarding payment of dividends on preferred shares, or if a decision is made to pay less than the minimum amount shown above, preferred 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.



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**Note 21 Shareholders' equity and earnings per share (continued)**

**Dividends and distributable reserves**

Dividends declared:

**For the year ended 31 December 2009, approved in the annual general shareholders' meeting on 15 April 2010:**

Per ordinary share in RUB	0.07
Per preferred share in RUB	0.07

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**For the year ended 31 December 2010, approved in the annual general shareholders' meeting on 15 April 2011:**

Per ordinary share in RUB	1.18
Per preferred share in RUB	1.18

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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 2011, the current year statutory net profit for the Company as reported in the published annual statutory reporting forms was RUB 14,414 million (for the year ended 31 December 2010 – RUB 7,741 million) and the closing balance of the accumulated profit including the current year statutory net profit totalled RUB 39,667 million as at 31 December 2011 (as at 31 December 2010 – RUB 27 426 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

The Board of Directors, which will recommend the distribution of dividends is preliminary scheduled for April 25, 2012.



**Note 22 Loans and borrowings**

**Non-current loans and borrowings**

	As of 31 December 2011	As of 31 December 2010
<b>Loans and borrowings with fixed interest rate:</b>		
Loans and borrowings in US Dollars	4,443	8,760
Loans and borrowings in Russian Roubles	1,999	2,674
<b>Loans and borrowings with floating interest rate:</b>		
Loans and borrowings in US Dollars	2,987	187
Loans and borrowings in Euro	1,262	1,522
Less current portion of non-current loans and borrowings	(3,330)	(5,063)
<b>Total non-current loans and borrowings</b>	<b>7,361</b>	<b>8,080</b>

Scheduled undiscounted maturity of non-current borrowings is as follows:

	As of 31 December 2011	As of 31 December 2010
Between one and five years	7,814	8,453
After five years	76	222
<b>Total</b>	<b>7,890</b>	<b>8,675</b>

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

	As of 31 December 2011	As of 31 December 2010
<b>Loans and borrowings with fixed interest rate:</b>		
Loans and borrowings in US Dollars	7.28%	8.02%
Loans and borrowings in Russian Roubles	8.79%	10.37%
<b>Loans and borrowings with floating interest rate:</b>		
Loans and borrowings in US Dollars	3.39%	0.53%
Loans and borrowings in Euro	1.95%	1.21%





**Note 22 Loans and borrowings (continued)**

**Current portion of non-current borrowings**

	As of 31 December 2011	As of 31 December 2010
<b>Loans and borrowings with fixed interest rate:</b>		
Loans and borrowings in Russian Roubles	63	626
<b>Loans and borrowings with floating interest rate:</b>		
Loans and borrowings in Euro	368	297
Current portion of non-current loans	3,330	5,063
<b>Total current loans and borrowings</b>	<b>3,761</b>	<b>5,986</b>

Scheduled undiscounted maturity of borrowings is as follows:

	As of 31 December 2011	As of 31 December 2010
Within three months	451	1,214
From three months to one year	3,814	5,895
<b>Total</b>	<b>4,265</b>	<b>7,109</b>

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

Description	As of 31 December 2011	As of 31 December 2010
<b>Loans and borrowings with fixed interest rate:</b>		
Loans and borrowings in Russian Roubles	8.81%	10.02%
<b>Loans and borrowings with floating interest rate:</b>		
Loans and borrowings in Euro	2.48%	1.46%

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 2011 and 10% at 31 December 2010. The fair value of loans and borrowings as at 31 December 2011 equals to RUB 10,851 million (31 December 2010 – RUB 13,396 million).

Loans agreements entered by the Group that are secured by property, plant and equipment. (Note 12)

The Group has undrawn committed credit facilities in amount of RUB 570 million at 31 December 2010 (31 December 2010 – RUB 3,513 million).

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



**Note 23 Other non-current liabilities**

	As of 31 December 2011	As of 31 December 2010
Non-current accounts payable	16	8
Non-current finance lease liabilities	17	6
Government grants (deferred income)	211	355
Other non-current liabilities on benefits to employees	560	-
Other	15	-
<b>Total other non-current liabilities</b>	<b>819</b>	<b>369</b>

The Group's pension and other post employment obligations and actuarial assumptions used in their determination are as follows.

The amount is recognized in the consolidated financial statements:

<b>Benefit obligations</b>	As of 31 December 2011	As of 31 December 2010
Liabilities as of 1 January	-	-
Current service cost*	500	-
Interest expense	36	-
Benefits paid	(47)	-
Actuarial (gain)/loss	36	-
<b>Liabilities as of 31 December</b>	<b>525</b>	<b>-</b>

\*Including RUB 488 million of accumulated service cost upon recognition of defined benefit obligation

<b>Other non-current liabilities on benefits to employees</b>	As of 31 December 2011	As of 31 December 2010
Liabilities as of 1 January	-	-
Current service cost	39	-
Interest expense	3	-
Benefits paid	(7)	-
Actuarial (gain)/loss	-	-
<b>Liabilities as of 31 December</b>	<b>35</b>	<b>-</b>

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

Discounted benefit liabilities equal benefit liabilities stated in the financial statements.

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

	Benefit obligations		Other liabilities	
	2011	2010	2011	2010
Current service cost	500	-	39	-
Actuarial loss	36	-	-	-
Interest expenses	36	-	3	-
<b>Total</b>	<b>572</b>	<b>-</b>	<b>42</b>	<b>-</b>

Total actuarial loss made RUB 36 million (2010 - RUB nil million). All actuarial loss arose from as well as by experience adjustments as by change of assumptions. The Group expects payments of RUB 62 million in 2012. Key actuarial assumptions are as follows:



**Note 23 Other non-current liabilities (continued)**

**Key actuarial assumptions:**

	Year ended 31 December 2011	Year ended 31 December 2010
Discount rate	8.15%	-
Tariff rates growth	4.60%	-

The Group determined demographical assumptions based on statistics for 4 prior years.

**Note 24 Accounts payable**

	As of 31 December 2011	As of 31 December 2010
Accounts payable	3,975	3,385
Other accounts payable	154	284
<b>Total accounts payable</b>	<b>4,129</b>	<b>3,669</b>

Trade and other payables are denominated in Russian Roubles. The analysis of accounts payable by ageing is provided below:

	As of 31 December 2011	As of 31 December 2010
Within three months	3,950	3,653
Due from three months to one year	179	16
<b>Total accounts payable</b>	<b>4,129</b>	<b>3,669</b>

**Note 25 Advance received and accrued liabilities**

	As of 31 December 2011	As of 31 December 2010
Advances received	1,262	1,220
Payables to employees	726	643
Reserve on unutilized vacation	644	474
<b>Total advances received and accrued liabilities</b>	<b>2,632</b>	<b>2,337</b>

**Note 26 Taxes other than income payable**

	As of 31 December 2011	As of 31 December 2010
VAT	328	233
Social charges	233	149
Personal income tax	124	122
Property tax	131	107
Tax on land	67	59
Other taxes	18	26
<b>Total taxes other than income payable</b>	<b>901</b>	<b>696</b>



**Note 27 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 2011 and 2010 the Group has the following transactions and balances with related parties:

Related party	Revenue	Purchases of materials and services	Dividends received	Other expenses/(income)	Purchase of PPE and other non-current assets	Movement in bad debt provision
<b>Year ended 31 December 2011</b>						
<b>OAO</b>						
<b>Nizhnekamskneftekhim</b>	<b>6,977</b>	<b>38,182</b>	<b>2</b>	<b>14</b>	<b>34</b>	<b>20</b>
Shareholders	-	6	-	-	-	-
Associates	485	270	1	3	-	20
Other related parties	6,492	37,906	1	11	34	-
<b>Subsidiaries</b>	<b>20</b>	<b>375</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Shareholders	-	-	-	-	-	-
Associates	1	3	-	-	-	-
Other related parties	19	372	-	-	-	-
<b>Total</b>	<b>6,997</b>	<b>38,557</b>	<b>2</b>	<b>14</b>	<b>34</b>	<b>20</b>
<b>Year ended 31 December 2010</b>						
<b>OAO</b>						
<b>Nizhnekamskneftekhim</b>	<b>6,238</b>	<b>31,437</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(42)</b>
Shareholders	-	3	-	-	-	-
Associates	346	200	-	-	-	(55)
Other related parties	5,892	31,234	-	-	-	13
<b>Subsidiaries</b>	<b>80</b>	<b>448</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>-</b>
Shareholders	-	-	-	-	-	-
Associates	1	2	-	-	5	-
Other related parties	79	446	-	-	-	-
<b>Total</b>	<b>6,318</b>	<b>31,885</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>(42)</b>

\*other related parties include fellow subsidiaries

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**Note 27 Related party transactions (continued)**

Balances with the related parties of NKNK Group presented below:

Description	Cash and term deposits	Loans issued	Accounts receivable	Allowance for doubtful accounts	Accounts payable
<b>As of 31 December 2011</b>					
OAo Nizhnekamskneftekhim	330	-	637	175	311
shareholders	-	-	-	-	-
associates	330	-	256	175	7
other related parties	-	-	381	-	304
<b>Subsidiaries</b>	<b>2</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>11</b>
shareholders	-	-	-	-	-
associates	2	-	-	-	2
other related parties	-	-	8	-	9
<b>Total</b>	<b>332</b>	<b>-</b>	<b>645</b>	<b>175</b>	<b>322</b>
<b>As of 31 December 2010</b>					
OAo Nizhnekamskneftekhim	147	1,921	1,488	(174)	(491)
shareholders	-	-	-	-	-
associates	147	-	230	(174)	(7)
other related parties	-	1,921	1,258	-	(484)
<b>Subsidiaries</b>	<b>163</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>(28)</b>
shareholders	-	-	-	-	-
associates	163	-	1	-	(1)
other related parties	-	-	17	-	(27)
<b>Total</b>	<b>310</b>	<b>1,921</b>	<b>1,506</b>	<b>(174)</b>	<b>(519)</b>

\*other related parties include fellow subsidiaries



**Note 27 Related party transactions (continued)**

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

	Purchase commitments	Supply commitments
<b>As of 31 December 2011</b>		
<b>OA O Nizhnekamskneftekhim</b>	<b>39,094</b>	<b>8,826</b>
shareholders	5	-
associates	-	-
other related parties	39,089	8,826
<b>Subsidiaries</b>	<b>469</b>	<b>19</b>
shareholders	-	-
associates	-	-
other related parties	469	19
<b>Total</b>	<b>39,563</b>	<b>8,845</b>
<b>As of 31 December 2010</b>		
<b>OA O Nizhnekamskneftekhim</b>	<b>42,103</b>	<b>6,410</b>
shareholders	5	-
associates	-	-
other related parties	42,098	6,410
<b>Subsidiaries</b>	<b>268</b>	<b>115</b>
shareholders	-	-
associates	-	-
other related parties	268	115
<b>Total</b>	<b>42,371</b>	<b>6,525</b>

**Directors' compensation**

Compensation paid to directors and senior management for their services in full time or part time executive management positions comprises a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to the Russian statutory financial statements. Total directors' and senior management compensation of the above nature, included within personnel costs in selling, general and administrative expenses, amounted to RUB 217 million for the year ended 31 December 2011 (year ended 31 December 2010 – RUB 168 million).

**Note 28 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. General Director, who is the chief operating decision-maker, is responsible for allocating resources and assessing performance of the operating segments using the financial information.

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**Note 28 Segment information (Continued)**

The following criteria have been used by management for determining the operating segments and assigning the Group subsidiaries to particular segment:

- Business activities of companies;
- Product nature.

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

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

The table below contains other principal subsidiaries (see Note 29) 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 2011	31 December 2010
1	OOO Trest TSNKhRS	OOO Trest TSNKhRS
2	OOO RMZ-NKNK	OOO RMZ-NKNK
3	OOO Transport -express	OOO Transport -express
4	OOO Neftekhimagroprom	OOO Neftekhimagroprom
5	OOO Nizhnekamskneftekhim – Service	OOO Nizhnekamskneftekhim – Service
6	OOO UOP Neftehim	OOO UOP Neftehim
7	OAO SOV-NKNK	OAO SOV-NKNK
8	OOO SCC Neftekhimik	OOO SCC Neftekhimik
9	OAO Neftekhimsevilen	OAO Neftekhimsevilen
10	OAO Nizhnekamskneftekhim –Divinil	OOO Nizhnekamskneftekhim –Divinil

During financial year of 2011 the Group had no significant influence on OAO Tatfondbank, OAO KB Intekhsbank, OAO Tatneftekhiminvest-holding, which before were recognized as associates. Such investments have been recognized as available for sale investments at fair value as at 31 December 2011.

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 2011	31 December 2010
1	OAO AKB Spurt	OAO Tatneftekhiminvest -holding
2	OOO Elastokam	OAO AKB Spurt
3	OAO L.Ya. Karpov's Plant	OAO Tatfondbank
4	OOO Yughimterminal	OAO KB Intekhsbank OOO Elastokam OAO L.Ya. Karpov's Plant 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 assesses the performance of operating segments based on certain measures, which are presented to the chief operating decision maker. This includes financial information on the Group operating reportable segments presented in accordance with Russian Statutory Accounting regulations (RSA) and in accordance with IFRS as adopted by EU (for OY Nizhex Scandinavia Ltd only). The information comprises measures such as total revenue, gross profit, operating profit and net profit. The RSA segment reporting information

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**Note 28 Segment Information (Continued)**

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 2011:

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

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

<b>Description</b>	<b>Production and sales of petrochemicals</b>	<b>Petrochemicals trading</b>	<b>All other segments</b>	<b>Total</b>
Revenues, RSA and IFRS	122,700	6,465	15,710	144,875
Intercompany transactions	(8,689)	(17)	(10,085)	(18,791)
Other adjustments	(63)	-	-	(63)
<b>Revenue, IFRS</b>	<b>113,948</b>	<b>6,448</b>	<b>5,625</b>	<b>126,021</b>

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

<b>Description</b>	<b>Production and sales of petrochemicals</b>	<b>Petrochemicals trading</b>	<b>All other segments</b>	<b>Total</b>
Operating profit, RSA and IFRS	20,077	205	2,783	23,065
Reclassification of other expenses	(970)	-	(15)	(985)
Differences in IFRS and RAR depreciation	66	-	174	240
IFRS provisions	(553)	-	(48)	(601)
Other adjustments	(63)	-	-	(63)
<b>Operating profit, IFRS</b>	<b>18,557</b>	<b>205</b>	<b>2,894</b>	<b>21,656</b>

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



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**Note 28 Segment Information (Continued)**

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, RSA	Petrochemicals trading, IFRS	All other segments, RAR	Total
Net profit, RSA and IFRS	14,414	109	2,114	16,637
Reversal RAR deferred tax	171	-	(2)	169
Differences in IFRS and RAR depreciation	66	-	174	240
Differences in RAR and IFRS provisions	(553)	-	(48)	(601)
Other adjustments	246	-	-	246
<b>Net profit, IFRS</b>	<b>14,344</b>	<b>109</b>	<b>2,238</b>	<b>16,691</b>

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

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, RAR	Total
<b>Revenue</b>				
External sales	88,150	3,987	4,784	96,921
Inter-segmental sales	6,257	70	7,227	13,554
Total revenue	94,407	4,057	12,011	110,475
<b>Result</b>				
Gross profit	18,637	222	1,706	20,565
Operating profit	12,301	129	831	13,261
Foreign exchange losses (net)	(66)	-	(4)	(70)
Interest income	23	44	4	71
Interest expense	(1,049)	(63)	(141)	(1,253)
Dividend income	77	-	-	77
Income tax expense	(2,187)	(29)	(215)	(2,431)
Net profit/ (loss)	7,174	80	598	7,852
<b>Other information</b>				
Depreciation	(3,174)	(1)	(390)	(3,565)

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)
<b>Revenue, IFRS</b>	<b>87,745</b>	<b>3,987</b>	<b>4,784</b>	<b>96,516</b>

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**Note 28 Segment Information (Continued)**

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)
Differences in IFRS and RAR depreciation	(435)	-	158	(277)
IFRS provisions	(347)	-	-	(347)
Other adjustments	1,027	-	37	1,064
<b>Operating profit, IFRS</b>	<b>11,111</b>	<b>129</b>	<b>1,040</b>	<b>12,280</b>

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, RSA and IFRS	7,174	80	598	7,852
Reversal RAR deferred tax	32	-	15	47
Differences in IFRS and RAR depreciation	(435)	-	158	(277)
Differences in RAR and IFRS provisions	274	-	-	274
Other adjustments	1,061	-	(72)	989
<b>Net profit, IFRS</b>	<b>8,106</b>	<b>80</b>	<b>699</b>	<b>8,885</b>

The major part of revenue relates to a few customers, which individually 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 2011)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
20 customers with sales turnover more than RUB 1,000 million each	82,865	-	-	82,865
Other customers (with turnover less than RUB 1,000 million each)	31,082	6,448	5,626	43,156
<b>Revenue, IFRS</b>	<b>113,947</b>	<b>6,448</b>	<b>5,626</b>	<b>126,021</b>

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



**Note 28 Segment Information (Continued)**

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 2011)	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Rubbers production	57,714	1,167	52	58,933
Plastic production	28,613	1,023	241	29,877
Olefins products	17,803	1,615	879	20,297
Other products	9,817	2,643	4,454	16,914
<b>Revenue, IFRS</b>	<b>113,947</b>	<b>6,448</b>	<b>5,626</b>	<b>126,021</b>

Revenue by major products (for the year ended 31 December 2010)	Production and sales of petrochemicals, RSA	Petrochemicals trading IFRS	All other segments, RAR	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
<b>Revenue, IFRS</b>	<b>87,742</b>	<b>3,990</b>	<b>4,784</b>	<b>96,516</b>

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**Note 29 Principal subsidiaries**

Subsidiary	Business	Percentage of voting interest held	
		31 December 2011	31 December 2010
OOO Trest TSNKhRS	General equipment repairs and construction	100%	100%
OOO RMZ-NKNK	Repairs 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%
OAo Nizhnekamskneftekhim – Divinil	Butadiene production	100%	50%
ZAO Kaminterhim	Petrochemicals production	-	100%
NKNK FINANCE PLC	Group funding, social purpose entity	-	-

As at 31 December 2011 and 2010 the percentage of ownership interest of the Group in its subsidiaries is equal to percentage of voting interest.

In February 2011, the Group additionally acquired 50% of OOO Nizhnekamskneftekhim –Divinil. Financial result on acquisition was stated in the consolidated statement on changes in equity.

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

**Note 30 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 17, 20 and 22. Management believes the Group's exposure to fluctuations in foreign exchange rates is limited to the aforementioned and to the proceeds from export sales.

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**Note 30 Financial instruments and financial risk factors (continued)**

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.

At 31 December 2011, 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:

	As of 31 December 2011	As of 31 December 2010
Effect on post tax profit	153	158

At 31 December 2011, 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:

	As of 31 December 2011	As of 31 December 2010
Effect on post tax profit	947	1,121

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.

	As of 31 December 2011	As of 31 December 2010
<b>Assets</b>		
Trade and other receivables	1,890	2,088
Cash	558	480
<b>Total assets</b>	<b>2,448</b>	<b>2,568</b>
<b>Liabilities</b>		
Loans and borrowings received	9,060	10,767
Trade and other payables	718	327
<b>Total liabilities</b>	<b>9,778</b>	<b>11,094</b>
Total net monetary liability position	(7,330)	(8,525)

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

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



**Note 30 Financial instruments and financial risk factors (continued)**

Based on the simulations performed the impact on profit and loss and equity of a 50 basis points for the year ended 31 December 2011 (50 basis points for the year ended 31 December 2010) point shift would be:

	As of 31 December 2011	As of 31 December 2010
Profit and loss	23	9

The Group does not have 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. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

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

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

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

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

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

Rating C – others, creditworthiness difficulties are possible.

	Rating A	Rating B	Rating C
<b>31 December 2011</b>			
Cash and cash equivalents	6,468	-	-
Trade and other accounts receivable	3,636	-	-
Investments in securities and other financial current assets	-	-	-
Investments in securities and other financial non-current assets	1,999	-	-
<b>31 December 2010</b>	<b>Rating A</b>	<b>Rating B</b>	<b>Rating C</b>
Cash and cash equivalents	2,793	-	-
Trade and other accounts receivable	4,328	-	-
Investments in securities and other financial current assets	727	-	-
Investments in securities and other financial non-current assets	2,533	-	-



### **Note 30 Financial instruments and financial risk factors (continued)**

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.

In note 12,22,24 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 note are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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

#### **Fair values**

The estimated fair value of financial assets carried at amortised cost is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. At 31 December 2011 and 31 December 2010 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 31 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 2011 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 2011 no provision for potential tax liabilities had been recorded (31 December 2010 – RUB nil million).

##### **Legal proceedings**

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business.

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.

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### **Note 31 Contingent liabilities, commitments and other risks (continued)**

#### **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**

##### **Investment commitments**

The Board has approved the 2012 Capital Expenditure Budget of RUB 7,216 million (2011 - RUB 7,377 million) including future contractual liabilities of RUB 3,666 million. The Group is planning to finance its investment commitments using the Group's own funds and borrowings.

##### **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 2011 is RUB nil million (31 December 2010 – RUB nil million).

##### **Letters of credit**

The Group has unsecured uncovered letters of credit as at 31 December 2011 for RUB 1,550 million (RUB 834 million – as at 31 December 2010).

#### **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 2011 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. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.





**Note 31 Contingent liabilities, commitments and other risks (continued)**

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors.

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

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

**Note 32 Capital management**

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

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

The Group monitors capital on the basis of its gearing ratio and indebtedness 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 indebtedness ratio is calculated as net debt divided by total equity.

In 2011, the Group's strategy, which was unchanged from 2010, was to maintain the indebtedness ratio not be greater than 75% and a Gearing ratio not greater than 45%. The gearing ratio and the indebtedness ratios at 31 December 2011 and 2010 were as follows:

	As of 31 December 2011	As of 31 December 2010
Total borrowings (Note 22)	11,122	14,066
Less: cash and cash equivalents (Note 20).	(6,468)	(2,793)
<b>Net debt</b>	<b>4,654</b>	<b>11,273</b>
Total equity	49,839	36,218
<b>Total equity</b>	<b>54,493</b>	<b>47,491</b>
<b>Indebtedness ratio</b>	<b>9%</b>	<b>31%</b>
<b>Gearing ratio</b>	<b>9%</b>	<b>24%</b>

The decrease in the indebtedness and gearing ratios during 2011 is mainly caused by a substantial decrease in net debt following a net repayment of loans and borrowings of RUB 6,618 million (in year 2010 - RUB 2,905 million) and significant increase of profit for the year.

**Note 33 Events after the reporting date**

On March 6, 2012 extraordinary shareholders meeting approved the decision on reorganization of OAO Nizhnekamskneftekhim through merge with one of its subsidiaries OAO "Nizhnekamskneftekhim-Divinil" and respective merge agreement.