KuibyshevAzot Group

International Financial Reporting Standards
Consolidated financial statements
and Independent auditors' report

31 December 2011

KuibyshevAzot Group

Consolidated financial statements and auditors' report

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Contents

Ernst & Young

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Independent auditors' report

To the shareholders of Open Joint Stock Company "KuibyshevAzot"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "KuibyshevAzot" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, statement of changes in equity and statement of 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

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.

Auditors' responsibility

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.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company "KuibyshevAzot" and its subsidiaries as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on supplementary information

We have also reviewed the translation of the consolidated financial statements expressed in Russian Roubles into US dollars, which has been translated on the basis described in Note 2.4. In our opinion, the accompanying supplementary information expressed in US dollars has been properly translated in accordance with the basis described in Note 2.4. As this supplementary information has not been translated in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, and does not contain all information required to be considered a complete set of financial statements as required by IAS 1 *Presentation of Financial Statements*, this conversion is not in accordance with IFRS.

Ernst & Young LLC

25 June 2012

KuibyshevAzot Group

Consolidated statement of financial position

as at 31 December 2011

(in millions of Russian Roubles, unless otherwise stated)

		At 31 December		Supplementary information US$ million (Note 2) At 31 December	
	Note	**2011**	**2010**	**2011**	**2010**
Assets					
Current assets					
Cash and cash equivalents	8	1,262	1,843	39	60
Receivables and prepayments	9	5,904	3,338	183	110
Inventories	10	5,800	4,335	180	142
Other financial assets	13	172	187	5	6
Total current assets		**13,138**	**9,703**	**407**	**318**
Non-current assets					
Property, plant and equipment	11	12,096	11,565	376	379
Intangible assets		60	40	2	1
Prepayments for property, plant and equipment		327	478	10	16
Investments in associates	12	183	181	6	6
Financial assets	13	263	291	8	10
Total non-current assets		**12,929**	**12,555**	**402**	**412**
Total assets		**26,067**	**22,258**	**809**	**730**
Liabilities					
Current liabilities					
Trade payables		1,570	686	49	23
Current income tax payable		-	18	-	1
Other than income taxes payable	16	153	143	5	5
Short-term borrowings	14	2,653	5,459	82	178
Advances received and other current liabilities	15	1,720	1,242	53	41
Total current liabilities		**6,096**	**7,548**	**189**	**248**
Non-current liabilities					
Long-term borrowings	14	4,949	3,713	154	122
Deferred tax liability	27	751	895	23	29
Retirement benefit obligations	17	105	209	3	7
Total non-current liabilities		**5,805**	**4,817**	**180**	**158**
Total liabilities		**11,901**	**12,365**	**369**	**406**
Equity					
Capital and reserves attributable to equity holders of the Company					
Share capital	18	642	642	20	21
Treasury shares	18	(991)	(1,089)	(31)	(36)
Foreign currency translation reserve		(1)	(56)	-	(2)
Retained earnings		14,315	10,236	445	336
		13,965	**9,733**	**434**	**319**
Non-controlling interests		201	160	6	5
Total equity		**14,166**	**9,893**	**440**	**324**
Total liabilities and equity		**26,067**	**22,258**	**809**	**730**

Approved for issue and signed on behalf of Board of Directors on 25 June 2012

V.I. Gerasimenko
General Director

V.N. Kudashev
Chief Accountant

The accompanying notes on pages 7 to 35 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2011

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2011	Year ended 31 December 2010	Supplementary information US$ million (Note 2) Year ended 31 December 2011	Supplementary information US$ million (Note 2) Year ended 31 December 2010
Sales	19	32,920	22,454	1,120	739
Cost of sales	20	(20,511)	(16,101)	(698)	(530)
Gross profit		**12,409**	**6,353**	**422**	**209**
Distribution costs	21	(3,120)	(2,496)	(106)	(82)
General and administrative expenses	22	(1,560)	(1,507)	(53)	(50)
Other operating income	23	379	203	13	7
Other operating expenses	24	(1,573)	(142)	(54)	(5)
Operating profit		**6,535**	**2,411**	**222**	**79**
Finance income	25	83	177	3	6
Finance costs	26	(616)	(634)	(21)	(21)
Income from associates		3	9	-	-
Profit before income tax		**6,005**	**1,963**	**204**	**64**
Income tax expense	27	(1,234)	(599)	(42)	(20)
Profit for the year		**4,771**	**1,364**	**162**	**44**
Other comprehensive income/(loss)					
Foreign currency translation reserve		55	(40)	2	(1)
Other comprehensive income/(loss) for the year, net of taxes		**55**	**(40)**	**2**	**(1)**
Total comprehensive income for the year, net of taxes		**4,826**	**1,324**	**164**	**43**
Profit attributable to:					
Equity holders of the Company		4,730	1,296	161	42
Non-controlling interests		41	68	1	2
		4,771	**1,364**	**162**	**44**
Total comprehensive income attributable to:					
Equity holders of the Company		4,785	1,256	163	41
Non-controlling interests		41	68	1	2
		4,826	**1,324**	**164**	**43**

The accompanying notes on pages 7 to 35 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2011

(in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the Company						
	Share capital	**Treasury shares (Note 18)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2009	**642**	**(1,049)**	**(16)**	**9,095**	**8,672**	**92**	**8,764**
Profit for the year	-	-	-	1,296	1,296	68	1,364
Other comprehensive loss	-	-	(40)	-	(40)	-	(40)
Total comprehensive income/(loss) for 2010	**-**	**-**	**(40)**	**1,296**	**1,256**	**68**	**1,324**
Purchase of treasury shares (Note 18)	-	(40)	-	-	(40)	-	(40)
Dividends declared	-	-	-	(155)	(155)	-	(155)
Balance at 31 December 2010	**642**	**(1,089)**	**(56)**	**10,236**	**9,733**	**160**	**9,893**
Profit for the year	-	-	-	4,730	4,730	41	4,771
Other comprehensive income	-	-	55	-	55	-	55
Total comprehensive income for 2011	**-**	**-**	**55**	**4,730**	**4,785**	**41**	**4,826**
Purchase of treasury shares (Note 18)	-	(18)	-	-	(18)	-	(18)
Sales of treasury shares (Note 18)	-	116	-	133	249	-	249
Dividends declared	-	-	-	(784)	(784)	-	(784)
Balance at 31 December 2011	**642**	**(991)**	**(1)**	**14,315**	**13,965**	**201**	**14,166**

Supplementary information US$ million (Note 2)	**Share capital**	**Treasury shares (Note 18)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balances as of 31 December 2010	**21**	**(36)**	**(2)**	**336**	**319**	**5**	**324**
Balances as of 31 December 2011	**20**	**(31)**	**-**	**445**	**434**	**6**	**440**

The accompanying notes on pages 7 to 35 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2011

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2011	Year ended 31 December 2010	Supplementary information US$ million (Note 2) Year ended 31 December 2011	Supplementary information US$ million (Note 2) Year ended 31 December 2010
Cash flows from operating activities					
Profit before income tax		6,005	1,963	204	64
Adjustments for:					
Depreciation of property, plant and equipment	11	1,378	1,300	47	42
Impairment of assets	24	1,354	-	47	-
Retirement benefit obligations	17	(104)	33	(4)	1
Impairment of receivables	22	56	(7)	2	-
Share of income from associates		(3)	(9)	-	-
Interest on promissory notes		-	(81)	-	(3)
Finance income		(46)	(87)	(2)	(3)
Finance costs		616	634	21	21
Foreign exchange effect on non-operating balances – net		37	130	1	4
Operating cash flows before working capital changes		**9,293**	**3,876**	**316**	**126**
Increase in accounts receivable and prepayments		(2,622)	(245)	(89)	(8)
Increase in inventories		(1,465)	(1,413)	(50)	(47)
Increase in accounts payable and other payables		1,375	985	46	32
Increase in other taxes payable		10	9	-	-
Cash generated from operations		**6,591**	**3,212**	**223**	**103**
Income taxes paid		(1,513)	(464)	(52)	(16)
Interest received		39	84	1	1
Interest paid		(626)	(768)	(21)	(25)
Net cash generated from operating activities		**4,491**	**2,064**	**151**	**63**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(1,829)	(1,345)	(61)	(43)
Proceeds from the sale of property, plant and equipment		73	113	2	3
Income from associate		3	9	-	-
Acquisition of intangible assets		(20)	7	(1)	-
Purchase of long-term financial assets		(952)	-	(33)	-
Disposal of long-term financial assets		-	43	-	1
Purchase of short-term financial assets		(354)	(123)	(12)	(4)
Net cash used in investing activities		**(3,079)**	**(1,296)**	**(105)**	**(43)**
Cash flows from financing activities:					
Proceeds from short-term borrowings		5,549	5,913	189	196
Proceeds from long-term borrowings		3,401	2,791	116	92
Repayments of borrowings		(10,435)	(9,139)	(354)	(298)
Purchase of treasury shares	18	(18)	(40)	(1)	(1)
Proceeds from disposal of treasury shares	18	249	-	8	-
Dividends paid	18	(739)	(188)	(25)	(6)
Net cash used in from financing activities		**(1,993)**	**(663)**	**(67)**	**(17)**
Net increase in cash and cash equivalents		**(581)**	**105**	**(21)**	**3**
Cash and cash equivalents at the beginning of the year	8	1,843	1,738	60	57
Cash and cash equivalents at the end of the year	**8**	**1,262**	**1,843**	**39**	**60**

The accompanying notes on pages 7 to 35 are an integral part of these consolidated financial statements.

1 The Group and its operations

Open Joint Stock Company "KuibyshevAzot" ("the Company" or JSC "KuibyshevAzot") and its subsidiaries' ("the Group") principal activities include the manufacture, distribution and sales of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products. The Group's manufacturing facilities are primarily based in the Samarskaya oblast of Russia.

JSC "KuibyshevAzot" was incorporated as a closed joint stock company in the Russian Federation on 24 December 1992. During privatisation in 1992 management of the Company and its employees received shares in accordance with the Law on Privatisation of State and Municipal organisations #1531-1 dated 3 July 1992. During 2006 the Company changed its legal form from "Closed Joint Stock Company" to "Open Joint Stock Company" based on the decision made on the annual shareholders meeting held on 21 April 2006.

As at 31 December 2011 a limited liability company OOO "Kuibyshevazot Plus" holds a blocking shareholding of 28% of total share capital of the Company (31 December 2010: 28%). During 2005 OOO "Kuibyshevazot Plus" was established by management of the Company by contribution of their shares in the Company as satisfaction for share capital of OOO "Kuibyshevazot Plus".

The registered office of the Company is Novozavodskaya ul., 6, Togliatti, 445007, Samarskaya oblast, Russian Federation.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Most of the Group companies maintain their accounting records in Russian Rouble ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The consolidated financial statements are presented in Russian Roubles and all values are rounded to the nearest million except when otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention, except as stated in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2.2 Basis for consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition (or the date of establishment), being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis for consolidation (continued)

(a) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(b) Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis for consolidation (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.3 Segment reporting

The Group voluntary chose to prepare segment disclosure in accordance with IFRS 8. The disclosures are shown in Note 6 Operating Segment Information.

2.4 Foreign currency transaction

Functional and presentation currency

Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Supplementary information

In addition to presenting these consolidated financial statements in Russian roubles, supplementary information in US dollars (US$) has been prepared for the convenience of users of these consolidated financial statements. The method used to determine the supplementary information is as follows:

(i) all items in the statement of financial position, including all components of equity, are translated at the closing rate for each statement of financial position presented.

(ii) income and expenses have been translated using the average rate of exchange for each year presented.

The Company has converted the financial information into US$ by translating all items in the statement of financial position, including all components of equity, using the closing rate. Such conversion is not in accordance with IFRS as translation differences resulting from translating opening net assets using the prior year closing rate has not been presented separately within other comprehensive income.

The relevant exchange rates of the RR to US$ 1 as quoted by the Central Bank of the Russian Federation (CBRF) were as follows:

	RR per US$
Average for the year ended 31 December 2010	30.3689
31 December 2010	30.4769
Average for the year ended 31 December 2011	29.3904
31 December 2011	32.1961

The translation of RR denominated assets and liabilities into US$ for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in US$ the translated values of these assets and liabilities.

2 Basis of preparation and significant accounting policies (continued)

2.4 Foreign currency transaction (continued)

Transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Group companies

The assets and liabilities of foreign subsidiaries of the Company are translated into RR at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

2.5 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments like bank promissory notes with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

2.6 Accounts receivable

Accounts receivable are carried at amortised cost using the effective interest method. Accounts receivable are shown including VAT. An impairment of receivables 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 receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the statement of comprehensive income within 'general and administrative expenses'.

2.7 Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis by deducting VAT on purchases, which have been occurred at the reporting date, from the VAT payable.

Value added tax payable

VAT is payable upon invoicing and delivery of goods, performing works or rendered services, as well as upon collection of prepayments from customers.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value added tax recoverable

The Group applies accrual method for VAT recognition. VAT on purchases, even not settled at the reporting date, is deducted from the amount of VAT payable.

VAT on construction in progress is recorded as VAT receivable and can be claimed at the end of each quarter.

VAT on purchases related to export sales can be reimbursed at the moment when export is confirmed by tax authorities.

2 Basis of preparation and significant accounting policies (continued)

2.8 Inventories

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

2.9 Financial assets

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised 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 equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Trading investments. Trading investments are carried at fair value. Dividend and interest income from trading investments is recognised in the statement of comprehensive income as part of other income within income from trading investments when the Group's right to receive payments is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading investments in the period in which they arise.

2 Basis of preparation and significant accounting policies (continued)

2.10 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, as follows:

	Number of years
Buildings	40 to 50
Plant and equipment	10 to 20
Other (office equipment and motor vehicles)	5 to 10

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. The residual value of fixed assets is annually assessed by management.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life.

Assets under construction and land owned by the Group are not depreciated.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

2.11 Finance leases

The Group leases certain equipment. Leases of equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period using the effective interest method. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2.12 Intangible assets

All of the Group's intangible assets, other than goodwill, have definite useful lives and primarily include capitalised computer software. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives.

2 Basis of preparation and significant accounting policies (continued)

2.13 Borrowings

Borrowings are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed. Accrued interest is recorded within the relevant borrowing.

2.14 Income taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.15 Share capital and treasury shares

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

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are sold or reissued. No gain or loss is recognized in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are recorded at weighted average cost.

2.16 Dividend distribution

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

2 Basis of preparation and significant accounting policies (continued)

2.17 Revenue recognition

Revenue from sales of chemical products is the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales within the Group.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

2.18 Employee benefits

Social costs

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group incurs employee costs related to the provision of short-term non-monetary benefits such as health services and recreation facilities. These amounts principally represent an implicit cost of employees and, accordingly, have been charged to other operating expenses in the consolidated statement of comprehensive income.

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group operates an unfunded defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date together with adjustments for unrecognised actuarial gains or losses and unrecognized past service cost. The defined benefit obligation is calculated annually using the projected unit credit method. In accordance with IAS 19, the cost of providing pensions is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees in line with the terms of the plan. The pension obligation is measured as the present value of the discounted estimated future pension payments together with adjustments for unrecognised actuarial gains and losses. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the reporting date on high quality bonds. The currency and term of these bonds is consistent with the currency and estimated term of the post-employment benefit obligations. The part of the actuarial gains and losses exceeding 10% of defined benefit obligation, is amortised over the remaining service life of the company's employees, starting from the next reporting year.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

3 Critical accounting estimates and judgements in applying accounting policies (continued)

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.

If the estimated remaining useful life of buildings had been 10% higher or lower than management estimates, then the carrying value of buildings would be RR 305 higher or RR 208 lower accordingly. If the estimated remaining useful life of plant and equipment had been 10% higher or lower than management estimates, then the carrying value of plant and equipment would be RR 753 higher or RR 187 lower accordingly.

Estimated impairment of property, plant and equipment. The Group assesses annually whether any indicators of impairment of the property, plant and equipment exist, in accordance with the accounting policy stated in Note 2.10. If there are indicators of impairment, the Group determines recoverable amounts of cash generating units, based on value-in-use calculations. These calculations require the use of estimates.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.2.

Pension obligations. Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 17.

4 Adoption of new or revised standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except the following. The Group has adopted the following new and amended IFRS as of 1 January 2011:

IAS 24 Related Party Disclosures (amendment) effective 1 January 2011;
IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010;
Improvements to IFRSs (May 2010).

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity’s non-derivative equity instruments, to acquire a fixed number of the entity’s own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

4 Adoption of new or revised standards and interpretations (continued)

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

IFRS 7 Financial instruments - Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies financial position or performance of the Group:

IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008));
IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards);
IAS 27 Consolidated and Separate Financial Statements;
IAS 34 Interim Financial Statements.

The following interpretations and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:
IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment);
IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits);
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

5 New accounting pronouncements

In May 2011, the IASB issued a package of standards on consolidation: IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, revised IAS 27, Separate Financial Statements, and revised IAS 28, Investments in Associates and Joint Ventures. The package of new and revised standards introduces the new model of control and treatment of joint arrangements and also new disclosure requirements. The package is effective for annual periods beginning on or after 1 January 2013. The Group will adopt the package from 1 January 2013. The Group does not expect the package to have a material impact on its consolidated financial position and results of operations.

Other standards issued but not yet effective up to the date of issuance of the Group’s financial statements are listed below. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 relates to presentation of other comprehensive income. The Group does not expect new IAS 1 to have a material impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value. It also introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

5 New accounting pronouncements (continued)

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures
The recently issued amendments to IAS 32 and IFRS 7 clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The clarifying amendments to IAS 32 are effective for the annual periods beginning on or after 1 January 2014. The new disclosures in IFRS 7 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Both require retrospective application for comparative periods. The Group does not expect the amendments to have a material impact on the Group's consolidated financial position and results of operations.

6 Operating segment information

For management purposes, the Group is organised into business units based on their products lines, and has the following reportable operating segments:

(1) Production and sale of caprolactam and derivatives;

(2) Production and sale of ammonia and nitrogen fertilisers.

Unallocated activities includes activities of the Company that do not relate to chemical production and subsidiaries' activities. Group finaning and income taxes are managed on a group basis and are not allocated to operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on management accounts, which in a number of respects, as explained in the table below, differs from the consolidated financial statements.

Transactions between the business segments are done on normal commercial terms and conditions.

(in millions of Russian Roubles, unless otherwise stated)

6 Operating segment information (continued)

The following tables present revenue, profit, assets and liabilities information regarding the Group's operating segments:

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
Year ended 31 December	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Sales	21,036	14,768	8,583	5,547	3,301	2,139	32,920	22,454
Segment operating profit for the period	2,407	1,182	3,615	1,253	1,068	554	7,090	2,989
IFRS adjustments								
Difference in depreciation of fixed assets							(544)	(579)
Provision for pension obligation							104	(33)
Others							(115)	34
IFRS operating profit for the period							**6,535**	**2,411**

Difference in depreciation of fixed assets relates to different useful life period of fixed assets in management accounts and in IFRS financial statements.

Unallocated amount relates mainly to activities of non-core subsidiaries.

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
At 31 December	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Segment assets	12,058	9,508	4,219	3,408	9,725	8,857	26,002	21,773
IFRS adjustments:								
Difference in depreciation of fixed assets							333	601
Impairment of the Group's assets							(223)	(57)
Others							(45)	(59)
IFRS total assets							**26,067**	**22,258**

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
At 31 December	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Segment liabilities	347	214	159	171	11,337	11,573	11,843	11,958
IFRS adjustments:								
Pension obligation							105	209
Finance lease							41	41
Deferred tax							(111)	240
Others							23	(83)
IFRS total liabilities							**11,901**	**12,365**

Unallocated amounts relate mainly to borrowings of RR 7,602 (2010: RR 9,172) and liabilities of non-core subsidiaries.

(in millions of Russian Roubles, unless otherwise stated)

6 Operating segment information (continued)

Geographic information

Sales are allocated based on the country in which the customer is located:

	2011	2010
Asia	12,210	8,700
Russia	12,217	7,807
Europe	5,136	3,641
South America	1,274	1,025
Other	2,083	1,281
	32,920	**22,454**

Assets of the Group are mainly located in the Russian Federation.

7 Balances and transactions with related parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the years ended 31 December 2011 and 2010, or had significant balances outstanding at 31 December 2011 and 2010 is detailed below.

The income and expenses items with related parties for the years 2011 and 2010 were as follows:

Sales of goods and services

	2011	2010
Rental services	5	8
Interest income on loans issued to related parties	2	12
Total	**7**	**20**

Purchase of goods and services

	2011	2010
Finance lease charge	67	84
Transportation services	10	12
Interest expense	8	4
Total	**85**	**100**

At 31 December 2011 and 2010, the outstanding balances with related parties were as follows:

	2011	2010
Receivables from associates	3	2
Loans issued	14	57
Lease payable	43	41
Borrowings from related parties	236	116

(in millions of Russian Roubles, unless otherwise stated)

7 Balances and transactions with related parties (continued)

As at 31 December 2011 loans issued to related parties relate to RR 14 of loans issued to OOO Prominvest at the interest rate of 11% (2010: RR 23, interest rate 14%-15.7%) and loans issued to OOO Chimteco, an associate company (2010: RR 34, interest rate 14%). OOO Prominvest is considered as a related party as it is owned by member of key management personnel.

Borrowings from related parties include a loan amounting to RR 105 (2010: RR 107) obtained from OAO Benzol with a fixed interest rate of 2% per annum (2010: 2%), a loan amounting to RR 112 obtained from OOO Kuibyshevazot Plus with a fixed interest rate of 6% per annum. As at 31 December 2011 the balance also includes loans obtained from other related parties amounted of RR 19 at a fixed interest rate of 0%-8% per annum (2010: RR 9 at 0%).

Lease payable to OOO Prominvest amounting to RR 27 and RR 25 for 2011 and 2010, respectively, has an implicit rate of 13% (2010: 13%).

During 2011 several top managers of the Group acquired 370,000 ordinary shares of the Company for RR 18.5.

Key management compensation

The remuneration of 20 key management personnel (31 December 2010: 19) amounted to RR 54 and RR 42 in the years 2011 and 2010, respectively. It comprised salaries, discretionary bonuses and other short-term benefits. Statutory social payments made in respect of key management personnel remuneration amounted of RR 4 (2010: RR 2). Dividends paid to key management personnel amounted to RR 117 (2010: RR 33).

8 Cash and cash equivalents

	2011	2010
Short-term promissory notes, deposits	735	1,371
RR denominated cash on hand and balances with banks	155	110
Foreign currency denominated balances with bank	372	362
	1,262	**1,843**

Short-term promissory notes are interest-free Sberbank promissory notes, due on demand, which were received from customers as a payment for goods and services provided.

Balances with banks have interest rate of 3-4% in both 2010 and 2011.

Foreign currency denominated balances with bank consist of the following:

Currency	2011	2010
US Dollar	148	115
Yuan	134	204
Euro	76	39
Serbian Dinar	13	4
Swiss Franc	1	-

(in millions of Russian Roubles, unless otherwise stated)

9 Receivables and prepayments

	2011	2010
Trade receivables	2,222	1,276
Less: impairment	(9)	(7)
	2,213	**1,269**
Other receivables	407	255
Less: impairment	(54)	-
	353	**255**
Prepayments	1,429	695
Less: impairment	-	(6)
	1,429	**689**
VAT recoverable	1,909	1,125
	5,904	**3,338**

Foreign currency denominated balances of net accounts receivable consist of the following:

Currency	2011	2010
US Dollar	633	1,275
Yuan	490	303
Swiss Franc	93	-
Euro	64	65
Serbian Dinar	14	11
Japanese Yen	7	-
	1,301	**1,654**

Trade receivables are non-interest bearing and are generally on 90 days terms.

Movements in the provision for impairment of receivables were as follows:

	2011	2010
Opening balance	13	24
Charge for the year	56	-
Utilised	(6)	(11)
Closing balance	**63**	**13**

There is no concentration of credit risk with respect to trade and other receivables, as the Group has a large number of customers, internationally dispersed. The aging analysis of trade and other receivables is as follows:

	Below 30 days	31-180 days	Above 181 days	Total
2010	619	857	48	**1,524**
2011	1,280	1,198	88	**2,566**

10 Inventories

	2011	2010
Raw materials	1,759	1,407
Work in progress	719	528
Finished products	3,322	2,400
	5,800	**4,335**

Finished products of RR 3,470 (31 December 2010: RR 2,435) are shown at net realisable value net of impairment of RR 148 (31 December 2010: RR 35).

Inventories of RR 231 (31 December 2010: RR 270) have been pledged as collateral for borrowings (Note 14).

(in millions of Russian Roubles, unless otherwise stated)

11 Property, plant and equipment

	Land and Buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2010	5,113	16,900	102	2,803	24,918
Additions	-	-	-	1,580	1,580
Disposals	(35)	(357)	(1)	-	(393)
Transfers from CIP	410	3,028	8	(3,446)	-
Balance at 31 December 2010	**5,488**	**19,571**	**109**	**937**	**26,105**
Additions	-	-	-	1,995	1,995
Disposals	(59)	(158)	(1)	-	(218)
Transfers from CIP	318	1,129	30	(1,477)	-
Balance at 31 December 2011	**5,747**	**20,542**	**138**	**1,455**	**27,882**
Accumulated depreciation					
Balance at 1 January 2010	(2,400)	(11,103)	(66)	-	(13,569)
Depreciation expense for 2010	(221)	(1,055)	(24)	-	(1,300)
Disposals	9	318	2	-	329
Balance at 31 December 2010	**(2,612)**	**(11,840)**	**(88)**	**-**	**(14,540)**
Depreciation expense for 2011	(211)	(1,160)	(7)	-	(1,378)
Disposals	4	128	-	-	132
Balance at 31 December 2011	**(2,819)**	**(12,872)**	**(95)**	**-**	**(15,786)**
Net book value					
Balance at 31 December 2010	**2,876**	**7,731**	**21**	**937**	**11,565**
Balance at 31 December 2011	**2,928**	**7,670**	**43**	**1,455**	**12,096**

At 31 December 2011 equipment carried at RR 5,985 (31 December 2010: RR 7,256) has been pledged to third parties as collateral for bank borrowings and other loans (Note 14).

At 31 December 2011 the cost of the land on which the Group's principle production facilities are situated, amounted to RR 62 (31 December 2010: RR 45).

Borrowing costs capitalised amounted to RR 64 (2010: RR 103). A capitalisation rate of 8% (2010: 7%) was used, representing the borrowing costs of the loans used to finance the investment projects.

Equipment includes the following amounts where the Group is a lessee under a finance lease:

	2011	2010
Cost of capitalized finance leases	130	182
Accumulated depreciation	(81)	(134)
Net book amount	**49**	**48**

12 Investments in associates

At 31 December 2011, the Group's interests in its principle associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Amount of investment	Country of incorporation
OAO Benzol	304	1	-	-	38%	114	Russia
OOO Samara Turbokon	11	3	50	38	25%	50	Russia
Others						19	Russia
Total						**183**	

(in millions of Russian Roubles, unless otherwise stated)

12 Investments in associates (continued)

At 31 December 2010, the Group's interest in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Amount of investment	Country of incorporation
OAO Benzol	304	1	-	-	38%	114	Russia
OOO Samara Turbokon	11	3	47	36	25%	41	Russia
OOO MMK Benzol	44	-	-	-	49%	23	Russia
Others						3	Russia
Total						**181**	

13 Financial assets

Short term financial assets include:

	2011	2010
Short-term portion housing loans allowed to employees: 0%-8.5%	87	145
Other	85	42
	172	**187**

Long term financial assets include:

	2011	2010
Long-term housing loans allowed to employees: 0%-8.5%	217	205
Other	46	86
	263	**291**

As at 31.12.11 the Company recorded a provision for financial assets in the amount of RR 1,473 due to the fact that the counterparty did not confirm the payment schedule for these financial assets to the Company.

Long-term loans to employees have different maturity dates up to the year 2031 (2010: up to 2030).

14 Borrowings

Short-term borrowings

	Interest rate	Maturity date	Currency	2011	2010
Sberbank	5%-9.5%	2012	RR	530	1,151
Sberbank	5.61%	2012	USD	42	161
Sberbank	8.9%	2012	EUR	82	71
JSC VTB Bank	6.65%-6.86%	2012	RR	572	250
JSC VTB Bank	4.85%-5.05%	2012	USD	402	247
ZAO Absolut Bank	4.61%	2012	USD	323	-
Loans from related parties	2%-6%	2012	RR	236	116
International Finance Corporation	Libor+4.75%	2012	USD	161	610
ZAO Raiffeisenbank	Libor+2.55%	2012	USD	150	-
Finance lease liability	13%	2012	RR	15	16
ZAO Raiffeisenbank	MOSPRIME+2.32%	2011	RR	-	396
Non-convertible bonds	8.8%	2011	RR	-	1,111
Sviaz-Bank	7.3%-7.4%	2011	RR	-	727
ZAO BSGV	7%	2011	RR	-	59
Bank of China	3.56%	2012	USD	48	84
Gazprombank	7%	2011	RR	-	349
Other		2012	RR	92	111
				2,653	**5,459**

(in millions of Russian Roubles, unless otherwise stated)

14 Borrowings (continued)

The Group's short-term borrowings are denominated in currencies as follow:

	2011	2010
Borrowings denominated in:		
- Russian Roubles	1,445	4,286
- US Dollars	1,126	1,102
- Euros	82	71
	2,653	**5,459**

Long-term borrowings

	Interest rate	Maturity date	Currency	2011	2010
Non-convertible bonds	8.60%	2016	RR	2,000	-
Sberbank	6.15%-10.5%	2013-2015	RR	1,193	1,738
Sberbank	8.9%	2013-2016	EUR	618	630
Sberbank	5.61%-9%	2012	USD	-	580
Raiffeisen bank	MOSPRIME+2.1%	2013-2014	RR	543	300
Raiffeisen bank	Libor+5.5%	2012	USD	-	142
International Finance Corporation	Libor+4.75%	2014	USD	322	-
Sviaz-Bank	8.25%	2014	RR	200	-
JSC Pervobank	6.90%	2013	USD	32	289
Others			RR	41	34
				4,949	**3,713**

The maturity of long-term borrowings is as follows:

	2011	2010
Current	745	1,343
1 to 2 years	1,284	936
2 to 3 years	1,397	2,059
3 to 5 years	2,250	656
> 5 years	18	62
	5,694	**5,056**
Less: Current portion	(745)	(1,343)
	4,949	**3,713**

The Group's long-term borrowings are denominated in currencies as follows:

	2011	2010
Borrowings denominated in:		
- Russian Roubles	3,977	2,072
- Euros	618	630
- US Dollars	354	1,011
	4,949	**3,713**

Total amount of guarantee issued by the Group for long and short-term borrowings is RR 8,302 (2010: RR 9,614), including pledged equipment and inventories in the amount of RR 6,216 (2010: RR 7,526) (see notes 10 and 11).

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of interest rate exposures.

In April 2011 OOO Kuibyshevazot-invest issued RR 2,000 non-convertible rouble-denominated bonds with maturity of 5 years at a fixed interest rate (8.6% annual interest rate at the moment of bonds issue). The Company has guaranteed the bonds. The amount of guarantee is RR 2,086 and is included in the above pledged amounts.

(in millions of Russian Roubles, unless otherwise stated)

15 Advances received and other current liabilities

	2011	2010
Advances received	1,069	886
Salaries payable	190	111
Dividends payable	47	2
Other	414	243
	1,720	**1,242**

Terms and conditions of the above liabilities:

- Advances received and other current liabilities are non-interest bearing and have an average term of two months.
- For terms and conditions relating to related parties, refer to Note 7.

16 Other taxes payable

	2011	2010
Property tax	70	64
Payments to the Pension Fund and other social taxes	43	24
Personal income tax	16	11
Other taxes	24	44
	153	**143**

The Group had no tax liabilities past due at 31 December 2011 and 2010.

17 Retirement benefit obligations

Before March 2011 the Group provided post retirement benefits in the form of monthly cash payments and a lump sum payment on retirement to their retirees via the non-state pension fund “Titan”. The retirement benefit in the form of a lump sum payment was terminated in 2011. The Group did not incur any additional losses from the termination of retirement benefit in the form of a lump sum payment and does not expect any in future.

The amount of post retirement benefits in the form of monthly cash payments is dependent on one or more factors, such as age, years of service and compensation. The entitlement to benefits (cash payments) ceases 5 years after retirement date. To date it has been an unfunded plan, with no assets specifically allocated to cover the scheme liabilities. The scheme’s retirement age is the State retirement age (55 for females and 60 for males). The actuarial valuation is performed once in 3 years, the last valuation was performed in December 2010.

The amounts recognised in the statement of financial position as at 31 December 2010 and 31 December 2011 are as follows:

	31 December 2011	31 December 2010
Present value of unfunded obligations	149	331
Unrecognised actuarial loss	(90)	(144)
Unrecognised past service cost	46	22
Net liability in statement of financial position	**105**	**209**

The amounts recognised in the statement of comprehensive income for years ended 31 December 2010 and 31 December 2011 are as follows:

	31 December 2011	31 December 2010
Current service cost	12	12
Past service cost	7	7
Interest cost	27	24
Total included in actuarial expenses	**46**	**43**

(in millions of Russian Roubles, unless otherwise stated)

17 Retirement benefit obligations (continued)

Movements in the net liability recognised in the statement of financial position are as follows:

	31 December 2011	31 December 2010
At the beginning of the period	209	176
Total expense as above	46	43
Contributions paid	(12)	(10)
Reverse on ceased lump sum payments	(138)	-
Net liability at the end of the year	**105**	**209**

The principal actuarial assumptions used were as follows:

	31 December 2011	31 December 2010
Discount rate	8%	8%
Salary increase	8.75%	8.65%
Post retirement benefit increase	6%	6%
Staff turnover up to the age 49 (males) and 44 (females)	5%	5%
Staff turnover from the age 49 (males) and 44 (females) up to the retirement	0%	0%

18 Share capital

	Number of issued shares (thousands)		Number of treasury shares	Total number of outstanding shares	Share capital	Treasury shares
	Preference	Ordinary	(thousands)	(thousands)	(In Russian Roubles)	
At 1 January 2010	**3,697**	**237,043**	**(45,574)**	**195,166**	**642**	**(1,049)**
Treasury shares purchased	-	-	(1,010)	(1,010)	-	(40)
At 31 December 2010	**3,697**	**237,043**	**(46,584)**	**194,156**	**642**	**(1,089)**
Treasury shares purchased	-	-	(311)	(311)	-	(18)
Treasury shares disposed	-	-	4,980	4,980	-	116
At 31 December 2011	**3,697**	**237,043**	**(41,915)**	**198,825**	**642**	**(991)**

The nominal registered amount of the Company's issued share capital is RR 241 (31 December 2010: RR 241).

The total number of authorised ordinary shares is 552,043 thousand shares (31 December 2010: 552,043 thousand) and of preference shares is 138,897 thousand shares (31 December 2010: 138,897 thousand) with a nominal value of 1 rouble per share of both types.

Shares purchased from shareholders are held as 'treasury shares'. At 31 December 2011 OOO Togliattichiminvest, OOO Kuibyshevazot-invest, OOO Activinvest and OOO Kurskchimvolokno held 40,419 thousand ordinary and 1,496 thousand preference shares of the Company. At 31 December 2010 OOO Togliattichiminvest, OOO Kuibyshevazot-invest and OOO Activinvest held 45,129 thousand ordinary and 1,455 thousand preference shares of the Company.

Preference shares are non-redeemable, non-cumulative and give the holders the right to participate in the general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. The non-cumulative preference shares give holders the right to receive dividends per share of not less than 1% of their nominal value and, in case of liquidation of the Company, they give holders the right to receive liquidation value in the amount of their nominal value. If the Company fails to pay dividends, the preferred shareholders have the right to vote in the general shareholders' meeting, which ceases when dividends on preference shares are paid in full.

The Company cannot declare and pay dividends on ordinary shares if dividends on preference shares are not declared in full.

(in millions of Russian Roubles, unless otherwise stated)

18 Share capital (continued)

Dividends declared and paid during the year on ordinary and preference shares were as follows:

	2011	2010
Dividends payable at 1 January	**2**	**35**
Dividends declared during the year	784	155
Dividends paid during the year	(739)	(188)
Dividends payable at 31 December	**47**	**2**
Dividends per share declared during the year, RR	**4**	**0.8**

In 2011 the Company declared 2.6 rouble of interim dividends for 2011 per share for both ordinary and preference shares and final dividends for 2010 of 1.4 roubles per share for both ordinary and preference shares (2010: 0.8 rouble of interim dividends, final dividends for 2009 were not declared).

19 Sales

	2011	2010
Caprolactam and derivatives	21,036	14,768
Ammonia and nitrogen fertilisers	8,583	5,547
Other products	3,301	2,139
	32,920	**22,454**

20 Cost of sales

	2011	2010
Materials and components used	14,985	10,531
Heat energy and electricity	2,565	2,326
Labour costs	1,956	1,899
Depreciation	1,276	1,179
Other	842	1,116
Increase in finished goods and work in progress	(1,113)	(950)
	20,511	**16,101**

Repair and maintenance expenses

Repair and maintenance expenses, included in cost of sales consist of the following items:

	2011	2010
Materials and components used	363	437
Services of auxiliary divisions	585	340
Labour costs	240	234
Third party services	357	298
	1,545	**1,309**

21 Distribution costs

	2011	2010
Transportation	2,440	2,044
Labour costs	156	113
Materials	112	54
Depreciation	57	20
Other	355	265
	3,120	**2,496**

(in millions of Russian Roubles, unless otherwise stated)

22 General and administrative expenses

	2011	2010
Labour costs	618	517
Services of third parties	327	231
Taxes, other than income tax	137	192
Materials	54	150
Insurance	106	134
Consultancy services	71	125
Depreciation	45	101
Fines and penalties	(5)	24
Impairment of receivables	56	(7)
Other	151	40
	1,560	**1,507**

23 Other operating income

	2011	2010
Net profit on sales of materials	48	23
Foreign exchange gains on operating activities	105	2
Other	226	178
	379	**203**

24 Other operating expenses

	2011	2010
Impairment of assets	1,354	-
Social expenses	185	110
Charitable donations	34	32
	1,573	**142**

25 Finance income

	2011	2010
Interest income	46	87
Foreign exchange gains on financing activities	37	90
	83	**177**

26 Finance costs

	2011	2010
Interest expense	626	645
Finance lease charge	54	92
Less capitalised borrowing costs	(64)	(103)
	616	**634**

(in millions of Russian Roubles, unless otherwise stated)

27 Income taxes

	2011	2010
Current income tax expense	1,452	471
Recalculation of current income tax of prior periods	(74)	-
Deferred tax expenses	(144)	128
Income tax expense for the year	**1,234**	**599**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2011	2010
Income before taxation	6,005	1,963
Theoretical tax charge at statutory rate of 20%	994	354
Theoretical tax charge at statutory rate of 15.5%	139	-
Theoretical tax charge at statutory rate of 25% applicable to Chinese subsidiaries	27	70
Theoretical tax charge at statutory rate of 16.5% on income of Hong Kong subsidiary	5	17
Recalculation of current income tax of prior periods	(74)	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-assessable profit of Hong Kong subsidiary	(5)	(17)
Social expenses	56	101
Non-deductable devaluation of investment	-	24
Other non-deductible expenses	92	50
Income tax expense	**1,234**	**599**

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

	1 January 2010	**Origination/ (reversal) of temporary difference**	**31 December 2010**	**Origination/ (reversal) of temporary difference**	**31 December 2011**
Tax effects of temporary differences:					
Accounts receivable and prepayments	10	(7)	3	(13)	(10)
Finance lease	35	6	41	(21)	20
Financial assets	2	-	2	274	276
Property, plant and equipment	(730)	(83)	(813)	(57)	(870)
Inventories	(95)	(35)	(130)	(63)	(193)
Other	11	(9)	2	24	26
Recognized deferred tax liability	**(767)**	**(128)**	**(895)**	**144**	**(751)**

27 Income taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred tax assets will be realised in different periods than deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of RR 1,076 (2010: RR 440) 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.

28 Contingencies, commitments and operating risks

28.1 Contractual commitments and guarantees

As at 31 December 2011 and 31 December 2010 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 164 and RR 215 respectively, designated for construction of new and modernisation of existing production facilities.

28.2 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 are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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.

Russian transfer pricing rules effective in 2011 give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price deviates from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions and transactions with significant (by more than 20%) price fluctuations.

28 Contingencies, commitments and operating risks (continued)

28.2 Taxation (continued)

The transfer pricing rules effective in 2011 are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, it could have an adverse effect on the Group's consolidated financial position and results of operations.

Effective 1 January 2012 the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and list of managed deals were expanded. Due to above new rules, absence of law enforcement precedents, and certain contradictions of the new law, such new rules could not be considered as well defined. The Group's management is in the process of developing a new approach to assess consequences of the new tax rules, to prevent substantial negative impact on the Group's consolidated financial statements.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2011 and 31 December 2010 no provision for potential tax liabilities had been recorded. The Group estimates that it has no potential obligations from exposure to other than remote tax risks.

28.3 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. Under existing legislation, management believes that there are no significant liabilities for environmental damage.

28.4 Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

28.5 Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

(in millions of Russian Roubles, unless otherwise stated)

29 Principal subsidiaries

The Group's principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

			2011		2010	
Name	**Country of incorporation**	**Activity**	**% ownership**	**% voting**	**% ownership**	**% voting**
OAO Port Togliatti	Russian Federation	Transportation of goods	66%	79%	66%	79%
ZAO Pecherskoe	Russian Federation	Agricultural	100%	100%	100%	100%
OOO Togliattichim-invest	Russian Federation	Trading of construction materials	100%	100%	99.5%	99.5%
OOO Kuibyshevazot-invest	Russian Federation	Investing	100%	100%	100%	100%
OOO Engineering – Plastic company KuibyshevAzot	China	Engineering plastics production	90%	90%	90%	90%
TH Kuibyshevazot Shanghai	China	Trading company	50%	50%	50%	50%
KuibyshevAzot Trading Co Ltd	Hong Kong	Trading of the Company's products	100%	100%	100%	100%
OOO Activinvest	Russian Federation	Investing	100%	100%	100%	100%
OOO Azotremstroi	Russian Federation	Capital construction	100%	100%	100%	100%
OOO Kurskchimvolokno	Russian Federation	Production of synthetic fiber	100%	100%	100%	100%
OOO Moskovskiye Volokna	Russian Federation	Rental services	100%	100%	100%	100%
OOO Aincom	Russian Federation	Rental services	100%	100%	100%	100%
OOO Baltex	Russian Federation	Production of synthetic fabric	100%	100%	100%	100%

The Group has control over China subsidiary Trading House Kuibyshevazot Shanghai because the Company has the right to appoint a majority in the Board of directors.

In August 2010 the Company established a new subsidiary in Saratov region, Russia, OOO Baltex. The total amount of 100% investment in share capital of this subsidiary is RR 0.1. The subsidiary produces and sells synthetic fabric from fiber produced by the Company.

30 Financial risks management

The Group's principal financial liabilities comprise bank loans, non-convertible bonds, finance leases, trade and other payables. The main purpose of these financial liabilities is to provide financing for the Group's operations. The Group has various financial assets such as trade receivables, loans given, cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(in millions of Russian Roubles, unless otherwise stated)

30 Financial risks management (continued)

30.1 Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. 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 impairment already recorded.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments including exchange bills and loans issued, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. However, management monitors that cash is placed in financial institutions or invested in financial assets of entities, which are considered to have minimal risk of default.

30.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

30.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing short-term and long-term borrowings. The Group has no significant interest-bearing assets.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates linked to MOSPRIME and Libor index. At 31 December 2011 approximately 85% of the Group's borrowings are at a fixed rate of interest (2010: 84%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

		Increase/decrease in basis points	Effect on profit before tax
2011			
Libor	High	0.15%	(1)
MOSPRIME	High	2.49%	(15)
Libor	Low	-0.15%	1
MOSPRIME	Low	-2.49%	15
2010			
Libor	High	1.00%	(4)
MOSPRIME	High	1.00%	(5)
Libor	Low	-0.25%	1
MOSPRIME	Low	-0.75%	4

30.4 Foreign exchange risk

The Group exports production to Asian, American and European countries and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Note 8 and 9) and liabilities (Notes 14) give rise to foreign exchange exposure. Approximately 63% of the Group's sales are denominated in currencies other than RR - the functional currency of the Company, whilst almost 99% of costs are denominated in RR. Hence, the Group is exposed to the related foreign exchange risk primarily with respect to the US$. However, management believe that foreign exchange risk is not significant.

(in millions of Russian Roubles, unless otherwise stated)

30 Financial risks management (continued)

30.4 Foreign exchange risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US$ and EURO exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

		Increase/decrease in basis points	Effect on profit before tax
2011			
EURO	High	11.77%	(64)
USD	High	12.50%	(141)
EURO	Low	-11.77%	64
USD	Low	-12.50%	141
2010			
EURO	High	11.05%	(63)
USD	High	8.90%	(41)
EURO	Low	-11.05%	63
USD	Low	-8.90%	41

30.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (31 December 2011: RR 3,932; 31 December 2010: RR 2,782) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments.

Year ended 31 December 2011	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	307	2,364	3,445	55	6,171
Non-convertible bonds	-	111	2,657	-	2,768
Trade and other payables	3,216	74	-	-	3,290
Finance lease liability	16	46	213	851	1,126
	3,539	**2,595**	**6,315**	**906**	**13,355**

Year ended 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	133	4,389	4,184	72	8,778
Non-convertible bonds	1,127	-	-	-	1,127
Trade and other payables	1,928	-	-	-	1,928
Finance lease liability	15	41	208	677	941
	3,203	**4,430**	**4,392**	**749**	**12,774**

30.6 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or sell treasury shares held by subsidiaries. No changes were made in the objectives, policies or processes during the years end 31 December 2011 and 31 December 2010.

(in millions of Russian Roubles, unless otherwise stated)

30 Financial risks management (continued)

30.7 Fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

At 31 December 2011 and 2010, the fair value of financial instruments, 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, approximates their carrying value.

Set out below is a comparison by category of carrying amounts and fair values of all of the Group’s financial instruments that are carried in the financial statements:

	Carrying amount		**Fair values**	
	2011	**2010**	**2011**	**2010**
Financial assets:				
Cash and cash equivalents	1,262	1,843	1,262	1,843
Short-term financial assets	172	187	172	187
Long-term financial assets	446	472	423	444
Financial liabilities:				
Short-term borrowings	2,638	4,332	2,638	4,332
Long-term borrowings	2,925	3,688	2,880	3,550
Finance lease liability	43	41	314	322
Non-convertible bonds	2,000	1,111	1,896	1,111
Trade and other payables	3,290	1,928	3,290	1,928

31 Events after the reporting period

On 27 April 2012 the Annual Shareholders' Meeting approved distribution of net profit for 2011 including payment of dividends amounting to RR 2.3 per ordinary and preference share in addition to previously declared interim dividends.