KuibyshevAzot Group

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

31 December 2013

Consolidated financial statements and auditors' report

for the year ended 31 December 2013

(in millions of Russian Roubles, unless otherwise stated)

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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 2013, 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 2013, 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

28 April 2014

Consolidated statement of financial position

for the year ended 31 December 2013

(in millions of Russian Roubles, unless otherwise stated)

		At 31 December		Supplementary information US$ million (Note 2) At 31 December	
	Note	**2013**	**2012 Restated***	**2013**	**2012 Restated***
Assets					
Current assets					
Cash and cash equivalents	8	1,026	1,910	31	63
Receivables and prepayments	9	4,559	4,108	139	135
Inventories	10	5,454	4,909	167	162
Current income tax receivable		14	95	-	3
Other financial assets	14	116	159	4	5
Total current assets		**11,169**	**11,181**	**341**	**368**
Non-current assets					
Property, plant and equipment	11	14,445	12,699	441	417
Intangible assets		28	25	1	1
Prepayments for property, plant and equipment and intangibles		1,123	1,113	34	36
Investments in an associate and a joint venture	12, 13	585	246	17	7
Financial assets	14	761	408	24	15
Total non-current assets		**16,942**	**14,491**	**517**	**476**
Total assets		**28,111**	**25,672**	**858**	**844**
Liabilities					
Current liabilities					
Trade payables		1,116	783	34	26
Other than income taxes payable	17	187	131	6	4
Short-term borrowings	15	5,830	1,836	178	60
Advances received and other current liabilities	16	1,868	1,683	56	55
Total current liabilities		**9,001**	**4,433**	**274**	**145**
Non-current liabilities					
Long-term borrowings	15	2,429	5,139	74	169
Deferred tax liability	28	620	789	19	26
Retirement benefit obligations	18	239	204	7	7
Total non-current liabilities		**3,288**	**6,132**	**100**	**202**
Total liabilities		**12,289**	**10,565**	**374**	**347**
Equity					
Capital and reserves attributable to equity holders of the Company					
Share capital	19	642	642	20	21
Treasury shares	19	(1,482)	(1,186)	(45)	(39)
Foreign currency translation reserve		47	(44)	1	(1)
Retained earnings		16,458	15,570	503	512
		15,665	**14,982**	**479**	**493**
Non-controlling interests		157	125	5	4
Total equity		**15,822**	**15,107**	**484**	**497**
Total liabilities and equity		**28,111**	**25,672**	**858**	**844**

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 4.

Approved for issue and signed on behalf of Board of Directors on 28 April 2014

S.A. Anikushin
Acting General Director – Chief Engineer

V.N. Kudashev
Chief Accountant

The accompanying notes on pages 9 to 41 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2013

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 Restated*	Supplementary information US$ million (Note 2) Year ended 31 December 2013	Supplementary information US$ million (Note 2) Year ended 31 December 2012 Restated*
Sales	20	31,009	31,270	974	1,006
Cost of sales	21	(23,612)	(22,567)	(741)	(726)
Gross profit		**7,397**	**8,703**	**233**	**280**
Distribution costs	22	(3,111)	(3,235)	(98)	(104)
General and administrative expenses	23	(2,020)	(2,094)	(63)	(67)
Other operating income	24	275	69	9	2
Other operating expenses	25	(228)	(175)	(7)	(6)
Operating profit		**2,313**	**3,268**	**74**	**105**
Finance income	26	67	98	1	3
Finance costs	27	(315)	(425)	(10)	(14)
Share of profit of an associate and a joint venture		9	16	-	1
Profit before income tax		**2,074**	**2,957**	**65**	**95**
Income tax expense	28	(487)	(854)	(15)	(27)
Profit for the year		**1,587**	**2,103**	**50**	**68**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Foreign currency translation reserve		91	(43)	3	(1)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**91**	**(43)**	**3**	**(1)**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods					
Re-measurement losses on defined benefit plan		(11)	(38)	-	(1)
Income tax effect	28	2	8	-	-
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(9)**	**(30)**	**-**	**(1)**
Other comprehensive income/(loss) for the year, net of tax		**82**	**(73)**	**3**	**(2)**
Total comprehensive income for the year, net of taxes		**1,669**	**2,030**	**53**	**66**
Profit attributable to:					
Equity holders of the Company		1,537	2,179	48	70
Non-controlling interests		50	(76)	2	(2)
		1,587	**2,103**	**50**	**68**
Total comprehensive income attributable to:					
Equity holders of the Company		1,619	2,106	51	68
Non-controlling interests		50	(76)	2	(2)
		1,669	**2,030**	**53**	**66**
Earnings per share, basic/diluted (in Russian Roubles and US$ per share):					
- for profit attributable to the equity holders of the Company	29	**7.86**	**11.06**	**0.25**	**0.36**

***** Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 4.

The accompanying notes on pages 9 to 41 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2013

(in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the Company						
	Share capital	**Treasury shares (Note 19)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 31 December 2011	**642**	**(991)**	**(1)**	**14,315**	**13,965**	**201**	**14,166**
Changes in accounting policies (Note 4)	-	-	-	(43)	(43)	-	(43)
Balance at 31 December 2012 (restated*)	642	(991)	(1)	14,272	13,922	201	14,123
Profit for the year	-	-	-	2,179	2,179	(76)	2,103
Other comprehensive loss	-	-	(43)	(30)	(73)	-	(73)
Total comprehensive income for 2012	**-**	**-**	**(43)**	**2,149**	**2,106**	**(76)**	**2,030**
Purchase of treasury shares (Note 19)	-	(195)	-	-	(195)	-	(195)
Dividends declared	-	-	-	(851)	(851)	-	(851)
Balance at 31 December 2012	**642**	**(1,186)**	**(44)**	**15,570**	**14,982**	**125**	**15,107**
Profit for the year	-	-	-	1,537	1,537	50	1,587
Other comprehensive income/(loss)	-	-	91	(9)	82	-	82
Total comprehensive income for 2013	**-**	**-**	**91**	**1,528**	**1,619**	**50**	**1,669**
Purchase of treasury shares (Note 19)	-	(299)	-	-	(299)	-	(299)
Disposal of treasury shares (Note 19)	-	3	-	(2)	1	-	1
Dividends declared by subsidiary to NCI	-	-	-	-	-	(18)	(18)
Dividends declared	-	-	-	(638)	(638)	-	(638)
Balance at 31 December 2013	**642**	**(1,482)**	**47**	**16,458**	**15,665**	**157**	**15,822**

Supplementary information US$ million (Note 2)	**Share capital**	**Treasury shares (Note 19)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balances as of 31 December 2012	**21**	**(39)**	**(1)**	**512**	**493**	**4**	**497**
Balances as of 31 December 2013	**20**	**(45)**	**1**	**503**	**479**	**5**	**484**

***** Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 4.

The accompanying notes on pages 9 to 41 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2013

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 Restated*	Supplementary information US$ million (Note 2) Year ended 31 December 2013	Supplementary information US$ million (Note 2) Year ended 31 December 2012 Restated*
Cash flows from operating activities					
Profit before income tax		2,074	2,957	65	95
Adjustments for:					
Depreciation of property, plant and equipment	11	1,779	1,412	53	47
Impairment of assets	25	60	5	2	-
Retirement benefit obligations	18	35	16	1	1
Impairment of receivables	23	163	14	5	-
Share of income from associates and a joint venture		(9)	(16)	-	-
Finance income		(66)	(44)	(2)	(1)
Finance costs		286	156	9	5
Foreign exchange effect on non-operating balances – net		(1)	57	-	2
Operating cash flows before working capital changes		**4,321**	**4,557**	**133**	**149**
(Increase)/Decrease in accounts receivable and prepayments		(614)	1,687	(19)	54
(Increase)/Decrease in inventories		(545)	891	(17)	29
Increase/(Decrease) in accounts payable and other payables		609	(870)	19	(29)
Increase/(Decrease) in other taxes payable		56	(23)	2	(1)
Cash generated from operations		**3,827**	**6,242**	**118**	**202**
Income taxes paid		(574)	(800)	(18)	(27)
Interest received		73	45	2	2
Interest paid		(283)	(468)	(9)	(15)
Net cash generated from operating activities		**3,043**	**5,019**	**93**	**162**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(3,518)	(2,943)	(109)	(95)
Proceeds from the sale of property, plant and equipment		45	50	1	2
Income from associate		-	16	-	1
Disposal of intangible assets		-	35	-	1
Purchases of intangible assets		(3)	-	-	-
Disposal of long-term financial assets		18	-	1	-
Purchase of long-term financial assets		(715)	(208)	(22)	(7)
Disposal of short-term financial assets		78	14	2	-
Purchase of short-term financial assets		(35)	-	(1)	-
Net cash used in investing activities		**(4,130)**	**(3,036)**	**(128)**	**(98)**
Cash flows from financing activities:					
Proceeds from short-term borrowings		4,258	1,264	130	41
Proceeds from long-term borrowings		779	1,077	23	35
Repayments of borrowings		(3,926)	(2,622)	(121)	(83)
Purchase of treasury shares	19	(299)	(195)	(9)	(6)
Disposal of treasury shares		1	-	-	-
Dividends received from associates		37	-	1	-
Dividends paid to NCI		(18)	-	(1)	-
Dividends paid to equity holders of the parent	19	(629)	(859)	(20)	(27)
Net cash used in financing activities		**203**	**(1,335)**	**3**	**(40)**
Net increase in cash and cash equivalents		**(884)**	**648**	**(32)**	**24**
Cash and cash equivalents at the beginning of the year	8	1,910	1,262	63	39
Cash and cash equivalents at the end of the year	**8**	**1,026**	**1,910**	**31**	**63**

***** Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 4.

The accompanying notes on pages 9 to 41 are an integral part of these consolidated financial statements.

1 The Group and its operations

Open Joint Stock Company "KuibyshevAzot" ("the Company" or JSC "KuibyshevAzot") and its subsidiaries' ("the Group") principal activities include the manufacture, distribution and sales of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products. The Group's manufacturing facilities are primarily based in the Samarskaya oblast of Russia. 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 2013 a blocking shareholding of 29% of total share capital of the Company (31 December 2012: 29%) 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". 20% of total share capital of the Company (31 December 2012: 18%) is held by subsidiaries of the Group, as disclosed in Note 19. 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).

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 2013.

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

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

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis for consolidation (continued)

(a) Business combination and goodwill

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

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

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

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

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

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

(b) Investment in an associate and joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate and joint venture is accounted for using the equity method.

Under the equity method, the investment in the associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis for consolidation (continued)

The statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. When there has been a change recognised directly in the equity of the associate or joint venture, 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 or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax of the associate or joint venture.

The financial statements of the associate or joint venture 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. 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 or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the 'share of profit of an associate and a joint venture' in the income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control 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:

	RR per US$
Average for the year ended 31 December 2012	31.0960
31 December 2012	30.3727
Average for the year ended 31 December 2013	31.8440
31 December 2013	32.7292

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

2 Basis of preparation and significant accounting policies (continued)

2.3 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.

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

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: loans and receivables, held to maturity and available-for-sale.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. All other financial assets are included in the available-for-sale category.

Available-for-sale financial assets 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 accumulative gain or loss is removed from equity to profit or loss.

***Initial recognition of financial instruments*.** 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.

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:

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

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

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

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

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

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

2.10 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.

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.

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. The defined benefit obligation is calculated annually using the projected unit credit method. The pension obligation is measured as the present value of the discounted estimated future pension payments. 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.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

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.

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 112 higher or RR 69 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 912 higher or RR 661 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 30.2.

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 18.

4 Adoption of new or revised standards

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 2013:

IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint Arrangements;
IAS 19 Employee Benefits (Revised 2011);
IFRS 13 Fair Value Measurement;
IAS 1 Presentation of Financial Statements (Amendments);
IFRS 12 Disclosure of Interests in Other Entities.

The adoption of the standards or interpretations is described below:
IFRS 10 *Consolidated Financial Statements*
The Group adopted IFRS 10 that replaces the portion of IAS 27 Consolidated and Separate Financial Statements and addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 required management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the analyses performed by management, there were no changes in the accounting of currently held investments of the Group with the adoption of IFRS 10.

IFRS 11 *Joint Arrangements*
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 is to be applied retrospectively for joint arrangements held at the date of initial application. The application of this new standard had no impact on the financial position of the Group as of 1 January 2013 because the Group did not have joint arrangements as of that date.

(in millions of Russian Roubles, unless otherwise stated)

4 Adoption of new or revised standards (continued)

IAS 19 *Employee Benefits* (Revised 2011)
The Group applied IAS 19 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.

IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. Some of the key changes that impacted the Group include the following:

- All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period. Previously, the Group had a balance of unrecognised past service cost of RR (108) (RR (86) net of tax) as at 1 January 2012. Upon transition to IAS 19 (Revised 2011), this balance was charged to equity (retained earnings) as at 1 January 2012 along with the consequential tax impact. Amortisation on past service costs of RR 16 for the year ended 31 December 2012 was reversed.
- Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods. Previously, the Group had a balance of unrecognised actuarial gains and losses of RR 54 (RR 43 net of tax) as at 1 January 2012. Upon transition to IAS 19 (Revised 2011), this balance was charged to equity (retained earnings) as at 1 January 2012 along with the consequential tax impact.

IAS 19 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 18.

IAS 19 (Revised 2011) has been applied retrospectively, with following permitted exception:

- Sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

Impact on consolidated statement of comprehensive income (increase/(decrease) in profit/other comprehensive income):

	2012
Consolidated statement of comprehensive income	
Cost of sales	11
Gross profit	**11**
Distribution costs	2
General and administrative expenses	5
Operating profit	**18**
Income tax expense	3
Profit for the year	**21**
Other comprehensive income/(loss)	
Re-measurement losses on defined benefits plan	(38)
Income tax effect on above	8
Other comprehensive loss for the year, net of taxes	**(30)**
Total comprehensive loss for the year, net of taxes	**(9)**
Profit attributable to:	
Equity holders of the Company	21
Non-controlling interests	-

Due to above change the Group's basic and diluted earnings per share increased by 0.11 rouble. The transaction did not have significant impact on statement of cash flows.

(in millions of Russian Roubles, unless otherwise stated)

4 Adoption of new or revised standards (continued)

Impact on consolidated statement of changes in equity (increase/(decrease) in net equity):

	2012	**As at 1 January 2012**
Retirement benefit obligations	(65)	(54)
Consequential deferred tax impact of the above	13	11
Net decrease in equity	**(52)**	**(43)**
Attributable to		
Equity holders of the parent	(52)	(43)
Non-controlling interests	-	-

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.

IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 32.

IAS 1 *Presentation of Items of Other Comprehensive Income - Amendments to IAS 1*
The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., exchange differences on translation of foreign operations) have to be presented separately from items that will not be reclassified (e.g., re-measurement gains on defined benefit plans). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 *Clarification of the requirement for comparative information* (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in Note 13.

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.

5 New accounting pronouncements (continued)

IFRS 9 *Financial Instruments*
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 is addressing 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 the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

6 Operating segment information

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

(1) Production and sale of caprolactam and derivatives;

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

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

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

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

(in millions of Russian Roubles, unless otherwise stated)

6 Operating segment information (continued)

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

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
Year ended 31 December	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Sales	19,213	20,137	10,008	8,070	1,788	3,063	31,009	31,270
Segment operating profit for the period	(1,665)	1,053	4,709	3,532	146	(880)	3,190	3,705
IFRS adjustments								
Difference in depreciation of fixed assets							(770)	(522)
Provision for pension obligation							(35)	(16)
Others							(72)	101
IFRS operating profit for the period							**2,313**	**3,268**

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

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

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
At 31 December	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Segment assets	12,888	11,850	2,488	2,561	11,876	11,054	27,252	25,465
IFRS adjustments:								
Difference in depreciation of fixed assets							905	435
Impairment of the Group's assets							(142)	(159)
Others							96	(69)
IFRS total assets							**28,111**	**25,672**

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
At 31 December	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Segment liabilities	587	282	897	609	10,730	9,548	12,214	10,439
IFRS adjustments:								
Pension obligation							239	204
Finance lease							10	28
Deferred tax							(211)	(79)
Others							37	(27)
IFRS total liabilities							**12,289**	**10,565**

Unallocated amounts relate mainly to borrowings of RR 7,234 (2012: RR 6,975) and liabilities of non-core subsidiaries.

(in millions of Russian Roubles, unless otherwise stated)

6 Operating segment information (continued)

Geographic information

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

	2013	2012
Russia	10,973	10,229
Asia	10,204	10,834
Europe	5,643	5,577
South America	610	800
Other	3,579	3,830
	31,009	**31,270**

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 2013 and 2012, or had significant balances outstanding at 31 December 2013 and 2012 is detailed below.

The income and expenses items with related parties for the years 2013 and 2012 were as follows:

Sales of goods and services

	2013	2012
Sales of finished goods	919	669
Rental services	1	7
Interest income on loans issued to related parties	18	5
Total	**938**	**681**

Purchase of goods and services

	2013	2012
Finance lease charge	-	63
Interest expense	1	2
Total	**1**	**65**

At 31 December 2013 and 2012, the outstanding balances with related parties were as follows:

	2013	2012
Receivables from associates	72	52
Loans issued	489	157
Lease payable	10	28
Borrowings from related parties	114	126

As at 31 December 2013 loans issued to related parties relate to RR 346 of loan issued to Linde Azot Togliatti LLC at the interest rate 4%, RR 97 loans issued to OOO Techno-Polimer at the interest rate 7%-11.5% (2012: RR 108, interest rate 11.5%), RR 33 of loan issued to OOO Volgaplast Compounding Limited at the interest rate 9% (2012: RR 35, interest rate 9%), RR 13 of loans issued to OOO Prominvest at the interest rate of 11% (2012: RR 10, interest rate 14%). OOO Prominvest is considered as a related party as it is owned by member of key management personnel.

As at 31 December 2013 borrowings from related parties include a loan amounting to RR 106 (2012: RR 107) obtained from OAO Benzol with a fixed interest rate of 0% per annum (2012: 2%) and loans obtained from other related parties amounted to RR 8 at a fixed interest rate of 8% per annum (2012: RR 19 at 0%-8%).

Lease payable to OOO Prominvest amounting to RR 10 and RR 16 for 2013 and 2012, respectively, has an implicit rate of 13% (2012: 13%).

(in millions of Russian Roubles, unless otherwise stated)

7 Balances and transactions with related parties (continued)

Key management compensation

The remuneration of 20 key management personnel amounted to RR 60 and RR 72 in the years 2013 and 2012, 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 5 (2012: RR 6). Dividends paid to key management personnel amounted to RR 116 (2012: RR 158).

8 Cash and cash equivalents

	2013	2012
Short-term promissory notes, deposits	321	1,123
RR denominated cash on hand and balances with banks	170	164
Foreign currency denominated balances with bank	535	623
	1,026	**1,910**

Cash deposits of RR 55 held by the Group at 31 December 2013 (31 December 2012: RR 198) bear interest of 0.05% - 0.35% (2012: 0.34%-0.6%); cash deposits of RR 202 (31 December 2012: RR 836) bear interest of 5.13% - 5.68% (2012: 6.0% - 10.7%).

As at 31 December 2013 short-term promissory notes include RR 30 (31 December 2012: RR 89) of interest-free Russian bank promissory notes and RR 34 of interest-free Chinese banks 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 2012 and 2013.

Foreign currency denominated balances with bank consist of the following:

Currency	**2013**	**2012**
US Dollar	343	403
Euro	106	52
Yuan	76	151
Serbian Dinar	8	17
Swiss Franc	2	-

9 Receivables and prepayments

	2013	2012
Trade receivables	1,374	1,214
Less: impairment	(20)	(7)
	1,354	**1,207**
Other receivables	618	430
Less: impairment	(164)	(14)
	454	**416**
Prepayments	989	832
	989	**832**
VAT recoverable	1,762	1,653
	4,559	**4,108**

(in millions of Russian Roubles, unless otherwise stated)

9 Receivables and prepayments (continued)

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

Currency	**2013**	**2012**
Yuan	334	305
Euro	287	199
US Dollar	266	105
Serbian Dinar	-	10
	887	**619**

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:

	2013	**2012**
Opening balance	21	63
Charge for the year	163	13
Utilised	-	(55)
Closing balance	**184**	**21**

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

	Below 30 days	**31-180 days**	**Above 181 days**	**Total**
2012	1,408	192	23	**1,623**
2013	1,664	138	6	**1,808**

10 Inventories

	2013	**2012**
Raw materials	2,215	1,700
Work in progress	794	763
Finished products	2,445	2,446
	5,454	**4,909**

Finished products of RR 2,556 (31 December 2012: RR 2,584) are shown net of provision for net realisable value of RR 111 (31 December 2012: RR 138).

Inventories of RR 49 (31 December 2012: RR 103) have been pledged as collateral for borrowings (Note 15).

(in millions of Russian Roubles, unless otherwise stated)

11 Property, plant and equipment

	Land and Buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2012	5,747	20,542	138	1,455	27,882
Additions	-	-	-	2,078	2,078
Disposals	-	(185)	-	-	(185)
Transfers from CIP	107	864	20	(991)	-
Balance at 31 December 2012	**5,854**	**21,221**	**158**	**2,542**	**29,775**
Additions	-	-	-	3,530	3,530
Disposals	(101)	(6)	(58)	-	(165)
Transfers from CIP	679	1,309	149	(2,137)	-
Balance at 31 December 2013	**6,432**	**22,524**	**249**	**3,935**	**33,140**
Accumulated depreciation					
Balance at 1 January 2012	(2,819)	(12,872)	(95)	-	(15,786)
Depreciation expense for 2012	(227)	(1,159)	(26)	-	(1,412)
Disposals	-	122	-	-	122
Balance at 31 December 2012	**(3,046)**	**(13,909)**	**(121)**	**-**	**(17,076)**
Depreciation expense for 2013	(269)	(1,419)	(91)	-	(1,779)
Disposals	99	3	58	-	160
Balance at 31 December 2013	**(3,216)**	**(15,325)**	**(154)**	**-**	**(18,695)**
Net book value					
Balance at 31 December 2012	**2,808**	**7,312**	**37**	**2,542**	**12,699**
Balance at 31 December 2013	**3,216**	**7,199**	**95**	**3,935**	**14,445**

At 31 December 2013 property, plant and equipment carried at RR 3,576 (31 December 2012: RR 3,479) has been pledged to third parties as collateral for bank borrowings and other loans (Note 15).

At 31 December 2013 the cost of the land on which the Group's principle production facilities are situated, amounted to RR 102 (31 December 2012: RR 89).

Borrowing costs capitalised amounted to RR 115 (2012: RR 88). A capitalisation rate of 6% (2012: 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:

	2013	2012
Cost of capitalized finance leases	95	132
Accumulated depreciation	(89)	(92)
Net book amount	**6**	**40**

12 Investments in associates

At 31 December 2013, 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
Others						78	Russia
Total						**192**	

(in millions of Russian Roubles, unless otherwise stated)

12 Investments in associates (continued)

At 31 December 2012, 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	10	3	50	38	25%	59	Russia
Others						73	Russia
Total						**246**	

During 2013 investment in OOO Samara Turbokon was disposed.

13 Interest in a joint venture

In April 2013 the Company and Linde Group established a joint venture Linde Azot Togliatti LLC. Linde Group and the Company have joint control of Linde Azot Togliatti LLC because decisions about the activities of the entity cannot be made without unanimous consent of both parties. Linde Azot Togliatti LLC is located in Togliatti, the Samara Oblast of the Russian Federation. The Group's interest in Linde Azot Togliatti LLC is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	31 December 2013
Assets:	
Long-term assets	1,389
Current assets, including cash and cash equivalents of RR 4	102
Liabilities:	
Long-term liabilities, including deferred tax liabilities RR 2 and long-term borrowings RR 702	(704)
Current liabilities	(1)
Net assets	**786**
Proportion of the Group's ownership	50%
Carrying amount of the investment	**393**
Summarised statement of profit or loss	
Cost of sales	(4)
Other expenses	(27)
Income tax expense	6
Loss after income tax	**(25)**
Total comprehensive loss	(25)
Share of the Group of loss from joint venture	**(12.5)**

As at 31 December 2013 the joint venture had capital commitments for the purchase of property, plant and equipment from third parties of RR 7,888. Linde Azot Togliatti LLC cannot distribute its profits until it obtains the consent from the two venture partners.

(in millions of Russian Roubles, unless otherwise stated)

14 Financial assets

Short term financial assets include:

	2013	2012
Short-term portion housing loans allowed to employees: 0%-17.5%	115	81
Other	1	78
	116	**159**

Long term financial assets include:

	2013	2012
Loans issued to a joint venture: 4%	346	-
Long-term housing loans allowed to employees: 0%-17.5%	258	233
Loans issued to associates: 7%-11.5%	130	143
Other	27	32
	761	**408**

Long-term loans to employees have different maturity dates up to the year 2031 (2012: up to 2032).

15 Borrowings

Short-term borrowings

	Interest rate	Maturity date	Currency	2013	2012
Non-convertible bonds	8.60%	2014	RR	2,000	-
Sberbank	7.73%-8.4%	2014	RR	1,747	369
JSC VTB Bank	2%-2.47%	2014	USD	430	429
Sberbank	1.5 - 6.45%, 1.6% + EURIBOR 6	2014	EUR	312	197
Gazprombank	5.25% - 3.9% + LIBOR 6	2014	USD	203	-
Svyaz Bank	8.25%	2014	RR	200	-
International Finance Corporation	LIBOR+4.75%	2014	USD	164	152
Bank of China	3.56%	2014	USD	153	116
Loans from related parties	2%-8%	2014	RR	124	125
Sberbank	1%+ LIBOR 6 - 1.85% + LIBOR 6	2014	USD	117	-
Merchant bank	4.35%	2014	USD	99	-
ZAO Raiffeisenbank	3.9% +LIBOR 6	2014	USD	45	-
Gazprombank	10%	2014	RR	43	-
Rosbank	4.10%	2014	EUR	10	-
Gazprombank	8.9%	2014	JPY	7	-
Finance lease liability	13%		RR	6	10
ZAO Raiffeisenbank	MOSPRIME+2.1%	2013	RR	-	250
Other		2014	RR	170	188
				5,830	**1,836**

(in millions of Russian Roubles, unless otherwise stated)

15 Borrowings (continued)

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

	2013	2012
Borrowings denominated in:		
- Russian Roubles	4,290	942
- US Dollars	1,211	697
- Euros	322	197
- Japanese yen	7	-
	5,830	**1,836**

Long-term borrowings

	Interest rate	Maturity date	Currency	2013	2012
Sberbank	1.1%-10.5%	2015-2019	RR	749	1,477
Sberbank	0.7%-6.45%	2015-2018	EUR	724	905
Sberbank	EURIBOR 6+1.5%	2015-2017	EUR	212	-
Gazprombank	5.25%	2015	USD	203	-
Raiffeisen bank	4.35% + LIBOR 1	2015-2016	USD	156	-
Gazprombank	10%	2015-2016	RR	100	-
Raiffeisen bank	4.35% + LIBOR 1	2015-2016	EUR	83	103
Sviaz-Bank	10%	2018	RR	73	200
VTB	4.42–4.55%	2016	EUR	44	-
Rosbank	4.1%	2015-2018	EUR	34	-
Raiffeisen bank	2.1% + EURIBOR 6	2015-2016	EUR	30	-
Non-convertible bonds	8.60%	2014	RR	-	2,000
International Finance Corporation	LIBOR +4.75%	2014	USD	-	152
Sberbank	4%	2014	USD	-	112
Gazprombank	4%	2014	USD	-	102
Raiffeisen bank	MOSPRIME+2.55%	2014	RR	-	43
Other			RR	21	45
				2,429	**5,139**

The maturity of long-term borrowings is as follows:

	2013	2012
Current	2,971	1,021
1 to 2 years	922	4,368
2 to 3 years	846	195
3 to 5 years	599	565
> 5 years	62	11
	5,400	**6,160**
Less: Current portion	(2,971)	(1,021)
	2,429	**5,139**

(in millions of Russian Roubles, unless otherwise stated)

15 Borrowings (continued)

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

	2013	2012
Borrowings denominated in:		
- Euros	1,127	1,008
- Russian Roubles	943	3,765
- US Dollars	359	366
	2,429	**5,139**

Total amount of guarantee issued by the Group for long and short-term borrowings is RR 5,711 (2012: RR 5,668), including pledged equipment and inventories in the amount of RR 3,625 (2012: RR 3,582) (see notes 10 and 11).

In April 2011 OOO Kuibyshevazot-invest issued RR 2,000 non-convertible rouble-denominated bonds 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 guarantee issued. In March-April 2014 RR 1,995 of those bonds were redeemed (see Note 33).

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

16 Advances received and other current liabilities

	2013	2012
Advances received	1,276	1,279
Salaries payable	445	300
Dividends payable	48	39
Other	99	65
	1,868	**1,683**

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

17 Other than income taxes payable

	2013	2012
Property tax	65	66
Payments to the Pension Fund and other social taxes	61	44
Personal income tax	26	16
Other taxes	35	5
	187	**131**

The Group had no tax liabilities past due at 31 December 2013 and 2012.

18 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 2013.

Since the pension liability is adjusted to consumer price index, the pension plan is exposed to Russian's inflation, interest rate risk and changes in the life expectancy for pensioners.

The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and amounts recognised in the statement of financial position for the respective plans.

(in millions of Russian Roubles, unless otherwise stated)

18 Retirement benefit obligations (continued)

Net benefit expense recognised in profit or loss:

	31 December 2013	31 December 2012
Current service cost	17	12
Interest cost on benefit obligation	15	12
Net benefit expenses	**32**	**24**

Changes in the present value of the defined pension benefit obligation are, as follows:

	Post-employment pension
Defined benefit obligation at 1 January 2012	**105**
Current service cost	12
Interest cost	12
Contributions by employer	(6)
Changes in accounting policy (Note 4)	43
Actuarial loss recorded in Other Comprehensive Income, including	38
changes in demographic adjustments	3
changes in financial assumptions	-
experience adjustment	35
Defined benefit obligation at 31 January 2012	**204**
Current service cost	17
Interest cost	15
Contributions by employer	(8)
Actuarial loss recorded in Other Comprehensive Income , including	11
changes in demographic adjustments	3
changes in financial assumptions	(6)
experience adjustment	14
Defined benefit obligation at 31 January 2013	**239**

The principal actuarial assumptions used were as follows:

	31 December 2013	31 December 2012
Discount rate	7.7%	7.25%
Salary increase	9.16%	8.65%
Mortality rate (RF statistics data for 2011)	80%	100%
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%

A quantitative sensitivity analysis for significant assumption as at 31 December 2013 is as shown below:

Assumptions	**Discount rate**		**Future salary increase**	
Sensitivity level	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on defined benefit obligation	(7)	7	7	(7)

Assumptions	**Life expectancy of male pensioners**		**Life expectancy of female pensioners**	
Sensitivity level	Increase by 1 year	Decrease by 1 year	Increase by 1 year	Decrease by 1 year
Impact on defined benefit obligation	1	(1)	-	-

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result for reasonable changes in key assumptions occurring at the end of the reporting period.

(in millions of Russian Roubles, unless otherwise stated)

18 Retirement benefit obligations (continued)

The following payments are expected contributions to the defined benefit plan obligation in future years:

	31 December 2013	31 December 2012
Within the next 12 months (next annual reporting period)	82	51
Between 2 and 5 years	95	40
Between 5 and 10 years	153	80
Beyond 10 years	1,108	904
Total expected payments	**1,438**	**1,075**

The average duration of the defined benefit plan obligation at the end of the reporting period is 8 years (2012: 8 years).

19 Share capital

	Number of issued shares (thousands)		Number of treasury shares	Total number of outstanding shares	Share capital	Treasury shares
	Preference	Ordinary	(thousands)	(thousands)	(In Russian Roubles)	
At 1 January 2012	**3,697**	**237,043**	**(41,915)**	**198,825**	**642**	**(991)**
Treasury shares purchased	-	-	(2,337)	(2,337)	-	(195)
At 31 December 2012	**3,697**	**237,043**	**(44,252)**	**196,488**	**642**	**(1,186)**
Treasury shares purchased	-	-	(3,264)	(3,264)	-	(299)
Treasury shares disposed	-	-	84	84	-	3
At 31 December 2013	**3,697**	**237,043**	**(47,432)**	**193,308**	**642**	**(1,482)**

The nominal registered amount of the Company's issued share capital is RR 241 (31 December 2012: RR 241).

The total number of authorised ordinary shares is 552,043 thousand shares (31 December 2012: 552,043 thousand) and of preference shares is 138,897 thousand shares (31 December 2012: 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 2013 OOO Togliattichiminvest, OOO Kuibyshevazot-invest and OOO Activinvest held 45,985 thousand ordinary and 1,447 thousand preference shares of the Company. At 31 December 2012 OOO Togliattichiminvest, OOO Kuibyshevazot-invest, OOO Activinvest and OOO Kurskchimvolokno held 42,754 thousand ordinary and 1,499 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.

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

	2013	2012
Dividends payable at 1 January	**39**	**47**
Dividends declared during the year	638	851
Dividends paid during the year	(629)	(859)
Dividends payable at 31 December	**48**	**39**
Dividends per share declared during the year, RR	**3.25**	**4.3**

(in millions of Russian Roubles, unless otherwise stated)

19 Share capital (continued)

In 2013 the Company declared 2.0 rouble of interim dividends for 2013 per share for both ordinary and preference shares and final dividends for 2012 of 1.25 roubles per share for both ordinary and preference shares (2012: 2.0 rouble of interim dividends, 2.3 rouble of final dividends for 2011).

20 Sales

	2013	2012
Caprolactam and derivatives	19,213	20,137
Ammonia and nitrogen fertilisers	10,008	8,070
Other products	1,788	3,063
	31,009	**31,270**

21 Cost of sales

	2013	2012
Materials and components used	16,087	15,210
Heat energy and electricity	3,006	2,272
Labour costs	2,363	2,146
Depreciation	1,633	1,295
Other	553	813
Change in finished goods and work in progress	(30)	831
	23,612	**22,567**

22 Distribution costs

	2013	2012
Transportation	2,223	2,425
Labour costs	292	217
Materials	135	142
Depreciation	82	65
Other	379	386
	3,111	**3,235**

23 General and administrative expenses

	2013	2012
Labour costs	859	871
Services of third parties	294	309
Taxes, other than income tax	246	241
Impairment of receivables	163	14
Insurance	148	149
Consultancy services	72	56
Depreciation	65	52
Materials	43	78
Fines and penalties	12	147
Other	118	177
	2,020	**2,094**

(in millions of Russian Roubles, unless otherwise stated)

24 Other operating income

	2013	2012
Disposal of inventory	194	54
Foreign exchange gains on operating activities	15	-
Other	66	15
	275	**69**

25 Other operating expenses

	2013	2012
Social expenses	116	78
Foreign exchange loss on operating activities	-	40
Impairment of assets	60	5
Other	52	52
	228	**175**

26 Finance income

	2013	2012
Interest income	66	68
Foreign exchange gains on financing activities	-	30
Other	1	-
	67	**98**

27 Finance costs

	2013	2012
Interest expense	401	468
Foreign exchange loss on financing activities	14	-
Finance lease charge	-	45
Less capitalised borrowing costs	(115)	(88)
Other	15	-
	315	**425**

28 Income taxes

	2013	2012
Current income tax expense	654	808
Deferred tax expenses related to profit or loss	(167)	46
Income tax expense recognized in profit or loss	**487**	**854**
Deferred tax income related to items recognized in OCI	(2)	(8)
Income tax credit recognised on OCI	**(2)**	**(8)**
Income tax expense for the year	**485**	**846**

(in millions of Russian Roubles, unless otherwise stated)

28 Income taxes (continued)

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

	2013	2012
Income before taxation	2,074	2,957
Theoretical tax charge at statutory rate of 20%	336	543
Theoretical tax charge at statutory rate of 15.5%*	30	68
Theoretical tax charge/(benefit) at statutory rate of 25% applicable to Chinese subsidiaries	27	(11)
Theoretical tax charge/(benefit) at statutory rate of 16.5% on income of Hong Kong subsidiary	15	(25)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Social expenses	26	65
Other non-deductible expenses	51	206
Income tax expense	**485**	**846**

*In accordance with Samara region law, the Company uses reduced income tax rate of 13.5% payable to the local budget on profits generated as a result of investment projects on polyamide-6 production.

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% (2012: 20%).

	1 January 2012	Origination/ (reversal) of temporary difference	31 December 2012	Origination/ (reversal) of temporary difference	31 December 2013
Tax effects of temporary differences:					
Accounts receivable and prepayments	(10)	(3)	(13)	9	(4)
Finance lease and other liabilities	20	26	46	4	50
Financial assets	276	(3)	273	3	276
Property, plant and equipment	(870)	(93)	(963)	153	(810)
Inventories	(193)	31	(162)	(5)	(167)
Other	26	4	30	5	35
Recognized deferred tax liability	**(751)**	**(38)**	**(789)**	**169**	**(620)**

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 3,494 (2012: RR 3,376) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in millions of Russian Roubles, unless otherwise stated)

29 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.

	2013	2012
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)	(45,158)	(43,683)
Weighted average number of ordinary and preference shares outstanding (thousands)	195,582	197,057
Profit attributable to equity holders of the Company	**1,537**	**2,179**
Earnings per share (in Roubles):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	**7.86**	**11.06**

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

30 Contingencies, commitments and operating risks

30.1 Contractual commitments and guarantees

As at 31 December 2013 and 31 December 2012 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 324 and RR 896 respectively, designated for construction of new and modernisation of existing production facilities.

30.2 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.

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 or 2013.

30 Contingencies, commitments and operating risks (continued)

30.2 Taxation (continued)

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 2 billion in 2013. 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 2013 cross-border transactions with related parties are subject to TP transfer pricing audit if the annual turnover exceeds RR 80.

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 2013 and 31 December 2012 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.

30.3 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.

30.4 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.

30.5 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.

(in millions of Russian Roubles, unless otherwise stated)

31 Principal subsidiaries

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

			2013		2012	
Name	**Country of incorporation**	**Activity**	**% ownership**	**% voting**	**% ownership**	**% voting**
OAO Port Togliatti	Russian Federation	Transportation of goods	66%	79%	66%	79%
ZAO Pecherskoe	Russian Federation	Agricultural	100%	100%	100%	100%
OOO Togliattichim-invest	Russian Federation	Trading of construction materials	100%	100%	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 company	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.

32 Financial risks management

The Group's principal financial liabilities comprise bank loans, non-convertible bonds, 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 issued, cash and short-term deposits, which arise directly from its operations.

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

(in millions of Russian Roubles, unless otherwise stated)

32 Financial risks management (continued)

32.1 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.

32.2 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.

32.3 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 EURIBOR and LIBOR index. At 31 December 2013 approximately 83% of the Group's borrowings are at a fixed rate of interest (2012: 91%).

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
2013			
LIBOR	High	0.03%	-
EURIBOR	High	0.12%	1
LIBOR	Low	-0.03%	-
EURIBOR	Low	-0.12%	(1)
2012			
LIBOR	High	0.05%	-
MOSPRIME	High	1.09%	(5)
LIBOR	Low	-0.05%	-
MOSPRIME	Low	-1.09%	5

(in millions of Russian Roubles, unless otherwise stated)

32 Financial risks management (continued)

32.4 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 15) give rise to foreign exchange exposure. Approximately 64% 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.

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**
2013			
EURO	High	20.00%	(87)
USD	High	20.00%	(54)
EURO	Low	-8.63%	37
USD	Low	-10.21%	28
2012			
EURO	High	9.49%	(54)
USD	High	10.72%	13
EURO	Low	-9.49%	54
USD	Low	-10.72%	(13)

32.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (31 December 2013: RR 3,500; 31 December 2012: RR 6,522) 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 2013 based on contractual undiscounted payments.

Year ended 31 December 2013	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
Interest bearing loans and borrowings	1,644	2,785	2,574	64	7,067
Non-convertible bonds	-	2,090	-	-	2,090
Trade and other payables	1,708	-	-	-	1,708
Finance lease liability	2	4	4	-	10
	3,354	**4,879**	**2,578**	**64**	**10,875**

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
	2,793	**1,801**	**5,990**	**1,032**	**11,616**

(in millions of Russian Roubles, unless otherwise stated)

32 Financial risks management (continued)

32.6 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 2013 and 31 December 2012.

32.7 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 2013 and 2012, 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.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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		Assets and liabilities for which fair values are disclosed (Level 2)		Assets measured at fair value (Level 2)	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
FINANCIAL ASSETS:						
Cash and cash equivalents	1,026	1,910	1,026	1,910	-	-
Financial assets – current	116	140	116	140	-	-
Available-for-sale current financial assets - promissory notes	-	19	-	-	-	19
Financial assets – long-term	761	408	761	408	-	-
Trade receivables	1,354	1,207	1,354	1,207	-	-
FINANCIAL LIABILITIES:						
Short-term borrowings	3,824	1,826	3,824	1,826	-	-
Long-term borrowings	2,425	3,121	2,425	3,107	-	-
Finance lease liability	10	27	6	288	-	-
Non-convertible bonds	2,000	2,000	1,988	1,980	-	-
Trade payables	1,116	783	1,116	783	-	-

33 Events after the reporting period

In March 2014 the Company signed a loan agreement with International Finance Corporation on USD 150 million with maturity date in 2021-2024 and interest rate from LIBOR 6 + 3.75% to LIBOR 6 + 4.125%. The first trench of the loan of USD 20 million was received in April 2014.

In March – April 2014 the Group redeemed its non-convertible bonds of RR 1,995 issued by a subsidiary company OOO Kuibyshevazot-invest.

On 25 April 2014 the Annual Shareholders' Meeting approved distribution of net profit for 2013 including payment of dividends amounting to RR 3.0 per ordinary and preference share (including RR 1.0 dividends per ordinary and preference share payable in addition to previously declared interim dividends). Total amount of dividends declared in respect of 2013 was RR 722.