

**KuibyshevAzot Group**

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

*31 December 2012*



Consolidated financial statements and auditors' report

31 December 2012

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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 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 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 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 2012, and their financial performance and their 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 2.3. In our opinion, the accompanying supplementary information expressed in US dollars has been properly translated in accordance with the basis described in Note 2.3. 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*

30 April 2013



## Consolidated statement of financial position

as at 31 December 2012

(in millions of Russian Roubles, unless otherwise stated)

	Note	At 31 December		Supplementary information US\$ million (Note 2) At 31 December	
		2012	2011	2012	2011
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	1,910	1,262	63	39
Receivables and prepayments	9	4,108	5,904	135	183
Inventories	10	4,909	5,800	162	180
Current income tax receivable		95	-	3	-
Other financial assets	13	159	172	5	5
<b>Total current assets</b>		<b>11,181</b>	<b>13,138</b>	<b>368</b>	<b>407</b>
<b>Non-current assets</b>					
Property, plant and equipment	11	12,699	12,096	417	376
Intangible assets		25	60	1	2
Prepayments for property, plant and equipment		1,113	327	36	10
Investments in associates	12	211	183	7	6
Financial assets	13	443	263	15	8
<b>Total non-current assets</b>		<b>14,491</b>	<b>12,929</b>	<b>476</b>	<b>402</b>
<b>Total assets</b>		<b>25,672</b>	<b>26,067</b>	<b>844</b>	<b>809</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade payables		783	1,570	26	49
Other than income taxes payable	16	131	153	4	5
Short-term borrowings	14	1,836	2,653	60	82
Advances received and other current liabilities	15	1,683	1,720	55	53
<b>Total current liabilities</b>		<b>4,433</b>	<b>6,096</b>	<b>145</b>	<b>189</b>
<b>Non-current liabilities</b>					
Long-term borrowings	14	5,139	4,949	169	154
Deferred tax liability	27	802	751	26	23
Retirement benefit obligations	17	139	105	5	3
<b>Total non-current liabilities</b>		<b>6,080</b>	<b>5,805</b>	<b>200</b>	<b>180</b>
<b>Total liabilities</b>		<b>10,513</b>	<b>11,901</b>	<b>345</b>	<b>369</b>
<b>Equity</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	18	642	642	21	20
Treasury shares	18	(1,186)	(991)	(39)	(31)
Foreign currency translation reserve		(44)	(1)	(1)	-
Retained earnings		15,622	14,315	514	445
		<b>15,034</b>	<b>13,965</b>	<b>495</b>	<b>434</b>
Non-controlling interests		125	201	4	6
<b>Total equity</b>		<b>15,159</b>	<b>14,166</b>	<b>499</b>	<b>440</b>
<b>Total liabilities and equity</b>		<b>25,672</b>	<b>26,067</b>	<b>844</b>	<b>809</b>

Approved for issue and signed on behalf of Board of Directors on  
30 April 2013

V.I. Gerasimenko  
General Director

V.N. Kudashev  
Chief Accountant



## Consolidated statement of comprehensive income

for the year ended 31 December 2012

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December		Supplementary information US\$ million (Note 2) Year ended 31 December	
		2012	2011	2012	2011
Sales	19	31,270	32,920	1,006	1,120
Cost of sales	20	(22,578)	(20,511)	(726)	(698)
<b>Gross profit</b>		<b>8,692</b>	<b>12,409</b>	<b>280</b>	<b>422</b>
Distribution costs	21	(3,237)	(3,120)	(104)	(106)
General and administrative expenses	22	(2,099)	(1,560)	(67)	(53)
Other operating income	23	69	379	2	13
Other operating expenses	24	(175)	(1,573)	(6)	(54)
<b>Operating profit</b>		<b>3,250</b>	<b>6,535</b>	<b>105</b>	<b>222</b>
Finance income	25	98	83	3	3
Finance costs	26	(425)	(616)	(14)	(21)
Income from associates		16	3	1	-
<b>Profit before income tax</b>		<b>2,939</b>	<b>6,005</b>	<b>95</b>	<b>204</b>
Income tax expense	27	(857)	(1,234)	(27)	(42)
<b>Profit for the year</b>		<b>2,082</b>	<b>4,771</b>	<b>68</b>	<b>162</b>
<b>Other comprehensive income/(loss)</b>					
Foreign currency translation reserve		(43)	55	(1)	2
<b>Other comprehensive income/(loss) for the year, net of taxes</b>		<b>(43)</b>	<b>55</b>	<b>(1)</b>	<b>2</b>
<b>Total comprehensive income for the year, net of taxes</b>		<b>2,039</b>	<b>4,826</b>	<b>67</b>	<b>164</b>
<b>Profit attributable to:</b>					
Equity holders of the Company		2,158	4,730	70	161
Non-controlling interests		(76)	41	(2)	1
		<b>2,082</b>	<b>4,771</b>	<b>68</b>	<b>162</b>
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Company		2,115	4,785	69	163
Non-controlling interests		(76)	41	(2)	1
		<b>2,039</b>	<b>4,826</b>	<b>67</b>	<b>164</b>
<b>Earnings per share, basic/diluted (in Russian Roubles and US\$ per share):</b>					
- for profit attributable to the equity holders of the Company	28	<b>10.95</b>	<b>24.13</b>	<b>0.34</b>	<b>0.71</b>



## Consolidated statement of changes in equity

for the year ended 31 December 2012

(in millions of Russian Roubles, unless otherwise stated)

<b>Attributable to equity holders of the Company</b>							
	<b>Share capital</b>	<b>Treasury shares (Note 18)</b>	<b>Foreign currency translation reserve</b>	<b>Retained earnings</b>	<b>Total</b>	<b>Non-controlling interests</b>	<b>Total equity</b>
<b>Balance at 31 December 2010</b>	<b>642</b>	<b>(1,089)</b>	<b>(56)</b>	<b>10,236</b>	<b>9,733</b>	<b>160</b>	<b>9,893</b>
Profit for the year	-	-	-	4,730	4,730	41	4,771
Other comprehensive income	-	-	55	-	55	-	55
<b>Total comprehensive income for 2011</b>	<b>-</b>	<b>-</b>	<b>55</b>	<b>4,730</b>	<b>4,785</b>	<b>41</b>	<b>4,826</b>
Purchase of treasury shares (Note 18)	-	(18)	-	-	(18)	-	(18)
Sales of treasury shares (Note 18)	-	116	-	133	249	-	249
Dividends declared	-	-	-	(784)	(784)	-	(784)
<b>Balance at 31 December 2011</b>	<b>642</b>	<b>(991)</b>	<b>(1)</b>	<b>14,315</b>	<b>13,965</b>	<b>201</b>	<b>14,166</b>
Profit for the year	-	-	-	2,158	2,158	(76)	2,082
Other comprehensive loss	-	-	(43)	-	(43)	-	(43)
<b>Total comprehensive loss for 2012</b>	<b>-</b>	<b>-</b>	<b>(43)</b>	<b>2,158</b>	<b>2,115</b>	<b>(76)</b>	<b>2,039</b>
Purchase of treasury shares (Note 18)	-	(195)	-	-	(195)	-	(195)
Dividends declared	-	-	-	(851)	(851)	-	(851)
<b>Balance at 31 December 2012</b>	<b>642</b>	<b>(1,186)</b>	<b>(44)</b>	<b>15,622</b>	<b>15,034</b>	<b>125</b>	<b>15,159</b>
<b>Supplementary information US\$ million (Note 2)</b>	<b>Share capital</b>	<b>Treasury shares (Note 18)</b>	<b>Foreign currency translation reserve</b>	<b>Retained earnings</b>	<b>Total</b>	<b>Non-controlling interests</b>	<b>Total equity</b>
<b>Balances as of 31 December 2011</b>	<b>20</b>	<b>(31)</b>	<b>-</b>	<b>445</b>	<b>434</b>	<b>6</b>	<b>440</b>
<b>Balances as of 31 December 2012</b>	<b>21</b>	<b>(39)</b>	<b>(1)</b>	<b>514</b>	<b>495</b>	<b>4</b>	<b>499</b>



## Consolidated statement of cash flows

for the year ended 31 December 2012

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December		Supplementary information US\$ million (Note 2) Year ended 31 December	
		2012	2011	2012	2011
<b>Cash flows from operating activities</b>					
Profit before income tax		2,939	6,005	95	204
Adjustments for:					
Depreciation of property, plant and equipment	11	1,412	1,378	47	47
Impairment of assets	24	5	1,354	-	47
Retirement benefit obligations	17	34	(104)	1	(4)
Impairment of receivables	22	14	56	-	2
Share of income from associates		(16)	(3)	-	-
Finance income		(44)	(46)	(1)	(2)
Finance costs		156	616	5	21
Foreign exchange effect on non-operating balances – net		57	37	2	1
<b>Operating cash flows before working capital changes</b>		<b>4,557</b>	<b>9,293</b>	<b>149</b>	<b>316</b>
(Increase)/Decrease in accounts receivable and prepayments		1,687	(2,622)	54	(89)
(Increase)/Decrease in inventories		891	(1,465)	29	(50)
Increase/(Decrease) in accounts payable and other payables		(870)	1,375	(29)	46
Increase/(Decrease) in other taxes payable		(23)	10	(1)	-
<b>Cash generated from operations</b>		<b>6,242</b>	<b>6,591</b>	<b>202</b>	<b>223</b>
Income taxes paid		(800)	(1,513)	(27)	(52)
Interest received		45	39	2	1
Interest paid		(468)	(626)	(15)	(21)
<b>Net cash generated from operating activities</b>		<b>5,019</b>	<b>4,491</b>	<b>162</b>	<b>151</b>
<b>Cash flows from investing activities:</b>					
Purchase of property, plant and equipment		(2,943)	(1,829)	(95)	(61)
Proceeds from the sale of property, plant and equipment		50	73	2	2
Income from associate		16	3	1	-
Disposal of intangible assets		35	-	1	-
Purchases of intangible assets		-	(20)	-	(1)
Purchase of long-term financial assets		(208)	(952)	(7)	(33)
Disposal of short-term financial assets		14	-	-	-
Purchase of short-term financial assets		-	(354)	-	(12)
<b>Net cash used in investing activities</b>		<b>(3,036)</b>	<b>(3,079)</b>	<b>(98)</b>	<b>(105)</b>
<b>Cash flows from financing activities:</b>					
Proceeds from short-term borrowings		1,264	5,549	41	189
Proceeds from long-term borrowings		1,077	3,401	35	116
Repayments of borrowings		(2,622)	(10,435)	(83)	(354)
Purchase of treasury shares	18	(195)	(18)	(6)	(1)
Proceeds from disposal of treasury shares	18	-	249	-	8
Dividends paid	18	(859)	(739)	(27)	(25)
<b>Net cash used in financing activities</b>		<b>(1,335)</b>	<b>(1,993)</b>	<b>(40)</b>	<b>(67)</b>
<b>Net increase in cash and cash equivalents</b>		<b>648</b>	<b>(581)</b>	<b>24</b>	<b>(21)</b>
Cash and cash equivalents at the beginning of the year	8	1,262	1,843	39	60
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>1,910</b>	<b>1,262</b>	<b>63</b>	<b>39</b>

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





## Notes to the consolidated financial statements

for the year ended 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***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. Part of the Company’s shares is publicly traded on the Russian stock exchange.

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 2012 a blocking shareholding of 29% of total share capital of the Company (31 December 2011: 28%) is held by a limited liability company OOO “Kuibyshevazot Plus”, which was established in 2005 by the Company’s management who contributed their shares in the Company into share capital of OOO “Kuibyshevazot Plus”. 18% of total share capital of the Company (31 December 2011: 17.4%) is held by subsidiaries of the Group, as disclosed in Note 18. The remaining part of share capital of the Company is distributed among a number of individuals and legal entities. Therefore, the Company does not have an ultimate controlling party.

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 2012.

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.



## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***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.



Notes to the consolidated financial statements

as at 31 December 2012

*(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 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:

	<b>RR per US\$</b>
Average for the year ended 31 December 2011	29.3904
31 December 2011	32.1961
Average for the year ended 31 December 2012	31.0960
31 December 2012	30.3727

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.



## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.3 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.

**2.4 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.

**2.5 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'.

**2.6 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.



## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.7 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.

**2.8 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.



Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)*

**2 Basis of preparation and significant accounting policies (continued)**

**2.9 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:

	<u>Number of years</u>
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.

**2.10 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.

**2.11 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.



## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.12 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.

**2.13 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.

**2.14 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.

**2.15 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.



## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.16 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.

**2.17 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 unrecognised 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.

**2.18 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.

**2.19 Earnings per share**

Preference shares are considered to be participating shares as their dividend may not be less than that given with respect to ordinary shares. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.





## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***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:

**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 447 higher or RR 268 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 1,930 higher or RR 314 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 2.9. 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 29.2.

**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 2012:

IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*;  
IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*;  
IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*.

The adoption of the standards or interpretations is described below:

IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.



## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***4 Adoption of new or revised standards and interpretations (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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

**5 New accounting pronouncements**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

*IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

*IAS 19 Employee Benefits (Revised)*

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 amended standard will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

*IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

*IFRS 1 Government Loans – Amendments to IFRS 1*

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

*IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.



## Notes to the consolidated financial statements

as at 31 December 2012

*(in millions of Russian Roubles, unless otherwise stated)***5 New accounting pronouncements (continued)***IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's 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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

*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, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

*IFRS 10 Consolidated Financial Statements – Amendments to IFRS 10*

The International Accounting Standards Board (IASB) has issued an amendment to IFRS 10 *Consolidated Financial Statements* to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. The amendment applies for annual periods beginning on or after 1 January 2014.

*Annual Improvements May 2012*

These improvements will not have an impact on the Group, but include:

*IFRS 1 First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

*IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

*IAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

*IAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.



## Notes to the consolidated financial statements

as at 31 December 2012

(in millions of Russian Roubles, unless otherwise stated)

**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 financing 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.

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

Year ended 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Sales	20,137	21,036	8,070	8,583	3,063	3,301	31,270	32,920
Segment operating profit for the period	1,053	2,407	3,532	3,615	(880)	1,068	3,705	7,090
<b>IFRS adjustments</b>								
Difference in depreciation of fixed assets							(522)	(544)
Provision for pension obligation							(34)	104
Others							101	(115)
<b>IFRS operating profit for the period</b>							<b>3,250</b>	<b>6,535</b>

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.

At 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Segment assets	11,850	12,058	2,561	4,219	11,054	9,725	25,465	26,002
<b>IFRS adjustments:</b>								
Difference in depreciation of fixed assets							435	333
Impairment of the Group's assets							(159)	(223)
Others							(69)	(45)
<b>IFRS total assets</b>							<b>25,672</b>	<b>26,067</b>



## Notes to the consolidated financial statements

as at 31 December 2012

(in millions of Russian Roubles, unless otherwise stated)

**6 Operating segment information (continued)**

At 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Segment liabilities	282	347	609	159	9,548	11,337	10,439	11,843
<b>IFRS adjustments:</b>								
Pension obligation							139	105
Finance lease							28	41
Deferred tax							(79)	(111)
Others							(14)	23
<b>IFRS total liabilities</b>							<b>10,513</b>	<b>11,901</b>

Unallocated amounts relate mainly to borrowings of RR 6,975 (2011: RR 7,602) and liabilities of non-core subsidiaries.

**Geographic information**

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

	2012	2011
Asia	10,834	12,210
Russia	10,229	12,217
Europe	5,577	5,136
South America	800	1,274
Other	3,830	2,083
<b>Total</b>	<b>31,270</b>	<b>32,920</b>

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 2012 and 2011, or had significant balances outstanding at 31 December 2012 and 2011 is detailed below.

The income and expenses items with related parties for the years 2012 and 2011 were as follows:

*Sales of goods and services*

	2012	2011
Sales of finished goods	669	-
Rental services	7	5
Interest income on loans issued to related parties	5	2
<b>Total</b>	<b>681</b>	<b>7</b>

*Purchase of goods and services*

	2012	2011
Finance lease charge	63	67
Transportation services	-	10
Interest expense	2	8
<b>Total</b>	<b>65</b>	<b>85</b>



Notes to the consolidated financial statements

as at 31 December 2012

(in millions of Russian Roubles, unless otherwise stated)

**7 Balances and transactions with related parties (continued)**

At 31 December 2012 and 2011, the outstanding balances with related parties were as follows:

	<u>2012</u>	<u>2011</u>
Receivables from associates	52	3
Loans issued	122	14
Lease payable	28	43
Borrowings from related parties	126	236

As at 31 December 2012 loans issued to related parties relate to RR 108 of loans issued to Techno-Polimer at the interest rate 11.5%, RR 10 of loans issued to OOO Prominvest at the interest rate of 14% (2011: RR 14, interest rate 11%) and loans issued to key management at the interest rate of 14%. OOO Prominvest is considered as a related party as it is owned by member of key management personnel.

As at 31 December 2012 borrowings from related parties include a loan amounting to RR 107 (2011: RR 105) obtained from OAO Benzol with a fixed interest rate of 2% per annum (2011: 2%) and loans obtained from other related parties amounted of RR 19 at a fixed interest rate of 0%-8% per annum (2011: RR 19 at 0%-8%). As at 31 December 2011 borrowings from related parties include loan of RR 112 obtained from OOO Kuibyshevazot Plus with a fixed interest rate of 6% per annum.

Lease payable to OOO Prominvest amounting to RR 16 and RR 27 for 2012 and 2011, respectively, has an implicit rate of 13% (2011: 13%).

*Key management compensation*

The remuneration of 20 key management personnel amounted to RR 72 and RR 54 in the years 2012 and 2011, 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 6 (2011: RR 4). Dividends paid to key management personnel amounted to RR 158 (2011: RR 117).

**8 Cash and cash equivalents**

	<u>2012</u>	<u>2011</u>
Short-term promissory notes, deposits	1,123	735
RR denominated cash on hand and balances with banks	164	155
Foreign currency denominated balances with bank	623	372
	<u><b>1,910</b></u>	<u><b>1,262</b></u>

Cash deposits of RR 198 held by the Group at 31 December 2012 (31 December 2011: nil) bear interest of 0.34%-0.5%; cash deposits of RR 836 (31 December 2011: RR 693) bear interest of 6.0% - 10.7% (2011: 5.1% - 6.6%).

As at 31 December 2012 short-term promissory notes include RR 89 of interest-free Bank Zenith 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 2011 and 2012.

Foreign currency denominated balances with bank consist of the following:

<u>Currency</u>	<u>2012</u>	<u>2011</u>
US Dollar	403	148
Yuan	151	134
Euro	52	76
Serbian Dinar	17	13
Swiss Franc	-	1



## Notes to the consolidated financial statements

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**9 Receivables and prepayments**

	<b>2012</b>	<b>2011</b>
Trade receivables	1,214	2,222
Less: impairment	(7)	(9)
	<b>1,207</b>	<b>2,213</b>
Other receivables	430	407
Less: impairment	(14)	(54)
	<b>416</b>	<b>353</b>
Prepayments	832	1,429
	<b>832</b>	<b>1,429</b>
VAT recoverable	1,653	1,909
	<b>4,108</b>	<b>5,904</b>

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

<b>Currency</b>	<b>2012</b>	<b>2011</b>
US Dollar	105	633
Yuan	305	490
Swiss Franc	-	93
Euro	199	64
Serbian Dinar	10	14
Japanese Yen	-	7
	<b>619</b>	<b>1,301</b>

Trade receivables are non-interest bearing and are generally on 60-90 days terms.

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

	<b>2012</b>	<b>2011</b>
Opening balance	63	13
Charge for the year	13	56
Utilised	(55)	(6)
<b>Closing balance</b>	<b>21</b>	<b>63</b>

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:

	<b>Below 30 days</b>	<b>31-180 days</b>	<b>Above 181 days</b>	<b>Total</b>
2011	1,280	1,198	88	<b>2,566</b>
2012	1,408	192	23	<b>1,623</b>

**10 Inventories**

	<b>2012</b>	<b>2011</b>
Raw materials	1,700	1,759
Work in progress	763	719
Finished products	2,446	3,322
	<b>4,909</b>	<b>5,800</b>

Finished products of RR 2,584 (31 December 2011: RR 3,470) are shown net of provision for net realisable value of RR 138 (31 December 2011: RR 148).

Inventories of RR 103 (31 December 2011: RR 127) have been pledged as collateral for borrowings (Note 14).



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**11 Property, plant and equipment**

	Land and Buildings	Plant and equipment	Other	Construction in progress	Total
<b>Cost</b>					
Balance at 1 January 2011	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)	-
<b>Balance at 31 December 2011</b>	<b>5,747</b>	<b>20,542</b>	<b>138</b>	<b>1,455</b>	<b>27,882</b>
Additions	-	-	-	2,078	2,078
Disposals	-	(185)	-	-	(185)
Transfers from CIP	107	864	20	(991)	-
<b>Balance at 31 December 2012</b>	<b>5,854</b>	<b>21,221</b>	<b>158</b>	<b>2,542</b>	<b>29,775</b>
<b>Accumulated depreciation</b>					
Balance at 1 January 2011	(2,612)	(11,840)	(88)	-	(14,540)
Depreciation expense for 2011	(211)	(1,160)	(7)	-	(1,378)
Disposals	4	128	-	-	132
<b>Balance at 31 December 2011</b>	<b>(2,819)</b>	<b>(12,872)</b>	<b>(95)</b>	<b>-</b>	<b>(15,786)</b>
Depreciation expense for 2012	(227)	(1,159)	(26)	-	(1,412)
Disposals	-	122	-	-	122
<b>Balance at 31 December 2012</b>	<b>(3,046)</b>	<b>(13,909)</b>	<b>(121)</b>	<b>-</b>	<b>(17,076)</b>
<b>Net book value</b>					
<b>Balance at 31 December 2011</b>	<b>2,928</b>	<b>7,670</b>	<b>43</b>	<b>1,455</b>	<b>12,096</b>
<b>Balance at 31 December 2012</b>	<b>2,808</b>	<b>7,312</b>	<b>37</b>	<b>2,542</b>	<b>12,699</b>

At 31 December 2012 property, plant and equipment carried at RR 3,479 (31 December 2011: RR 4,114) has been pledged to third parties as collateral for bank borrowings and other loans (Note 14).

At 31 December 2012 the cost of the land on which the Group's principle production facilities are situated, amounted to RR 89 (31 December 2011: RR 62).

Borrowing costs capitalised amounted to RR 88 (2011: RR 64). A capitalisation rate of 8% (2011: 8%) 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:

	2012	2011
Cost of capitalized finance leases	132	130
Accumulated depreciation	(92)	(81)
<b>Net book amount</b>	<b>40</b>	<b>49</b>

**12 Investments in associates**

At 31 December 2012, 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	10	3	50	38	25%	59	Russia
Others						38	Russia
<b>Total</b>						<b>211</b>	





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**12 Investments in associates (continued)**

At 31 December 2011, 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	50	38	25%	50	Russia
Others						19	Russia
<b>Total</b>						<b>183</b>	

**13 Financial assets**

Short term financial assets include:

	2012	2011
Short-term portion housing loans allowed to employees: 0%-8.5%	81	87
Other	78	85
	<b>159</b>	<b>172</b>

Long term financial assets include:

	2012	2011
Long-term housing loans allowed to employees: 0%-8.5%	233	217
Other	210	46
	<b>443</b>	<b>263</b>

As at 31 December 2012 the Group recorded a provision for financial assets in the amount of RR 1,473 (2011: RR 1,473) due to the fact that the counterparty had not recognized the payable to the Group.

Long-term loans to employees have different maturity dates up to the year 2032 (2011: up to 2031).

**14 Borrowings**

Short-term borrowings

	Interest rate	Maturity date	Currency	2012	2011
JSC VTB Bank	4.42%-4.55%	2013	USD	429	402
Sberbank	7.73%-10.5%	2013	RR	369	530
ZAO Raiffeisenbank	MOSPRIME+2.1%	2013	RR	250	-
Sberbank	6.45%	2013	EUR	197	82
International Finance Corporation	Libor+4.75%	2013	USD	152	161
Loans from related parties	2%-8%	2013	RR	125	236
Bank of China	3.56%	2013	USD	116	48
Finance lease liability	13%	2013	RR	10	15
JSC VTB Bank	6.65%-6.86%	2012	RR	-	572
ZAO Absolut Bank	4.61%	2012	USD	-	323
ZAO Raiffeisenbank	Libor+2.55%	2012	USD	-	150
Sberbank	5.61%	2012	USD	-	42
Other		2013	RR	188	92
				<b>1,836</b>	<b>2,653</b>



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**14 Borrowings (continued)**

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

	<b>2012</b>	<b>2011</b>
Borrowings denominated in:		
- Russian Roubles	942	1,445
- US Dollars	697	1,126
- Euros	197	82
	<b>1,836</b>	<b>2,653</b>

*Long-term borrowings*

	<b>Interest rate</b>	<b>Maturity date</b>	<b>Currency</b>	<b>2012</b>	<b>2011</b>
Non-convertible bonds	8.60%	2014	RR	2,000	2,000
Sberbank	7.73%-10.5%	2014-2017	RR	1,477	1,193
Sberbank	6.45%	2014-2017	EUR	905	618
Sberbank	4%	2014	USD	112	-
Raiffeisen bank	MOSPRIME+2.55%	2014	RR	43	543
Raiffeisen bank	4%	2014	EUR	103	-
International Finance Corporation	Libor+4.75%	2014	USD	152	322
Sviaz-Bank	8.25%	2014	RR	200	200
Gazprombank	4%	2014	USD	102	-
JSC Pervobank	6.90%	2014	USD	-	32
Other			RR	45	41
				<b>5,139</b>	<b>4,949</b>

The maturity of long-term borrowings is as follows:

	<b>2012</b>	<b>2011</b>
Current	1,021	745
1 to 2 years	4,368	1,284
2 to 3 years	195	1,397
3 to 5 years	565	2,250
> 5 years	11	18
	<b>6,160</b>	<b>5,694</b>
Less: Current portion	(1,021)	(745)
	<b>5,139</b>	<b>4,949</b>

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

	<b>2012</b>	<b>2011</b>
Borrowings denominated in:		
- Russian Roubles	3,765	3,977
- Euros	1,008	618
- US Dollars	366	354
	<b>5,139</b>	<b>4,949</b>

Total amount of guarantee issued by the Group for long and short-term borrowings is RR 5,668 (2011: RR 6,327), including pledged equipment and inventories in the amount of RR 3,582 (2011: RR 4,241) (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.



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**15 Advances received and other current liabilities**

	<b>2012</b>	<b>2011</b>
Advances received	1,279	1,069
Salaries payable	300	190
Dividends payable	39	47
Other	65	414
	<b>1,683</b>	<b>1,720</b>

Advances received and other current liabilities are non-interest bearing and have an average term of two months.

**16 Other than income taxes payable**

	<b>2012</b>	<b>2011</b>
Property tax	66	70
Payments to the Pension Fund and other social taxes	44	43
Personal income tax	16	16
Other taxes	5	24
	<b>131</b>	<b>153</b>

The Group had no tax liabilities past due at 31 December 2012 and 2011.

**17 Retirement benefit obligations**

The Group provided post retirement benefits in the form of monthly cash payments to their retirees via the non-state pension fund "Titan". 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 2012 and 31 December 2011 are as follows:

	<b>31 December 2012</b>	<b>31 December 2011</b>
Present value of unfunded obligations	204	149
Unrecognised actuarial loss	(70)	(90)
Unrecognised past service cost	5	46
<b>Net liability in statement of financial position</b>	<b>139</b>	<b>105</b>

The amounts recognised in the statement of comprehensive income for years ended 31 December 2011 and 31 December 2012 are as follows:

	<b>31 December 2012</b>	<b>31 December 2011</b>
Current service cost	12	12
Past service cost	16	7
Interest cost	12	27
<b>Total included in actuarial expenses</b>	<b>40</b>	<b>46</b>



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**17 Retirement benefit obligations (continued)**

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

	31 December 2012	31 December 2011
At the beginning of the period	105	209
Total expense as above	40	46
Contributions paid	(6)	(12)
Reverse on ceased lump sum payments	-	(138)
<b>Net liability at the end of the year</b>	<b>139</b>	<b>105</b>

The principal actuarial assumptions used were as follows:

	31 December 2012	31 December 2011
Discount rate	7.25%	8%
Salary increase	8.65%	8.75%
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)	
<b>At 1 January 2011</b>	<b>3,697</b>	<b>237,043</b>	<b>(46,584)</b>	<b>194,156</b>	<b>642</b>	<b>(1,089)</b>
Treasury shares purchased	-	-	(311)	(311)	-	(18)
Treasury shares disposed	-	-	4,980	4,980	-	116
<b>At 31 December 2011</b>	<b>3,697</b>	<b>237,043</b>	<b>(41,915)</b>	<b>198,825</b>	<b>642</b>	<b>(991)</b>
Treasury shares purchased	-	-	(2,337)	(2,337)	-	(195)
<b>At 31 December 2012</b>	<b>3,697</b>	<b>237,043</b>	<b>(44,252)</b>	<b>196,488</b>	<b>642</b>	<b>(1,186)</b>

The nominal registered amount of the Company's issued share capital is RR 241 (31 December 2011: RR 241).

The total number of authorised ordinary shares is 552,043 thousand shares (31 December 2011: 552,043 thousand) and of preference shares is 138,897 thousand shares (31 December 2011: 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 2012 OOO Togliattichinvest, OOO Kuibyshevazot-invest, OOO Activinvest and OOO Kurskchimvolokno held 42,754 thousand ordinary and 1,499 thousand preference shares of the Company. At 31 December 2011 OOO Togliattichinvest, OOO Kuibyshevazot-invest, OOO Activinvest and OOO Kurskchimvolokno held 40,419 thousand ordinary and 1,496 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.



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**18 Share capital (continued)**

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

	<b>2012</b>	<b>2011</b>
<b>Dividends payable at 1 January</b>	<b>47</b>	<b>2</b>
Dividends declared during the year	851	784
Dividends paid during the year	(859)	(739)
<b>Dividends payable at 31 December</b>	<b>39</b>	<b>47</b>
<b>Dividends per share declared during the year, RR</b>	<b>4.3</b>	<b>4</b>

In 2012 the Company declared 2.0 rouble of interim dividends for 2012 per share for both ordinary and preference shares and final dividends for 2011 of 2.3 roubles per share for both ordinary and preference shares (2011: 2.6 rouble of interim dividends, 1.4 rouble of final dividends for 2010).

**19 Sales**

	<b>2012</b>	<b>2011</b>
Caprolactam and derivatives	20,137	21,036
Ammonia and nitrogen fertilisers	8,070	8,583
Other products	3,063	3,301
	<b>31,270</b>	<b>32,920</b>

**20 Cost of sales**

	<b>2012</b>	<b>2011</b>
Materials and components used	15,210	14,985
Heat energy and electricity	2,272	2,565
Labour costs	2,156	1,956
Depreciation	1,295	1,276
Other	813	842
Change in finished goods and work in progress	832	(1,113)
	<b>22,578</b>	<b>20,511</b>

**Repair and maintenance expenses**

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

	<b>2012</b>	<b>2011</b>
Materials and components used	867	363
Services of auxiliary divisions	433	585
Labour costs	425	240
Third party services	268	357
	<b>1,993</b>	<b>1,545</b>

**21 Distribution costs**

	<b>2012</b>	<b>2011</b>
Transportation	2,425	2,440
Labour costs	219	156
Materials	142	112
Depreciation	65	57
Other	386	355
	<b>3,237</b>	<b>3,120</b>



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**22 General and administrative expenses**

	<b>2012</b>	<b>2011</b>
Labour costs	875	618
Services of third parties	309	327
Taxes, other than income tax	241	137
Materials	78	54
Insurance	149	106
Consultancy services	56	71
Depreciation	52	45
Fines and penalties	147	(5)
Impairment of receivables	14	56
Other	178	151
	<b>2,099</b>	<b>1,560</b>

**23 Other operating income**

	<b>2012</b>	<b>2011</b>
Net profit on sales of materials	54	48
Foreign exchange gains on operating activities	-	105
Other	15	226
	<b>69</b>	<b>379</b>

**24 Other operating expenses**

	<b>2012</b>	<b>2011</b>
Social expenses	78	185
Foreign exchange loss on operating activities	40	-
Charitable donations	15	34
Impairment of assets	5	1,354
Other	37	-
	<b>175</b>	<b>1,573</b>

**25 Finance income**

	<b>2012</b>	<b>2011</b>
Interest income	68	46
Foreign exchange gains on financing activities	30	37
	<b>98</b>	<b>83</b>

**26 Finance costs**

	<b>2012</b>	<b>2011</b>
Interest expense	468	626
Finance lease charge	45	54
Less capitalised borrowing costs	(88)	(64)
	<b>425</b>	<b>616</b>



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**27 Income taxes**

	<b>2012</b>	<b>2011</b>
Current income tax expense	806	1,452
Recalculation of current income tax of prior periods	-	(74)
Deferred tax expenses	51	(144)
<b>Income tax expense for the year</b>	<b>857</b>	<b>1,234</b>

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

	<b>2012</b>	<b>2011</b>
<b>Income before taxation</b>	2,939	6,005
Theoretical tax charge at statutory rate of 20%	539	994
Theoretical tax charge at statutory rate of 15.5%	68	139
Theoretical tax charge/(benefit) at statutory rate of 25% applicable to Chinese subsidiaries	(11)	27
Theoretical tax charge/(benefit) at statutory rate of 16.5% on income of Hong Kong subsidiary	(25)	5
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)
Social expenses	65	56
Other non-deductible expenses	221	92
<b>Income tax expense</b>	<b>857</b>	<b>1,234</b>

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% (2011: 20%).

	<b>1 January 2011</b>	<b>Origination/ (reversal) of temporary difference</b>	<b>31 December 2011</b>	<b>Origination/ (reversal) of temporary difference</b>	<b>31 December 2012</b>
<b>Tax effects of temporary differences:</b>					
Accounts receivable and prepayments	3	(13)	(10)	(3)	(13)
Finance lease	41	(21)	20	13	33
Financial assets	2	274	276	(3)	273
Property, plant and equipment	(813)	(57)	(870)	(93)	(963)
Inventories	(130)	(63)	(193)	31	(162)
Other	2	24	26	4	30
<b>Recognized deferred tax liability</b>	<b>(895)</b>	<b>144</b>	<b>(751)</b>	<b>(51)</b>	<b>(802)</b>



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**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 3,376 (2011: RR 1,076) 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 Earnings per share**

The earnings per share were calculated by dividing profit or loss attributable to all equity holders by the weighted average number of all shares outstanding during the period, excluding shares purchased by the Group and held as treasury shares.

	<b>2012</b>	<b>2011</b>
Weighted average number of ordinary shares outstanding (thousands)	237,043	237,043
Weighted average number of preference shares outstanding (thousands)	3,697	3,697
Adjusted for weighted average number of treasury shares outstanding (thousands)	(43,683)	(44,752)
Weighted average number of ordinary and preference shares outstanding (thousands)	197,057	195,988
Profit attributable to equity holders of the Company	<b>2,158</b>	<b>4,730</b>
Earnings per share (in Roubles):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	<b>10.95</b>	<b>24.13</b>

There are no dilution factors, therefore basic earnings per share equals diluted earnings per share.

**29 Contingencies, commitments and operating risks**

**29.1 Contractual commitments and guarantees**

As at 31 December 2012 and 31 December 2011 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 896 and RR 164 respectively, designated for construction of new and modernisation of existing production facilities.

**29.2 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. 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.





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*(in millions of Russian Roubles, unless otherwise stated)***29 Contingencies, commitments and operating risks (continued)****29.2 Taxation (continued)**

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012.

The new provisions apply for both cross-border and domestic transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RR 3 billion in 2012. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party to the transaction, another party could correspondingly adjust its profit tax liabilities. Special transfer pricing rules apply to transactions with securities and derivatives. In 2012 cross-border transactions with related parties are subject to TP transfer pricing audit if the annual turnover exceeds R 100.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Company under the “controlled” transactions and accrue additional tax liabilities unless the Company is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

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 2012 and 31 December 2011 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.

**29.3 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.

**29.4 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.

**29.5 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. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.



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as at 31 December 2012

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**30 Principal subsidiaries**

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

Name	Country of incorporation	Activity	2012		2011	
			% ownership	% voting	% ownership	% voting
OOO 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%	100%	100%
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.

**31 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.



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**31 Financial risks management (continued)**

**31.1 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.

**31.2 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.

**31.3 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 2012 approximately 91% of the Group's borrowings are at a fixed rate of interest (2011: 85%).

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
<b>2012</b>			
Libor	High	0.05%	-
MOSPRIME	High	1.09%	(5)
Libor	Low	-0.05%	-
MOSPRIME	Low	-1.09%	5
<b>2011</b>			
Libor	High	0.15%	(1)
MOSPRIME	High	2.49%	(15)
Libor	Low	-0.15%	1
MOSPRIME	Low	-2.49%	15

**31.4 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 67% 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.



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**31 Financial risks management (continued)**
**31.4 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
<b>2012</b>			
EURO	High	9.49%	(54)
USD	High	10.72%	13
EURO	Low	-9.49%	54
USD	Low	-10.72%	(13)
<b>2011</b>			
EURO	High	11.77%	(64)
USD	High	12.50%	(141)
EURO	Low	-11.77%	64
USD	Low	-12.50%	141

**31.5 Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (31 December 2012: RR 6,522; 31 December 2011: RR 3,932) 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 2012 based on contractual undiscounted payments.

Year ended 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	312	1,582	3,210	260	5,364
Non-convertible bonds	-	172	2,516	-	2,688
Trade and other payables	2,466	-	-	-	2,466
Finance lease liability	15	47	264	772	1,098
	<b>2,793</b>	<b>1,801</b>	<b>5,990</b>	<b>1,032</b>	<b>11,616</b>

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
	<b>3,539</b>	<b>2,595</b>	<b>6,315</b>	<b>906</b>	<b>13,355</b>

**31.6 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 2012 and 31 December 2011.



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**31 Financial risks management (continued)**

**31.7 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 2012 and 2011, 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	
	2012	2011	2012	2011
<b>Financial assets:</b>				
Cash and cash equivalents	1,910	1,262	1,910	1,262
Short-term financial assets	159	172	159	172
Long-term financial assets	654	446	639	423
<b>Financial liabilities:</b>				
Short-term borrowings	1,826	2,638	1,826	2,638
Long-term borrowings	3,121	2,925	3,107	2,880
Finance lease liability	27	43	288	314
Non-convertible bonds	2,000	2,000	1,980	1,896
Trade and other payables	2,466	3,290	2,466	3,290

**32 Events after the reporting period**

On 26 April 2013 the Annual Shareholders' Meeting approved distribution of net profit for 2012 including payment of dividends amounting to RR 3.25 per ordinary and preference share (including RR 1.25 dividends per ordinary and preference share payable in addition to previously declared interim dividends). Total amount of dividends declared in respect of 2012 was RR 639.